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WEB PROOF INFORMATION PACK of



TONTINE
CHINA TONTINE WINES GROUP LIMITED
中國通天酒業集團有限公司
(Incorporated in Bermuda with limited liability)

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YOU SHOULD READ THE SECTION HEADED “WARNING” ON THE COVER OF THIS WEB PROOF INFORMATION PACK.

SUMMARY

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. According to the 2008 Report on Wines Manufacturing Enterprises, we ranked first in the PRC in terms of manufacturing volume of sweet wines and ranked tenth in the PRC in terms of total sales volume (tonne) of grape wines.^(Note) According to the 2007 Report on Wines Manufacturing Enterprises, we ranked second in terms of manufacturing volume of sweet wines and ranked tenth in terms of total sales volume (tonne) of grape wines. As at the Latest Practicable Date, our product range comprises [18] different grape wine products, which can broadly be categorised into sweet wine and dry wine. All our wine products are sold under the “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.

COMPETITIVE STRENGTHS

We believe that the following strengths enable us to compete effectively:

- Strategically located production facilities and access to good quality grapes;
- Recognition of the “Tongtian” (通天) and “Tongtian Hong” (通天紅) brand names for niche sweet wine products in the PRC;
- Extensive nationwide sales and distribution network in the PRC;
- Experienced management team with extensive experience in the PRC grape wine industry; and
- Strong quality management system and the production of quality wine products.

BUSINESS STRATEGIES

The following sets forth our key business strategies which we expect to implement to meet our business objectives:

- Increase our production capacity;
- Develop our Tongtian wine estate;

Note: According to the 2008 Report on Wines Manufacturing Enterprises (2008年葡萄酒企業生產情況調查滙總表) issued by China Alcoholic Drinks Industry Association (中國釀酒工業協會), we ranked tenth among the 46 grape wine manufacturers in the PRC surveyed in the report in terms of volume of grape wine we produced and accounted for 3.4% of the total volume produced by the 46 grape wine manufacturers.

SUMMARY

- Develop wine cellaring capabilities;
- Continue to expand and develop our sales and distribution network in the PRC and strengthen our brand awareness;
- Explore opportunities to further expand our market share.

RISK FACTORS

Risks relating to our business

- We rely on the consistent and sufficient supply of quality grapes and grape juice;
- We rely on our distributors and third-party retailers for the sales of our products to consumers;
- We may not have adequate control over operation of our distributors;
- Our business may be adversely affected if our trade receivables become bad debts and cannot be collected timely by us;
- Our business could be adversely affected if we are unable to retain our executive Directors and key employees;
- We are subject to changes in demand in the PRC for our products and seasonal fluctuations in consumer demand;
- We have not yet secured registration of the “Tongtian Hong” (“通天紅”) trademark in the PRC and rely on intellectual property rights, including our trademarks, and may be subject to claims for infringement of third parties’ intellectual property rights;
- Our brand name and product images may be adversely affected by claims by third-parties for possible infringement of their intellectual property rights, particularly with respect to the historical sales of our products to distributors under the “Tongtian Cabernet” (“通天解百納”) name;
- We are yet to obtain the registration of our Group’s logo as a trademark in Hong Kong;
- Our future success and growth potential are dependent on our ability to successfully implement our production capacity expansion plans;
- Our Group has a lease agreement which has not been duly registered.

SUMMARY

Risks relating to our industry

- We are exposed to potential product liability and litigation which may adversely affect our business, operating results and financial condition;
- We are reliant on public confidence in PRC food and beverage product manufacturers;
- We face the risks of contamination and deterioration of our wines;
- We operate in a highly competitive business and failure to maintain our competitiveness may adversely affect our operating results;
- We may face labour shortages and rising labour costs;
- We may be affected by adverse public opinion about alcoholic beverages;
- We are subject to the risk of operating hazards and other operational disruptions;
- We are dependent on regulatory approvals for our operations.

Risks relating to the PRC

- Changes in the economic, political and social conditions in the PRC and policies adopted by the PRC Government may adversely affect our business, growth strategies, operating results and financial condition;
- The PRC legal system is not fully developed and has inherent uncertainties which could limit the legal protections available to you;
- Our primary source of funds in the form of dividends and other distributions from our operating subsidiary in the PRC is subject to various legal and contractual restrictions and uncertainties which may limit our ability to pay dividends or make other distributions to our Shareholders;
- New labour laws in the PRC may adversely affect our results of operations.

SUMMARY

SUMMARY FINANCIAL INFORMATION

The tables below summarise our combined financial information for the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, and as at 31 December 2006, 2007 and 2008 and 30 June 2009. Financial results for the six months ended 30 June 2009 are not necessarily indicative of the results that may be expected for the year ending 31 December 2009. Our combined financial information as at and for the six months ended 30 June 2008 has not been audited. The following summary was extracted from our combined financial statements included in the accountants’ report set out in Appendix I to this document. You should read the entire financial statements, including the notes thereto, included in Appendix I to this document for more details.

Summary Combined Statements of Comprehensive Income

	Year ended 31 December			Six months ended	
	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	<u>(140,477)</u>	<u>(182,561)</u>	<u>(209,769)</u>	<u>(89,433)</u>	<u>[(105,328)]</u>
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	<u>(2,869)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>[–]</u>
Profit before tax	98,981	138,719	200,910	87,369	[106,562]
Income tax expense	<u>(36,803)</u>	<u>(33,488)</u>	<u>(64,122)</u>	<u>(27,285)</u>	<u>[(31,207)]</u>
Profit for the year/period and total comprehensive income for the year/period attributable to owners of our Company	<u>62,178</u>	<u>105,231</u>	<u>136,788</u>	<u>60,084</u>	<u>[75,355]</u>
Earnings per share					
Basic (RMB)	<u>[●]</u>	<u>[●]</u>	<u>[●]</u>	<u>[●]</u>	<u>[●]</u>

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

SUMMARY

Summary Combined Statements of Financial Position Information

	At 31 December			At 30 June
	2006	2007	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets				
Current Assets	168,316	191,104	341,168	[394,515]
Non-current Assets	92,473	88,955	109,072	[108,629]
Equities and Liabilities				
Current Liabilities	112,216	132,755	71,466	[44,945]
Non-current Liability	—	—	7,572	[11,642]
Total Equity	<u>148,573</u>	<u>147,304</u>	<u>371,202</u>	<u>[446,557]</u>

Summary Combined Statements of Cash Flow

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Net cash 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 end of the year/period	2,023	2,984	115,816	46,170	[188,595]

SUMMARY

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 Bye-laws. 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.

DEFINITIONS

In this document, unless the context otherwise requires, the following expressions have the following meanings:

“Add Noble”	Add Noble Investments Limited, a limited liability company incorporated in the BVI, the entire issued share capital of which is directly owned by Mr. Tai Hon Leung, Henry
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board” or “Board of Directors”	the board of Directors of our Company as at the date of this document
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“Bye-laws”	bye-laws of our Company, as amended, supplemented or modified from time to time
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of [●] Shares upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Resolutions in writing of all the Shareholders passed on 28 October 2009” under the section headed “Further Information about our Company and Subsidiaries” in Appendix VI to this document
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this document, the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
“Companies Act”	the Companies Act 1981 of Bermuda, as amended, supplemented or modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Controlling Shareholders”	has the meaning ascribed thereto in the Listing Rules and unless the context requires otherwise, refers to [Mr. Wang and Up Mount], who, together, will control the exercise of approximately [40.8]% voting rights in the general meeting of our Company immediately after the [●] and the Capitalisation Issue (assuming that the [●] is not exercised)
“Corporate Reorganisation”	the corporate reorganisation of our Group conducted in preparation for the [●], details of which are set out in the paragraph headed “Corporate Reorganisation” under the section headed “History and Corporate Structure” in this document
“Covenantors”	the Controlling Shareholders, Wing Move, Win Honour, Public Success, Glory Wish, Mr. Zhang Hebin, Mr. Kang Hong, Mr. Sun Yankun and Ms. Pei Zhilan
“Crystal Planet”	Crystal Planet Investment Ltd., a limited liability company incorporated in the BVI, the entire issued share capital of which is directly owned by Ms. Kam Kwok Fong
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the directors of our Company as at the date of this document
“Electronic Application Instruction(s)”	instructions given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the Public Offer Shares
“Executive Officers”	the executive officers of our Company as at the date of this document, unless otherwise stated
“Foreign Investors”	Youth Group, Crystal Planet, Add Noble and Top Star Fortune
“Fullest Power”	Fullest Power Investments Limited, a limited liability company incorporated in BVI on 19 May 2006, the entire issued share capital of which is directly owned by our Company

DEFINITIONS

“Glory Wish”	Glory Wish Investments Limited, a limited liability company incorporated in BVI, the entire issued share capital of which is directly owned by Ms. Pei Zhilan, the chief accountant of our Group
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“HKFRS(s)”	Hong Kong Financial Reporting Standard(s)
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	International Financial Reporting Standard(s)
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) the Directors, chief executive or substantial shareholders (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates, and not otherwise a connected person of our Company
“Latest Practicable Date”	30 September 2009, being the latest practical date prior to the printing of this document for the purpose of ascertaining certain information contained in this document prior to its publication
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, as amended from time to time

DEFINITIONS

“Mr. Wang”	Mr. Wang Guangyuan, the founder of our Group, the chairman, and executive Director and the chief executive officer of our Company, as well as our Controlling Shareholder
“NAV”	net asset value
“OIV”	The International Organisation of Vine and Wine, an intergovernmental organisation established on 3 April 2001 of a scientific and technical nature or recognised competence for its works concerning vines, wine, wine-based beverages, table grapes, raisins and other vine-based products
“our Company” or the “Company”	China Tontine Wines Group Limited (中國通天酒業集團有限公司) (formerly known as China Wines Group Limited (中国酒业集团有限公司)), a company incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 21 August 2008
“our Group” or the “China Wines Group”	our Company and its subsidiaries following the completion of the Corporate Reorganisation, and a group company shall refer to any one of them
“Public Success”	Public Success Limited, a limited liability company incorporated in the BVI, the entire issued share capital of which is directly owned by Mr. Sun Yankun, a deputy general manager of our Group
“Rich Treasure”	Rich Treasure Link Limited, a limited liability company incorporated in Hong Kong on 18 July 2008, the entire issued share capital of which is directly owned by Fullest Power
“SAFE”	中華人民共和國國家外匯管理局 (the State Administration of Foreign Exchange of the PRC)
“Service Agreements”	the service agreements entered into between our Company and each of our executive Directors as described in Appendix VI – Statutory and General Information to this document
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITIONS

“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 28 October 2009, the principal terms of which are summarised under the paragraph headed “Share Option Scheme” in Appendix VI to this document
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“Tongtian Winery”	Tonghua Tongtian Winery Co., Ltd. (通化通天酒業有限公司*), a wholly-owned foreign enterprise incorporated in the PRC on 9 January 2001, the entire equity interest of which is held by Rich Treasure
“Top Star Fortune”	Top Star Fortune Ltd., a limited liability company incorporated in BVI, the entire issued share capital of which is directly owned by Mr. Hsu Ching-Hao
“Track Record Period”	the three years ended 31 December 2008 and the six months ended 30 June 2009
“United States” or “US”	the United States of America within the meaning of Regulation S
“Up Mount”	Up Mount International Limited, a limited liability company incorporated in BVI, the entire issued share capital of which is directly owned by Mr. Wang
“Win Honour”	Win Honour International Limited, a limited liability company incorporated in the BVI, the entire issued share capital of which is directly owned by Mr. Kang Hong, a deputy general manager of our Group
“Wing Move”	Wing Move Group Limited, a limited liability company incorporated in the BVI, the entire issued share capital of which is directly owned by Mr. Zhang Hebin, an executive Director

DEFINITIONS

“Youth Group”	Youth Group Limited, a limited liability company incorporated in the BVI, the entire issued share capital of which is directly owned by Mr. Tai Kwok Leung, Alexander
“g” or “gm”	gram(s)
“HK\$” or “HK Dollar(s)” and “cent(s)”	Hong Kong dollar(s) and cent(s) respectively, the lawful currency of Hong Kong
“hl”	hectolitre(s)
“kl”	kilolitre(s)
“km”	kilometre(s)
“ml”	millilitre(s)
“RMB”	Renminbi, the lawful currency of the PRC
“S\$”	Singapore dollars, the lawful currency of Singapore
“US dollars” or “US\$”	United States dollars, the lawful currency of the United States
“sq. ft.” and “sq.m.”	square feet and square metres, respectively
“%”	per cent

Certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

In this document, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars or US dollars at an exchange rate of $\text{RMB}[0.88] = \text{HK\$}1.00$ or $\text{RMB}[\bullet] = \text{US\$}1.00$, respectively, for illustration purpose only. Such conversions shall not be construed as representations that amounts in Renminbi were or could have been or could be converted into HK dollars or US dollars at such rates or any other exchange rates on such date or any other date.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “” and the Chinese translation of company names in English which are marked with “*” is for identification purpose only.*

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms and definitions used in this document in connection with our Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.

<i>“antioxidants”</i>	refers to substances that protect cells from oxidative damage caused by molecules called free radicals. Free radicals can damage important parts of cells, including proteins, membranes and deoxyribonucleic acid (DNA)
<i>“asepsis”</i>	the process of removing micro-organisms that cause infection
<i>“base wine”</i>	semi-processed wine, after grape juice has been fermented but prior to further processing
<i>“cabernet sauvignon”</i>	a widely recognised red wine grape variety, whose popularity is often attributed to its ease of cultivation (due to the thick skins of the grapes and the vines being hardy and resistant to rot and frost), and its consistent presentation of structure and flavours
<i>“chaptalisation”</i>	refers to the process of adding sugar to unfermented grape must in order to increase the alcohol content as required after fermentation
<i>“dry wine”</i>	dry red wines with residue sugar content of less than 4gm per litre
<i>“dual-purpose tanks”</i>	the tanks used in our production process which can be used for both fermentation as well as storage
<i>“estate”</i>	a chateau or complete wine producing unit comprising the vineyards (which are owned by or under the direct control of the winery), wine-making and storage facilities and housing accommodation
<i>“estate bottled”</i>	refers to wines which are made of grapes harvested from estate-owned vineyards, which are processed (fermented, aged and bottled) within the estate, such wines being generally considered as superior in quality
<i>“finish”</i>	refers to the flavour left in the mouth after wine has been swallowed

GLOSSARY OF TECHNICAL TERMS

<i>“ice wine”</i>	a type of sweet wine which is produced from grapes that have been frozen while still on the vine
<i>“must”</i>	refers to freshly pressed fruit juice (usually grape juice) that contains the skins, seeds, and stems of the fruit
<i>“polyphenols”</i>	refers to a kind of organic compound, some of which are found in plants like tea or in the seeds and skins of grapes and are known to have antioxidant properties
<i>“pomace”</i>	refers to the solid portion of grape must
<i>“resveratrol”</i>	refers to a type of polyphenol produced by certain plants as part of their natural defense system against disease. Red wine contains high levels of resveratrol, as do grapes, raspberries, peanuts, and other plants resveratrol has been shown in certain studies to reduce tumor incidence in animals by affecting one or more stages of cancer development. It has been shown to inhibit growth of many types of cancer cells in culture
<i>“rose wine”</i>	a type of sweet wine which is produced with mountain grapes and wild mountain rose petals
<i>“sweet wine”</i>	refers generally to wines with residue sugar content of more than 45gm per litre
<i>“tannin”</i>	a substance found in the seeds and stems of grapes, the bark of some trees and in tea. Tannin is important in the making of good red wines, aiding them in long and graceful ageing
<i>“varietal”</i>	refers to the types of wines made from a specific variety of grape. For example, Merlot and Cabernet Sauvignon are 2 types of varietals
<i>“vintage”</i>	the yield of wine or grapes from a vineyard or district during a single specified year

GLOSSARY OF TECHNICAL TERMS

“*vitis amurensis*”

the species of grape native to the Asian continent, which is very resistant to frost. Referred to colloquially in Jilin Province and the Tonghua region as mountain grapes

“*wine cellaring*”

the proper and correct storage of wines after the wines are bottled for the ageing process of the wines to take place

RISK FACTORS

RISKS RELATING TO OUR BUSINESS

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

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

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

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

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

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

RISK FACTORS

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

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

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

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

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

RISK FACTORS

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

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

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

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

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

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

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

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

RISK FACTORS

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

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

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

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

Our products are primarily marketed under the “Tongtian” (“通天”) and “Tongtian Hong” (“通天紅”) labels. For the three years ended 31 December 2008 and the six months ended 30 June 2009, the revenues attributable to the sales of products under the “Tongtian Hong” (“通天紅”) label were approximately RMB36.8 million, RMB106.8 million, RMB140.4 million and RMB69.8 million, respectively, amount to 13.1%, 27.3%, 28.9% and 28.8% of our total sales, respectively. However, we are still in the process of application, and have not yet secured registration, of the “Tongtian Hong” (“通天紅”) trademark in the PRC as at the Latest Practicable Date and we can give no assurance that the “Tongtian Hong” (“通天紅”) trademark can be successfully registered by us. We had submitted an application for trademark registration for the “Tongtian Hong” (“通天紅”) trademark but such application was subsequently turned down by the Trademark Office of the State Administration for Industry and Commerce (“SAIC”) (“Trademark Office”) (國家工商行政管理總局商標局) in 2007 because the “Tongtian Hong” (“通天紅”) trademark is similar to the “Tongtian” (“通天”) trademark registered with the Trademark Bureau, which was registered under the name of a different entity, 通化縣原野山葡萄酒廠 (“Tonghua Yuen Ye Shan Winery”) (which is owned by Ms. Wang Bo, the daughter of Mr. Wang), at the time of our trademark application. Tonghua Yuen Ye Shan Winery was a PRC domestic entity established in March 2000 and a grape wine producer. Based on confirmations given by Tonghua Municipal Administration for Industry and Commerce (通化市工商行政管理局) on 18 August 2009 and 10 October 2009, the registration of Tonghua Yuen Ye Shan Winery was cancelled in [May 2002] and this entity is no longer in

RISK FACTORS

existence. To the best of our Directors’ knowledge, information and belief after having made all reasonable enquiries, Ms. Wang Bo did not (i) hold any position in our Group or (ii) directly or indirectly own, operate, participate, invest in or carry on any business in any capacity or hold any equity interest or otherwise in any company or entity whose business competes or may compete with the business carried on by our Group as at the Latest Practicable Date. Our Directors confirmed that our Company did not have any business relationship with Tonghua Yuen Ye Shan Winery. The “Tongtian” (“通天”) trademark was subsequently transferred at nil consideration to Tongtian Winery on 19 August 2002. In July 2009, we submitted another application for “Tongtian Hong” (“通天紅”).

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

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

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

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

In particular, prior to October 2008, we produced and sold our Cabernet Sauvignon wine products (currently labelled “通天赤霞珠” in Chinese) under the label of “Tongtian Cabernet” (“通天解百納” in Chinese). On 14 April 2002, Yantai Changyu Pioneer Wine Company Limited (烟台張裕集團有限公司) (“Yantai Changyu”) registered the trademark for the Chinese characters for Cabernet, “解百納”, with the Trademark Office (the “Registration”). The Registration was subsequently revoked by the Trademark Office on 10 July 2002 on application by several wine producers in the PRC against the Registration (the “Withdrawal Ruling”). On 23 June 2008, the Yantai Changyu group of companies successfully appealed against the Withdrawal Ruling, which was then revoked by the Trademark Review and Adjudication Board of the SAIC (國家工商行政管理總局商標評審委員會). Shortly thereafter, on 27 June 2008,

RISK FACTORS

several wine producers in the PRC brought the matter to the Beijing Municipal First Intermediate People’s Court (北京市第一中級人民法院) seeking a judicial review of both the Registration as well as the revocation of the Withdrawal Ruling. We are not and have never been a party involved in such proceeding. As at the Latest Practicable Date, the matter has not been finally resolved. Should the Registration eventually be conclusively upheld by the PRC courts, other wine producers in the PRC will not be allowed to use the Chinese words for Cabernet, “解百納”, as part of their product labels. In addition, if the Registration is deemed by the PRC courts to have been continuously effective from 14 April 2002 until such date as the Registration is eventually conclusively upheld (the “Period of Alleged Infringement”), there is a possibility that the Yantai Changyu group may be able to successfully bring legal proceedings for trademark infringement against other PRC wine producers, including us, who had used “解百納” in their product labels during the Period of Alleged Infringement.

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

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

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

We submitted an application to the Trade Marks Registry of the Intellectual Property Department of the Government of Hong Kong Special Administrative Region (the “Trade Marks Registry”) for registration of our logo as appeared on the cover of this document as a trademark, details of which are set forth in the paragraph headed “Intellectual property rights of our Group” in Appendix VI to this document. As at the Latest Practicable Date, our

RISK FACTORS

application had proceeded to the substantive examination stage. We are not aware of any infringement or passing off action in respect of any third party intellectual property rights regarding the use of our logo. Given that the registration of the trademark is yet to be approved by the Trade Marks Registry, there can be no assurance that there will not be any claims, disputes or litigations made or threatened to be made against us in the future. Any claims, disputes or litigations involving infringement of third party intellectual property rights, whether with or without merits can be costly and may result in a diversion of our resources, affect adversely our reputation and/or financial performance.

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

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

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

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

As at the Latest Practicable Date, we leased a warehouse located at Li Ming Industrial Zone, Kuaidamao Town, Tonghua County, Jilin Province (吉林省通化縣快大茂鎮黎明工業區) from Tonghua Da Sen Lin Ye Development Co., Ltd. (通化大森林業開發有限責任公司), an [Independent Third Party], for approximately 700 square metres. The expiry date of the tenancy for these properties is 29 September 2010. The lessor cannot provide the relevant building ownership certificates for the warehouse. According to a supplementary agreement executed by Tonghua Da Sen Lin Ye Development Co., Ltd. and our Company dated 30 September 2009,

RISK FACTORS

the lessor will compensate all our losses in case we cannot continue to use the warehouse during the lease period due to the lack of relevant building ownership certificates. As advised by our PRC legal advisor, Jingtian & Gongcheng, the lease may not be protected by relevant PRC governmental authorities due to the lack of the relevant building ownership certificates. There is no assurance that the right of our Group to use and occupy those leased properties will not be interfered with in the future and our Group may be required to relocate from those properties.

RISKS RELATING TO OUR INDUSTRY

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

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

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

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

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

RISK FACTORS

We face the risks of contamination and deterioration of our wines

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

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

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

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

We may face labour shortages and rising labour costs

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

RISK FACTORS

We may be affected by adverse public opinion about alcoholic beverages

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

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

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

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

We are dependent on regulatory approvals for our operations

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

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

RISK FACTORS

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

RISKS RELATING TO THE PRC

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

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

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

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

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

RISK FACTORS

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

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

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

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

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

DIRECTORS AND PARTIES INVOLVED

DIRECTORS

Name	Address	Nationality
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Executive Directors

Mr. Wang Guangyuan	One Shengli Group Xinzhan Street Dongchang District Tonghua City Jilin Province PRC	Chinese
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Mr. Zhang Hebin	Four QianJin Group Guangming Street Dongchang District Tonghua City Jilin Province PRC	Chinese
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Ms. Wang Lijuan	12 Xinfeng Group Kuaidamao Town Tong Hua County Jilin Province PRC	Chinese
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Independent non-executive Directors

Mr. Lai Chi Keung, Albert	Flat G, 17/F Tower 2, Euston Court 6 Park Road Mid-levels Hong Kong	Chinese
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Mr. Sih Wai Kin, Daniel	77 Shatin Tau Estate 6th District Shatin New Territories Hong Kong	Chinese
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Mr. Li Changgao	Unit 7, West Group Guangming Street Dongchang District Tonghua City Jilin Province PRC	Chinese
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DIRECTORS AND PARTIES INVOLVED

OTHER PARTIES INVOLVED

Legal advisers to our Company

As to Hong Kong law:

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41st Floor, Jardine House
1 Connaught Place
Hong Kong

As to PRC law:

Jingtian & Gongcheng Attorneys At Law
15th Floor, The Union Plaza
20 Chaoyangmenwai Dajie
Beijing 100020
PRC

As to Bermuda law:

Conyers Dill & Pearman
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Auditor and reporting accountants

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Property valuer

Savills Valuation and Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Headquarters and head office in the PRC	No. 2199, Tuanjie Road Tonghua County Jilin Province PRC
Principal place of business in Hong Kong	Unit No. 3612, 36th Floor, West Tower, Shun Tak Centre Nos. 168-200 Connaught Road Central Hong Kong
Company’s website	www.tontine-wines.com <i>(information contained in this website does not form part of this document)</i>
Company secretaries	Mr. Sum Chi Kan, CISA, FCCA Mr. Richard J. Evans*
Authorised representatives <i>(under Rule 3.05 of the Listing Rules)</i>	Mr. Wang Guangyuan One Shengli Group Xinzhan Street Dongchang District Tonghua City Jilin Province PRC Mr. Sum Chi Kan Flat 113, Wang Wai Houg Wang Tau Hom Estate Kowloon Hong Kong

* Mr. Richard J. Evans, one of the secretaries of our Company, will resign immediately after the [●] of the Shares on the Stock Exchange.

CORPORATE INFORMATION

Authorised representatives

(under Part XI of the Companies Ordinance)

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Mr. Sum Chi Kan
Flat 113, Wang Wai House
Wang Tau Hom Estate
Kowloon
Hong Kong

Audit committee

Mr. Sih Wai Kin, Daniel (*Chairman*)
Mr. Lai Chi Keung, Albert
Mr. Li Changgao

Nomination committee

Mr. Lai Chi Keung, Albert (*Chairman*)
Mr. Wang Guangyuan
Mr. Li Changgao

Remuneration committee

Mr. Sih Wai Kin, Daniel (*Chairman*)
Mr. Lai Chi Keung, Albert
Mr. Li Changgao

Principal bankers

Agriculture Bank of China
Tonghua County Branch
No. 679 Changzheng Road
Kuaidamao Town, Tonghua County
Jilin Province
PRC

INDUSTRY OVERVIEW

THE INTERNATIONAL ORGANISATION OF VINE AND WINE (OIV)

The International Organisation of Vine and Wine (OIV) is an inter-governmental organisation of a scientific and technical nature or recognised competence for its works concerning vines, wine, wine-based beverages, table grapes, raisins and other vine-based products and is one of the leading international organizations in the field of wines and viticulture. The OIV is an Independent Third Party. The information obtained from the OIV and disclosed in this section is official public information. No fee was paid to the OIV for use and disclosure of its publications in this section.

CHINA STATISTICAL YEARBOOK 2008

The China Statistical Yearbook 2008 is an official publication issued annually by the China State Statistical Bureau (中華人民共和國國家統計局), which is a department within the government of the PRC. As such the information and statistics derived from the China Statistical Yearbook 2008 constitute official public information. The China State Statistical Bureau is an Independent Third Party. No fee was paid to China State Statistical Bureau for use and disclosure of its information in this section.

CHINA SUGAR AND LIQUOR YEARBOOK 2008

The China Sugar and Liquor Yearbook 2008 is an official publication issued annually by the China National Association for Liquor and Spirits Circulation (中國酒類流通協會), which was established with the approval of the Ministry of Civilian Affairs, the PRC in April 1995 and changed its name from its original name of [China National Association for Liquor and Spirits Business] (中國酒類商業協會) in April 2006. The China Sugar and Liquor Yearbook 2008 contains information, statistics and commentary on the alcoholic drinks industry in the PRC. The China National Association for Liquor and Spirits Circulation is an Independent Third Party. No fee was paid to China National Association for Liquor and Spirits Circulation for use and disclosure of its information in this section.

YEARBOOK OF CHINA ALCOHOLIC DRINKS INDUSTRY

The Yearbook of the China Alcoholic Drinks 2008 is an official publication published by the China Light Industry Publishing House (中國輕工業出版社) and issued annually by the China Alcoholic Drinks Industry Association (中國釀酒工業協會) (CADIA), an association, whose establishment was approved by the Ministry of Light Industry, the PRC, and contains information, statistics and commentary on the alcoholic drinks industry in the PRC. CADIA is an Independent Third Party. No fee was paid to CADIA for use and disclosure of its information in this section.

INDUSTRY OVERVIEW

GLOBAL TRADE ATLAS

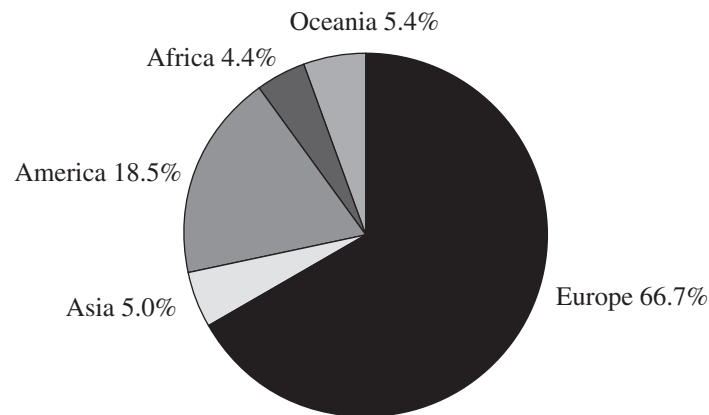
Global Trade Atlas is an information service provided by Global Trade Information Services, Inc. (GTI), an information services group headquartered in the US with offices in Europe, Japan and the PRC which provides international merchandise trade data to governments, trade associations and businesses. GTI is an Independent Third Party. No fee was paid to GTI for use and disclosure of its information in this section.

Global grape wine industry

Grape wine production

According to estimation by OIV, world wine production in 2008 (not including juice and musts) was estimated to be approximately 269 million hectoliters, representing a slight decrease of approximately 400,000 hl as compared to 2007.

World wine production (divided by continent)



Source: OIV

INDUSTRY OVERVIEW

The following table shows a list of leading world wine producers (in thousands of hectoliters) based on OIV's estimation and forecast:

The list of 10 leading world wine producers (in thousands of hl)

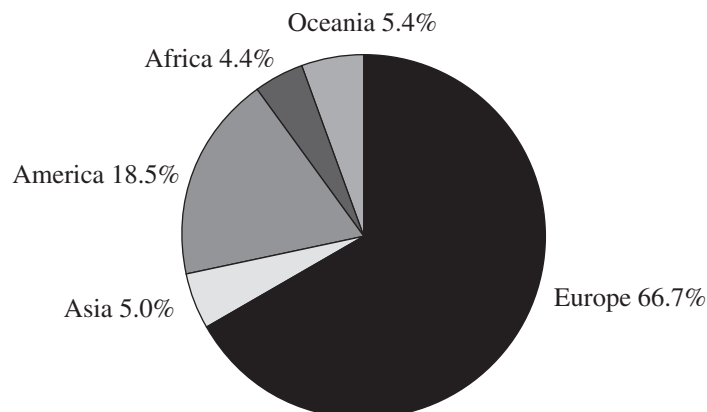
Country	forecast 2008	in %
Italy	48,633	18.1%
France	41,429	15.4%
Spain	34,630	12.9%
United States	19,200	7.1%
Argentina	14,677	5.5%
Australia	12,431	4.6%
China	12,000	4.5%
South Africa	10,261	3.8%
Germany	9,991	3.7%
Chile	8,683	3.2%
World Total	<u>269,018</u>	

Source: OIV

Grape wine consumption

According to OIV's estimation and forecast, world wine consumption in 2008 decreased by close to 2.4 million hectoliters compared to the previous year, amounting to a total approximate amount of 244.9 million hectoliters compared to 247.2 million hectoliters in 2007:

Overall wine consumption (divided by continent)



Source: OIV

INDUSTRY OVERVIEW

The following table shows a list of leading world wine consumers (in thousands of hectoliters) based on OIV's estimation and forecast:

The list of 10 leading wine consumer countries (in thousands of hl)

Country	forecast 2008	in %
France	31,750	13.0%
United States	28,516	11.6%
Italy	26,000	10.6%
Germany	20,747	8.5%
China	13,671	5.6%
United Kingdom	13,483	5.5%
Spain	12,790	5.2%
Russia	11,000	4.5%
Argentina	10,677	4.4%
Romania	5,404	2.2%
World Total	244,897	

Source: OIV

According to a report by the US Foreign Agricultural Service quoting information from Global Trade Atlas, China is also among the top ten export targets for grape wine exports from the EU with steady growth from 2006 to 2008:

Country of Destination	Quantity in 1,000 hectoliters		Value in million dollars			
	2006		2007		2008	
	Quantity	Value	Quantity	Value	Quantity	Value
U.S.	4,394	2,811	4,765	3,119	4,610	3,106
Russia	4,104	377	4,184	517	3,281	572
Switzerland	1,564	749	1,610	901	1,563	1,113
Canada	1,512	683	1,515	776	1,524	864
Japan	1,139	745	1,082	780	1,132	873
Angola	938	71	886	87	847	103
China	464	83	373	153	517	208
Norway	453	174	505	239	496	273
Nigeria	506	16	206	33	359	66
Brazil	201	76	232	99	226	113
Other	2,362	1,175	3,103	1,577	3,033	1,861
World	17,637	6,960	18,461	8,281	17,588	9,152

Source: Global Trade Atlas

INDUSTRY OVERVIEW

According to the US Foreign Agricultural Service, despite deteriorating global economic conditions, world demand for grape wine is likely to ease only marginally in 2009 as consumers shift to lower cost brands rather than significantly reducing their consumption of grape wine. Larger stocks will partially offset lower production, so prices should not change significantly.

The PRC grape wine industry

According to the 2008 Yearbook of the China Alcoholic Drinks Industry, the PRC’s total grape wine production in 2006 amounted to 495,100 kiloliters, representing an increase of 18.1% over the previous year’s figure of approximately 434,000 kiloliters. In addition, the Yearbook quoted that total grape wine sales revenue in 2006 reached RMB12.95 billion, representing an increase of 25.04% over the previous year. [Continuing the rapid growth, total wine production in PRC in 2007 was 665,100 kiloliters, with sales revenue amounting to RMB14.68 billion].

Grape wine consumption in PRC sustained a growth rate of around 20% in recent years as compared to an average worldwide growth rate of only 1.5%.

The following table sets out the GDP of PRC and its growth rate from 2001 to 2007:

Year	2001	2002	2003	2004	2005	2006	2007
GDP (<i>billions RMB</i>)	10,965.52	12,033.27	13,582.28	15,987.83	18,321.83	21,192.35	24,952.99
Growth rate		8.3%	9.1%	10.0%	10.1%	10.2%	

Source: China Statistical Yearbook 2008

According to the China Statistical Yearbook 2008, the annual disposable income per-capita of PRC urban residents increased from RMB 6,280 in 2000 to RMB11,759 in 2006 and then RMB13,786 in 2007 while the annual net income per-capita of PRC rural residents increased from RMB2,253 in 2000 to RMB3,587 in 2006 and then RMB4,140 in 2007.

According to the China Sugar and Liquor Yearbook 2008, currently the average annual personal consumption of grape wine in the PRC was only 6% of the world’s average and was in a developmental stage. Various factors, such as the rise in average income levels, in particular the major development of the middle class, broad recognition of the value of grape wine as a health beverage, contribute to a rapid growth rate in the level of consumption of grape wine. According to the China Sugar and Liquor Yearbook 2008, grape wine has already entered into ordinary peoples’ homes and become one of the kinds of alcoholic drinks for families in PRC.

INDUSTRY OVERVIEW

China’s per-capita consumption of grape wines is relatively low due to dietary habits and traditional culture. In China, the traditional wines are baijiu liquors and huangjiu liquors. Due to its suitability to most people, beer has swiftly gained popularity. The popularity of grape wines, however, is advancing at a relatively slow pace due to its unique consumption nature. Grape wines are associated with strong cultural elements and are often consumed with side foods (mainly western-style foods).

Grape wines are the world’s popular alcoholic beverage with a long cultural history. As grape wines are fermented wholly from grape juices, they have a low alcohol content and high nutritional value. Regular drinking of grape wine has medical efficacy in relation to the blood vessels in people’s hearts and brains. Today, grape wines are the most widely drunk alcoholic beverages, second only to beer. Along with the continuing growth of the PRC economy, the continuing elevation in overall social consumption level and structure in China has resulted in the number of grape wine drinkers increasing steadily. It is an international trend for grape wines to replace liquors, and tiers of consumption are developing in relation to younger and educated groups. As such, there is a bright prospect for the sale of grape wines in the PRC.

With the improvement of living standards of the Chinese general public, consumption levels of alcoholic beverages have a growth trend and consumption of grape wines is also increasing.

It is expected that the strategies of low price promotions and offering limited quantities of wines for sale employed by various grape wine producers in the past will not last long. The trend towards high grade branded grape wines will become more marked. Given the restructuring of the grape wine industry and the adoption of new standards for grape wines, the market demand for quality grape wines will further expand and the development potential for the high-end market will gradually unfold.

Grape wine production in the PRC

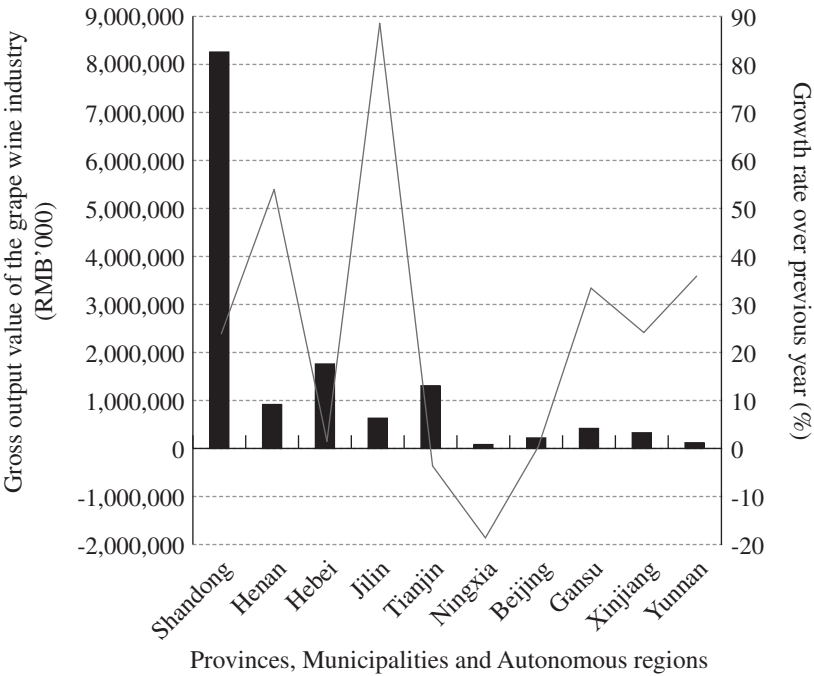
China has a long history of planting grapevines and most of the grapes are for fresh eating. The total planting area of vineyards in the PRC was 407,900 hectares, of which 46,600 hectares are for wine-producing grapes. [Total domestic grape production in 2005 was 5,794,000 tonnes, of which wine producing grapes accounted for approximately 480,000 tonnes.] According to the natural development plan for grapes and grape wines, the planting area of wine producing grapes will reach 66,670 hectares by 2010, and 100,000 hectares by 2015.

INDUSTRY OVERVIEW

The map below indicates the major grape planting regions in the PRC.



Wine production in the PRC is geographically concentrated in certain regions. In 2007, the top 10 regions produced 94.13% of the value of the wine produced in the PRC. As shown in the chart below, Jilin province experienced the highest annual growth rate in 2007.



Sources: Yearbook of China Alcoholic Drinks Industry

INDUSTRY OVERVIEW

[The wine industry is highly competitive within the PRC, fragmented with some large producers and many small producers. According to the 2008 Yearbook of the China Alcoholic Drinks Industry, there were approximately 600 wine enterprises. The top ten wine producing enterprises in total accounted for approximately 61.84% of total wine output in the PRC in 2007. The output of the Changyu, Great Wall, Dynasty and Weilong brand wines in total accounted for approximately 40.73% of total wine output in the PRC in 2007. We face intense competition from existing producers and new market entrants, including competition from imported wines. In Jilin Province, where the main raw material used in the production of wines is the *vitis amurensis* grape variety, our Directors consider the following to be our main competitors: 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). In respect of the PRC market as a whole, our Directors consider the following to be our main competitors: Dynasty Fine Wines Group Limited (王朝葡萄酒業集團有限公司), Yantai Changyu Pioneer Wine Company Limited (煙台張裕葡萄釀酒股份有限公司) and China Great Wall Wine Co., Ltd. (中國長城葡萄酒有限公司).]

Challenge posed by imported wines

According to the China Sugar and Liquor Yearbook 2008, following the reduction in tariffs on grape wines in the PRC, wines of France, Australia, Italy and Spain have entered the PRC market and become formidable challengers to domestic wine producers in China’s grape wine market. According to statistics, wine imports in 2007 accounted for 10% of the China market, compared to 6.6% in 2006. The top ten bottled wine producing countries whose wines were imported into China in 2007 were France, Australia, Italy, Spain, Chile, the US, Germany, Argentina, Portugal and South Africa. Of these, imported French wines’ market share increased from 34% in 2006 to 37% in 2007, while imported Australian wines’ market share decreased from 23% in 2006 to 21% in 2007.

As quoted in the China Sugar and Liquor Yearbook 2008 quoting the International Wine and Spirits Review (“IWSR”) projected that, as a consumer market, China’s grape wine consumption volume (for both domestic and imported grape wine) would increase rapidly from 2006 to 2011 with an average annual growth rate of 13%. IWSR predicted that China’s wine consumption volume would reach 1.1 billion bottles in 2011, accounting for 40% of the Asia market (and doubling the level in 2006). Overseas wine is positioned at the high-end of the China market, with major customers being hotels, nightclubs and other high consumption venues.

REGULATORY OVERVIEW

This section sets out summaries of certain aspects of the PRC laws and regulations, which are relevant to our Group’s operation and business.

PRC ALCOHOL CIRCULATION RULES

The Alcohol Circulation Administration Rules (酒類流通管理辦法) promulgated by the Ministry of Commerce on 7 November 2005 came into effect on 1 January 2006. According to the Alcohol Circulation Administration Rules and relevant notices of the Ministry of Commerce, alcohol (excluding beer) distributors should file with local commerce bureaus 60 days after having obtained business licenses. In addition, the alcohol (excluding beer) sellers should fill in the Alcohol Circulation Collateral Form (酒類流通附隨單) with the relevant information of alcohol sold when selling alcohols and such Alcohol Circulation Collateral Forms should be circulated with the sold alcohols.

PRC REGULATION ON PRODUCT LIABILITIES AND QUALITY CONTROL

Pursuant to the General Principles of the Civil Law of the PRC (中華人民共和國民法通則) promulgated by the National People’s Congress on 12 April 1986 and the Law of the PRC on the Protection of Consumers’ Rights and Interests (中華人民共和國消費者權益保護法) promulgated by the Standing Committee of the National People’s Congress on 31 October 1993, both manufacturers and distributors will be held jointly liable for losses and damage suffered by consumers caused by the defective products they manufacture and distribute.

Further, consumers who sustain losses or damages from defective products are entitled to be indemnified by either manufacturers or distributors according to the Law of the PRC on Products Quality (中華人民共和國產品質量法) promulgated by the Standing Committee of the National People’s Congress on 22 February 1993 and amended on 8 July 2000. Nevertheless, if manufacturers are responsible for the defective products and the losses or damage caused thereby, the distributors which have indemnified consumers for their losses may seek claims on the indemnities against the manufacturers.

To impose further protection on consumers in connection with the purchase or use of food, the Food Safety Law of the PRC (中華人民共和國食品安全法) (the “PRC Food Safety Law”) was promulgated by the Standing Committee of the National People’s Congress on 28 February 2009 and took effect from 1 June 2009. According to the PRC Food Safety Law, (i) the food distributors may be subject to penalties, or even be required to cease operation if they fail to comply with the relevant food safety requirements; (ii) if the food distributors have caused any damage to the consumers or their assets, they shall compensate such consumers for the damage caused; and (iii) if the food distributors knowingly distribute unqualified food products, the consumers may claim for damages as well as compensation of up to ten times of the price of the unqualified food products.

REGULATORY OVERVIEW

Pursuant to the Law on Food Hygiene of the PRC (中華人民共和國食品衛生法) promulgated by the Standing Committee of the National People’s Congress on 30 October 1995, food, including wine, production enterprises should obtain the Food Hygiene Permit (食品衛生許可證) in order to conduct its business and the Ministry of Health of PRC is the relevant governmental authority which administers food hygiene issues. The Administration Rules on Food Hygiene Permit (the “Food Hygiene Permit Rules”) (食品衛生許可證管理辦法) promulgated by the Ministry of Health of PRC which became effective on 1 June 2006 stipulates the compulsory standards and the detailed procedures to obtain the Food Hygiene Permits. According to the Food Hygiene Permit Rules, the validity period of a food hygiene permit is 4 years from the date of issue. In addition, a food producer conducting food production in 2 or more places shall obtain the Food Hygiene Permits for each of its production places.

The Administration Regulations on the Production Permit for Industrial Products (中華人民共和國工業產品生產許可證管理條例) promulgated by the State Council of PRC became effective on 1 September 2005, and Implemental Rules on the Supervision and Administration of the Quality Safety of Food Production and Processing Enterprises (Provisional) (食品生產加工企業質量安全監督管理實施細則(試行)) issued by General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China (“AQSIQ”) became effective on 1 September 2005 (collectively, the “QS Rule”). According to the QS Rules, the PRC adopted the market admittance system on food safety standards. Enterprises operating food production and/or food processing shall therefore maintain the production conditions which can guarantee the food safety standards, and shall obtain the production permit of the industrial products according to relevant procedures. Food products shall not leave the factory and be distributed without passing inspection and being stamped with the food safety standards market admittance symbols.

PRC STANDARDISATION LAW

The Standardisation Law of the PRC (the “Standardisation Law”) (中華人民共和國標準化法), promulgated by the Standing Committee of the National People’s Congress on 29 December 1988 and its implemented regulations. According to the Standardisation Law and its implemental regulations (中華人民共和國標準化法實施細則), the food hygiene standard is a compulsory standard imposed on food production enterprises. Products that fall short of the compulsory standards shall not be distributed or imported.

PRC ADVERTISEMENT RULES

The Provisional Rules on the Release of Food Advertisement (the “Food Advertisement Rules”) (食品廣告發佈暫行規定) promulgated by the State Administration for Industry and Commerce on 30 December 1996 as amended on 3 December 1998. According to the Food Advertisement Rules, the Food Hygiene Permit (食品衛生許可證) is required when releasing wine advertisements.

REGULATORY OVERVIEW

According to the Advertisement Administration Rule for Alcohol (酒類廣告管理辦法) promulgated by the State Administration for Industry and Commerce on 17 November 1995, the inspection compliance certificate (檢驗合格證明) issued by a qualified food quality inspection institution is required before the launch of a wine advertisement.

PRC ENVIRONMENTAL PROTECTION LAWS

The Water Law of the PRC (中華人民共和國水法), promulgated by the Standing Committee of the National People’s Congress dated 29 August 2002 and effective from 1 October 2002, states that the direct usage of water from natural sources such as rivers, lakes or underground water shall be subject to the water usage permit system. The usage of such water is conditional upon the application and grant of a Water Intake Permit (取水許可證) from the relevant water administration authorities, and payment of the relevant water resource fees. Further, according to the Water Intake Permit and Water Resources Fees Collection Regulations (取水許可和水資源費徵收管理條例) promulgated by the State Council of the PRC on 21 February 2006 and effective from 15 April 2006, enterprises and individuals who hold Water Intake Permits shall be entitled to use water of up to such a maximum amount as prescribed by the approved annual water usage plan. In the event the prescribed amount in the approved annual water usage plan is exceeded, additional fees will be imposed on the users.

Pursuant to The Environmental Protection Law of the PRC) (the “Environmental Protection Law”) (中華人民共和國環境保護法) effective as at 26 December 1989, the State Administration for Environmental Protection (the “SAEP”) shall establish national standards for environmental quality control. The governments of provinces, autonomous regions and municipalities directly under the Central Government may establish their own local standards for environmental quality control for the items not specified in the national standards and shall report them to the SAEP for its record.

The Environmental Protection Law requires all enterprises and institutions that cause environmental pollution and other public hazards to incorporate and implement environmental protection policies into their plans and establish a responsibility system for environmental protection. These enterprises and institutions shall adopt effective measures to prevent and control the pollution and damage to the environment from waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

Installations for the prevention and control of pollution in a construction project shall be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to be commissioned, until its installations for the prevention and control of pollution are examined and assessed to be up to the standard by the competent department of environmental protection administration which examines and approves the environmental impact statement.

New construction projects, expansion, reconstruction projects and other installations which directly or indirectly discharge pollutants into the water body shall be subject to the state regulations on environmental protection of construction projects according to the Law of the

REGULATORY OVERVIEW

PRC on Prevention and Control of Water Pollution (中華人民共和國水污染防治法) amended on 28 February 2008 and came into effect on 1 June 2008 and the Implementation Rules of the Law of the PRC on Prevention and Control of Water Pollution (中華人民共和國水污染防治法實施細則) effective as at 20 March 2000. Enterprises and institutions that discharge pollutants directly or indirectly into a water body shall report to and register with the local environmental protection department at or above the county level their existing facilities for discharging and treating water pollutants, and the categories, quantities and concentrations of water pollutants discharged under their normal operation conditions, and also submit to the same department technical information concerning prevention and control of water pollution.

Enterprises and institutions that discharge pollutants directly into a water body shall pay a pollutant discharge fee counted on the basis of categories, quantities and collection standards of the water pollutants discharged.

New construction projects, expansion, or reconstruction projects that discharge pollutants into the air shall be subject to state regulations on environmental protection of construction projects under the Law of the PRC on Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法) amended on 29 April 2000 and effective as at 1 September 2000. Enterprises and institutions that discharge atmospheric pollutants shall report to the local administrative department of environmental protection of their existing discharge and treatment facilities for pollutants and the categories, quantities and concentrations of pollutants discharged under normal operation conditions and submit to the same department their technical information concerning prevention and control of atmospheric pollution.

The PRC Government implements a system of collecting fees for discharging pollutants on the basis of the categories and quantities of the atmospheric pollutants discharged, and establishes reasonable standards for collecting the fees hereinbefore according to the needs of strengthening prevention and control of atmospheric pollution and the State's economic and technological conditions.

According to the Law of the PRC on Prevention and Control of Environmental Pollution by Noise (中華人民共和國環境噪聲污染防治法) effective as at 1 March 1997, new construction project, expansion, or reconstruction project shall be subject to the state regulations on environmental protection of construction projects. If noise pollutions are generated due to the use of fixed facilities during industrial production, the industrial enterprise shall report to the competent local administrative department of environmental protection at or above the county level about the categories and quantities of noise discharging facilities, the noise level under normal operation conditions and the conditions of the facilities that prevent and control noise pollution meanwhile the enterprise shall submit to the same department their technical information concerning prevention and control of noise pollution. Industrial enterprises which discharge noises shall take treatment measures and pay a fee for excess discharge according to State regulations.

As at 1 April 2005, producers, distributors, importers and users of a product shall be responsible for the prevention and control of the solid wastes it generates or discharges under the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法) amended on 29 December 2004.

REGULATORY OVERVIEW

PRC LABOUR AND PRODUCTION SAFETY LAWS

Effective as at 1 January 2008, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises or institutions and the labourers under the Labour Contract Law of the PRC (the “Labour Contract Law”) (中華人民共和國勞動合同法). Enterprises and institutions are forbidden to force the labourers to work beyond the time limit and the employers shall pay labourers for overtime work in accordance with national regulations. In addition, the labour wages shall not be lower than local standards on minimum wages and shall be paid to the labourers timely.

According to the Labour Law of the PRC (中華人民共和國勞動法) effective as at 1 January 1995, enterprises and institutions shall establish and perfect its system of work place safety and sanitation, strictly abide by State rules and standards on work place safety and sanitation, educate labourers of work place safety and sanitation. Work place safety and sanitation facilities shall comply with State-fixed standards. The enterprises and institutions shall provide labourers with work place safety and sanitation conditions which are in compliance with State stipulations and relevant articles of labour protection.

Effective as at 1 November 2002, enterprises and institutions shall be equipped with the measures for safe production as provided in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards under the PRC Production Safety Law (the “Production Safety Law”) (中華人民共和國安全生產法). Any entity that is not equipped with the measures for safe production is not allowed to engage in production and business operation activities. Enterprises and institutions shall offer education and training programs to the employees thereof regarding production safety.

The design, manufacture, installation, use, checking, maintenance, repair and disposal of safety equipment shall be in conformity with the national standards or industrial standards. In addition, enterprises and institutions shall provide personal protective equipment that reach the national standards or industrial standards to the employees thereof, supervise and educate them to use these equipment according to the prescribed rules.

According to the Regulations on Work-Related Injury Insurance (工傷保險條例) effective as at 1 January 2004, the Interim Measures concerning the Maternity Insurance for Enterprise Employees (企業職工生育保險試行辦法) effective as at 1 January 1995, the Interim Regulations concerning the Levy of Social Insurance (社會保險費徵繳暫行條例) effective as at 22 January 1999, the Interim Measures concerning the Management of the Registration of Social Insurance (社會保險登記管理暫行辦法) effective as at 19 March 1999 and the Regulations concerning Housing Fund (住房公積金管理條例) effective as at 3 April 1999 and amended on 24 March 2002, enterprises and institutions in the PRC shall provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance, as well as housing fund.

REGULATORY OVERVIEW

PRC INCOME TAX LAW

According to the Enterprise Income Tax (“EIT”) Law of the PRC (中華人民共和國企業所得稅法) enacted on 16 March 2007 and the Implementation Regulations of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) enacted on 6 December 2007 (collectively the “Income Tax Law”), which both took effect on 1 January 2008, the EIT for both domestic and foreign-invested enterprises are unified at 25%. For those enterprises established before 16 March 2007 and entitled to preferential income tax treatments by tax related laws and administrative regulations, the Income Tax Law provides for a five-year transitional period, during which the applicable EIT rate shall be converted to the unified rate at 25% gradually.

According to the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy (國務院關於實施企業所得稅過渡優惠政策的通知) issued on 26 December 2007 and took effect on 1 January 2008, enterprises that enjoy “2-year exemption and 3-year half payment”, “5-year exemption and 5-year half payment” of the enterprise income tax and other preferential treatments in the form of periodic tax deductions and exemptions in the past may, after the Income Tax Law took effect on 1 January 2008, continue to enjoy the relevant preferential treatments under the preferential measures and the time period set out in the previous tax law, administrative regulations and relevant documents until the expiration of the said time period. However, the preferential time period applicable to an enterprise shall start to run from 2008 if such enterprise has not enjoyed the preferential treatments yet because of its failure to make profits. In addition, enterprises which were entitled to a preferential income tax at the rate of 15% will gradually be levied on the unified 25% tax within five years commencing on 1 January 2008. The transitional tax rates applied to the enterprises entitled to the 15% preferential tax rate are 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012. Enterprises which previously enjoyed the 24% preferential tax rate are imposed with the unified 25% tax rate from 1 January 2008. Further, the tax preferential treatments applied to enterprises within the designated great western development region in the PRC of western area will continue to be applied.

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, thus Tongtian Winery is not entitled to preferential income treatment since 1 January 2008.

PRC TRADEMARK LAW

The period of validity of a registered trademark shall be ten years, to be counted from the date of approval of the registration under the Trademark Law of the PRC (中華人民共和國商標法) amended as at 27 October 2001 and came into effect on 1 December 2001. The administrative authority for industry and commerce has the power to investigate and handle any act of infringement of the exclusive right to use a registered trademark according to law. Where the case is so serious as to constitute a crime, it shall be transferred to the judicial authority for handling.

REGULATORY OVERVIEW

PRC LICENSES, PERMITS AND APPROVALS

Based on the above summaries laws and regulations, our Group has obtained the following licenses, permits and approvals in relating to the business and operation of our Group.

Licenses, permits and approvals	Issuing authority	Prescription	Expiry date
Hygiene Permit (衛生許可證)	Tonghua County Hygiene Bureau (通化縣衛生局)	Permit to product licensed products: wine	10 December 2011
National Industrial Product Production Permit (全國工業產品生產 許可證)	General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國 國家質量監督 檢驗檢疫總局)	Permit for production and sale of licensed products: wine	22 January 2012
Water Intake Permit (取水許可證)	Tonghua County Water and Electricity Bureau (通化縣水利電力局)	Permit to extract up to 20,000 tonnes of water from wells situated within the production premises per annum	16 May 2012

As advised by our PRC legal advisers, Jingtian & Gongcheng, saved as disclosed above and in this section, our business and operations in the PRC are not subject to any special legislation or regulatory controls other than those generally applicable to companies and businesses operating in the PRC.

Our Directors are not aware of any incident of suspension or revocation of any of our licenses, permits or approvals or any fact or circumstances which will cause our licenses, permits or approvals to be suspended or revoked.

To the best of our Directors’ knowledge, we have all necessary licenses, permits or approvals for our business operations in the PRC and have complied with all applicable laws and regulations of the PRC throughout the Track Record Period and up to the date of this document.

HISTORY AND CORPORATE STRUCTURE

INTRODUCTION

Our Company was incorporated in Bermuda on 21 August 2008 as the holding company of our Group. Fullest Power is the directly wholly-owned subsidiary of our Company, while Rich Treasure is the directly wholly-owned subsidiary of Fullest Power. Fullest Power and Rich Treasure were incorporated on 19 May 2006 and 18 July 2008, respectively. They are both investment holding companies and were established for the purpose of holding our Company’s interest in Tongtian Winery, which is the directly wholly-owned subsidiary of Rich Treasure. Tongtian Winery is the sole operating company within our Group, and is engaged in our principal business of the production and sales of grape wines.

OUR HISTORY AND DEVELOPMENT

The history of our Group dates back to the preparation for the establishment of Tongtian Winery in November 2000 as a limited liability company in the PRC by our chairman and chief executive officer, Mr. Wang, with the help of his family members. Mr. Wang had perceived a trend towards the increase in consumption of grape wines in the PRC as the preferred alcoholic beverage, instead of traditional alcohols such as baijiu (grain-based Chinese “white” wine) or beer. In particular, Mr. Wang recognised the potential for sweet wines produced from the indigenous mountain grape varieties (the *vitis amurensis* variety) unique to the Tonghua region, and developed a vision to become the foremost producer of PRC wine based on these unique local grape varieties. Mr. Wang was supported by a group of key managers, and with whom he had worked extensively in the past, including our executive Director, Mr. Zhang Hebin, and our chief winemaker, Ms. Ji Chunhua.

Tongtian Winery was formally established as a limited liability company in the PRC on 9 January 2001. Tongtian Winery was converted into a joint stock limited company in August 2001, when the group of key managers joined Mr. Wang as shareholders of Tongtian Winery. As part of national and regional government policy in encouraging the production of goods unique to the PRC, our “Tongtian” (“通天”) label was conferred the “PRC Public Recommended Brand” award (全國公眾推薦名優品牌) jointly by the China Socio-Economic Strategy Consultation Centre (中國社會經濟決策諮詢中心) and the Famous Brand Protection and Inspection Institute (名牌產品市場保護調查所) in 2001. Tongtian Winery also received the “China Famous and Premium Wine” award (中國名優葡萄酒) conferred by the China Food Industry Association (中國食品工業協會) in the same year. As a testament to the market acceptance of our products as well as our successful marketing strategies, we were conferred the Asia-Pacific Satisfactory Consumer Products Award (亞太地區消費者滿意產品) by the China International Food Industry Association (中國國際食品工業協會) in November 2002.

The year 2003 marked the next phase of our expansion. In October 2003, Tongtian Winery relocated to newly constructed factory premises in Dong’an Village, Kuaidamao Town, Tonghua County, Jilin Province, the PRC. The new production facilities included a new fully automated wine bottling processing line as well as ten 100-tonne wine storage tanks, twenty 50-tonne tanks and fifteen 30-tonne tanks which, together with leased storage tanks with a total capacity of approximately 8,000 tonnes, increased our storage capacity to approximately

HISTORY AND CORPORATE STRUCTURE

10,450 tonnes. That year, we also acquired the land and factory premises of a winery facility in Changchuan Village, Qingshi Town, Ji’An City covering approximately 6,555 sq.m. This winery facility, as located in proximity to the neighbouring vineyards, gave us the crucial ability to immediately process our own raw grape juice from freshly harvested grapes.

In the face of increasing demand for our grape wine products, and so as to secure our supply of grapes, in March 2004, Tongtian Winery entered into 20-year long-term supply agreements with selected local grape farmers in the Ji’An region whose vineyards produced grapes of the requisite quality. As at the Latest Practicable Date, our Group had entered into long-term supply agreements with [173] local grape farmers with surrounding vineyards covering an area of approximately [14,577,408] sq.m.

In May 2004, we further expanded our Tonghua production facility with the installation of 18 additional 100-tonne wine storage tanks and 23 additional 50-tonne dual-purpose tanks, as well as the addition of one more fully automated wine bottling processing line to support the increase in our wine production capacity. Our production capacity was then increased to our current capacity of approximately 19,000 tonnes of wine per annum. By the end of 2004, our distribution network comprised 36 distributors marketing our range of 12 wine products to 16 provinces and municipal cities in the PRC.

In 2004, our grape wine products were recognised as “Wine of Excellent Quality” (優秀葡萄酒) by the Expert Committee of the Grape and Fruit Wine, China Food Industry Association (中國食品工業協會葡、果酒專家委員會). In recognition of our environmentally friendly business practices and production quality, five of our “Tongtian” (“通天”) and “Tongtian Hong” (“通天紅”) labeled wine product ranges, including our ice wines and dry wines, were conferred the “Green Food-Class A” certification (綠色食品A級標準) by the China Green Food Development Centre (中國綠色食品發展中心) in September 2004, as a result of which we were allowed to include the “Green Food” logo on the labels of our ice wine products.

In April 2005, we began our next phase of expansion with the installation of 22 additional 100-tonne wine storage tanks. Our “Tongtian” label of wine products also received the “Famous Product of Jilin Province” award (吉林省名牌產品) in 2005, thereby consolidating our status as one of the leading PRC producers of grape wines and in particular, sweet wines based in Jilin Province.

In October 2006, we were also awarded the Geographic Indication Protected Products of the PRC (中華人民共和國地理標誌保護產品) (“GI Products”) by the Association for Geographic Indication Protected Products of Jilin Province (吉林省地理標誌產品保護協會). The GI Products mark is a quality mark that the state grants to an enterprise to use on their labels for approved products from specified areas at origin in the PRC, which in our case represents a recognition of our grape wine products made from indigenous *vitis amurensis* grapes from the Tonghua region.

In April 2007, Tongtian Winery was converted into a wholly-owned foreign enterprise in preparation towards the [●] of our Group. For further details of such conversion, please refer to the section headed “History and Corporate Structure – Our Corporate Reorganisation” of this document.

HISTORY AND CORPORATE STRUCTURE

As a continued affirmation of the quality of our products, in December 2007 the “Green Food – Class A” certification (綠色食品A級標準) by the China Green Food Development Centre (中國綠色食品發展中心) for some of our “Tongtian” (“通天”) and “Tongtian Hong” (“通天紅”) labelled wine product ranges were renewed for another three years.

As a testament to the prominence and popularity of our grape wine products, we were awarded both the “Top 500 Brands of the PRC” (中國品牌500強) and the “Top 10 PRC Grape Wine Industry Brands” award (中國葡萄酒行業十大品牌) by the China Market Brands Strategy Forum Organising Committee (中國市場品牌戰略論壇組委會) in March 2008.

In [September 2007], we also commenced construction of additional facilities at our Tonghua production facility to further expand our production capacity. Upon completion of the additional facilities which we expect to achieve by the end of 2010, we expect our annual production capacity to increase by an additional 20,000 tonnes.

As at the Latest Practicable Date, we offer a wide range of [18] different kinds of grape wine products in the categories of sweet wine and dry wine, and our distribution network comprises [71] distributors marketing our products to [19] provinces and [3] municipal cities (namely, Beijing, Chongqing and Shanghai) in the PRC.

OUR CORPORATE REORGANISATION

Set out below is the shareholding structure of Tongtian Winery owned by Mr. Wang and certain founding members since its establishment as a joint-stock limited company in August 2001 and immediately prior to the Corporate Reorganisation:

Name of shareholder	Percentage shareholding in Tongtian Winery (%)
Mr. Wang (<i>Note 1</i>)	72.0
Mr. Zhang Hebin (<i>Note 2</i>)	10.0
Mr. Kang Hong (<i>Note 3</i>)	6.0
Mr. Sun Yankun (<i>Note 4</i>)	6.0
Ms. Pei Zhilan (<i>Note 5</i>)	6.0

HISTORY AND CORPORATE STRUCTURE

Notes:

- (1) Of the 72% of the entire equity interest in Tongtian Winery beneficially owned by Mr. Wang, 38.77% was registered and held in his own name and the remaining 33.23% was registered in and held upon trust for Mr. Wang by his nominees (namely, as to 11.23% by Ms. Wang Lijuan (王麗娟), 5% by Mr. Liu Chongshan (劉崇山), 5% by Mr. Sun Shuang (孫雙), 1% by Mr. Zhang Bairui (張百瑞), 1% by Mr. Wen Hongbo (溫洪波), 1% by Mr. Yan Yuli (閻玉禮), 1% by Mr. Kong Xiangge (孔祥閣), 1% by Mr. Yu Dazhou (于大洲), 1% by Mr. Qin Hongshu (秦洪樹), 1% by Ms. Lv Zhihui (呂智惠) and 5% by Ms. Wang Lijun (王麗君)).

Ms. Wang Lijuan, being one of the founding management team members of Tongtian Winery and an executive Director, is the sister of Mr. Wang and Ms. Wang Lijun (one of the nominees of Mr. Wang) and the spouse of Mr. Wen Hongbo (one of the nominees and the brother-in-law of Mr. Wang). The remaining nominees, who are Independent Third Parties, are friends of Mr. Wang.

- (2) Of the 10% of the entire equity interest in Tongtian Winery beneficially owned by Mr. Zhang Hebin, 5% was registered and held in his own name and the remaining 5% was registered in and held upon trust for him by his nominee (namely, Mr. Wang Dechen (王德臣), a friend of Mr. Zhang Hebin and an Independent Third Party).

- (3) Of the 6% of the entire equity interest in Tongtian Winery beneficially owned by Mr. Kang Hong, 5% was registered and held in his own name and the remaining 1% was registered in and held upon trust for him by his nominee (namely, Ms. Ji Chunhua (紀春花), the spouse of Mr. Kang Hong).

Ms. Ji Chunhua is one of the founding management team members of Tongtian Winery and one of the senior management of our Group.

- (4) Of the 6% of the entire equity interest in Tongtian Winery beneficially owned by Mr. Sun Yankun, 5% was registered and held in his own name and the remaining 1% was registered in and held upon trust for him by his nominee (namely, Mr. Wan Hui (萬輝), a friend of Mr. Sun Yankun and an Independent Third Party).

- (5) Of the 6% of the entire equity interest in Tongtian Winery beneficially owned by Ms. Pei Zhilan, 5% was registered and held in her own name and the remaining 1% was registered in and held upon trust for her by her nominee (namely, Mr. Shen Chengbo (沈成波), the brother-in-law of Ms. Pei Zhilan).

- (6) In the preparation of its establishment as a joint-stock limited company in the PRC, Tongtian Winery accepted the recommendation from Tonghua Municipal Economic Committee (通化市經濟委員會) (“TMEC”) to have 20 members as promoters or founding members of Tongtian Winery on its establishment as a joint-stock limited company, which was the usual and recommended practice adopted by TMEC. Accordingly, the nominee arrangements were entered into by the relevant shareholders with their respective nominees so that Tongtian Winery would have the suggested number of shareholders at that time. As advised by Jingtian & Gongcheng, our Company’s PRC legal advisers, the nominee arrangements are legal, valid and enforceable under the PRC laws.

- (7) Save as disclosed above, there was no past or present relationship, business or otherwise, between the nominees and our Group, our Shareholders, Directors, members of its senior management or their respective associates.

HISTORY AND CORPORATE STRUCTURE

The companies comprising our Group underwent a reorganisation to rationalise our corporate structure in preparation for the [●], and as a result, our Company became the holding company of our Group. The Corporate Reorganisation involved the following steps:

(a) Incorporation of Fullest Power

Fullest Power was incorporated on 19 May 2006 in the BVI as an investment holding company with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each (“Fullest Power Shares”). Upon incorporation, an aggregate of 50,000 Fullest Power Shares were allotted and issued, for cash at par, to certain founding members of Tongtian Winery, in the proportion set out in the table below:

Name (Note)	Number of Fullest Power Shares	Percentage shareholding in Fullest Power (%)
Mr. Wang	36,000	72.0
Mr. Zhang Hebin	5,000	10.0
Mr. Kang Hong	3,000	6.0
Mr. Sun Yankun	3,000	6.0
Ms. Pei Zhilan	3,000	6.0
Total	50,000	100.0

Note: Save for (i) Mr. Wang and Mr. Zhang Hebin who are executive Directors and (ii) the shareholders’ relationship of the founding members named above in Tongtian Winery, the founding members named above have no relationship with each other and each of them is not connected with our Company, its connected persons or their respective associates.

(b) Acquisition and conversion of Tongtian Winery into a wholly-owned foreign enterprise

On 21 August 2006, Fullest Power entered into an equity transfer agreement with the founding members of Tongtian Winery and, where relevant, their respective nominees, to acquire the entire equity interest in Tongtian Winery (which was then a joint-stock limited company) for an aggregate consideration of RMB87,110,000 (which was determined with reference to the net asset value of Tongtian Winery as at 31 December 2005 as valued by Jilin Zhongtian Certified Public Accountants Co., Ltd. (吉林中天會計師事務所有限公司), an independent valuer, and satisfied in full by cash).

The acquisition of the entire equity interest in Tongtian Winery by Fullest Power was approved on 28 August 2006 when the Department of Commerce of Jilin Province (吉林省商務廳) issued the Approval on the Acquisition of the Equity Interests in Tonghua Tongtian Winery Company Limited (《關於通化通天酒業股份有限公司股權併購的批復》)

HISTORY AND CORPORATE STRUCTURE

numbered Ji Shang Wai Zi Zi 【2006】 No.122 (吉商外資字【2006】122號). Under the Approval, the registered capital of US\$10,848,100 was required to be paid up within six months from the issuance of the new business licence to Tongtian Winery in respect of its conversion into a wholly foreign-owned enterprise.

The establishment of Tongtian Winery as a wholly-owned foreign enterprise with a total investment and registered capital of US\$10,848,100 was approved on 5 September 2006 when Jilin Provincial People’s Government issued the Certificate of Approval for Establishment of Enterprises with Foreign Investments in the PRC numbered Shang Wai Zi Ji Fu Zi 【2006】 No.0039 (商外資吉府字【2006】0039號). On 24 April 2007, Tonghua Municipal Administration for Industry and Commerce (通化市工商行政管理局) issued the business license numbered Qi Du Ji Tong Zong Fu Zi Di No.000300 (企獨吉通總副字第000300號) to Tonghua Winery, pursuant to which, Tonghua Winery was duly converted into a wholly-owned foreign enterprise.

Following the abovementioned approvals, Fullest Power’s contribution towards Tongtian Winery’s registered capital requirements of US\$10,848,100 was financed by funds advanced as to US\$4,683,704 by Youth Group, US\$2,054,802 by Crystal Planet, US\$2,054,802 by Add Noble and US\$2,054,802 by Top Star Fortune (collectively, the “Foreign Investor Loan”) at the request of Mr. Wang under four separate loan agreements all dated 12 September 2007 entered into by Mr. Wang with each of the Foreign Investors. The Foreign Investor Loan was unsecured and carried interest at the rate of 1% over the prevailing best lending rate quoted by The Hongkong & Shanghai Banking Corporation Limited per annum.

According to the capital verification report Tong Wei Kuai Jian (Yan) Zi 【2007】 No.067 (通威會鑒(驗)字【2007】067號) dated 24 September 2007 and the capital verification report Tong Wei Kuai Jian (Yan) Zi 【2007】 No.068 (通威會鑒(驗)字【2007】068號) dated 30 September 2007 issued by Tonghua Tianwei Certified Public Accountants Co., Ltd., the registered capital of Tongtian Winery in the amount of US\$10,848,100 was fully paid up on 28 September 2007 and is completed within six months from the issuance of the new business licence of Tongtian Winery in respect of its conversion into a wholly-owned foreign enterprise. As advised by Jingtian & Gongcheng, our Company’s PRC legal advisers, the payment of such registered capital was duly made in accordance with the applicable rules and regulations of the PRC.

Following completion of the contribution towards the registered capital of Tongtian Winery, Fullest Power became indebted to Mr. Wang for the principal amount of US\$10,848,100 (the “Fullest Power Loan”). The Fullest Power Loan was fully settled on 28 November 2008, as further described in paragraph (h) below.

HISTORY AND CORPORATE STRUCTURE

(c) Transfer of Fullest Power Shares to Foreign Investors

On 12 September 2007, Mr. Wang entered into a series of sale and purchase agreements with each of the Foreign Investors for the acquisition by the Foreign Investors of an aggregate of 21% of the then total issued share capital of Fullest Power (representing 10,500 Fullest Power Shares) from Mr. Wang at an aggregate consideration of US\$8,630,168, in the following manner:

Foreign Investor	Number of Fullest Power Shares transferred	Percentage (%)	Consideration (US\$)
Youth Group (<i>Notes 1 and 5</i>)	3,000	6	2,465,762
Crystal Planet (<i>Notes 2 and 5</i>)	2,500	5	2,054,802
Add Noble (<i>Notes 3 and 5</i>)	2,500	5	2,054,802
Top Star Fortune (<i>Notes 4 and 5</i>)	2,500	5	2,054,802
Total	<u>10,500</u>	<u>21</u>	<u>8,630,168</u>

Notes:

- (1) Youth Group is a company incorporated in the BVI and is solely and beneficially owned by Mr. Tai Kwok Leung, Alexander (“Mr. Alexander Tai”). Mr. Alexander Tai is a passive financial investor and does not hold any directorship or management position within our Group. Mr. Alexander Tai is the brother of Mr. Tai Hon Leung, Henry, the sole and beneficial owner of Add Noble, one of the Foreign Investors. Mr. Alexander Tai became acquainted with Mr. Wang in social events and came to know about our Group after their acquaintance.
- (2) Crystal Planet is a company incorporated in the BVI and is solely and beneficially owned by Ms. Kam Kwok Fong (“Ms. Kam”). Ms. Kam is a passive financial investor and does not hold any directorship or management position within our Group. Ms. Kam became acquainted with Mr. Wang and came to know about our Group through the introduction of Mr. Alexander Tai.
- (3) Add Noble is a company incorporated in the BVI and is solely and beneficially owned by Mr. Tai Hon Leung, Henry (“Mr. Henry Tai”). Mr. Henry Tai is a passive financial investor and does not hold any directorship or management position within our Group. Mr. Henry Tai is the brother of Mr. Alexander Tai, the sole and beneficial owner of Youth Group, one of the Foreign Investors. Mr. Henry Tai became acquainted with Mr. Wang and came to know about our Group through the introduction of Mr. Alexander Tai.
- (4) Top Star Fortune is a company incorporated in the BVI and is solely and beneficially owned by Mr. Hsu Ching-Hao (“Mr. Hsu”). Mr. Hsu is a passive financial investor and does not hold any directorship or management position within our Group. Mr. Hsu became acquainted with Mr. Wang in social events and came to know about our Group after their acquaintance.
- (5) Save as disclosed above, there was no past or present relationship, business or otherwise, between the Foreign Investors and our Group, its Shareholders, Directors, members of its senior management or their respective associates.

HISTORY AND CORPORATE STRUCTURE

The aggregate consideration of US\$8,630,168 for the above acquisition of Fullest Power Shares was determined on willing buyer and willing seller basis and with reference to 21% of the profit after taxation of Tongtian Winery for the year ended 31 December 2006 of approximately RMB66 million (or approximately US\$8,219,208) and a price earnings multiple of approximately 5 times of the profit after taxation of Tongtian Winery. The 5 times earnings multiple was the agreed basis of valuation of the 21% interest.

The consideration payable by each Foreign Investor was satisfied by means of setting off against an equivalent amount of its respective portion of the Foreign Investor Loan advanced to Mr. Wang. The balance of Foreign Investor Loan in the amount of US\$2,217,932 (the repayment date of which was 31 March 2009 and is extendable at the sole discretion of Youth Group until repayment) due from Mr. Wang to Youth Group remained to be repaid as at the Latest Practicable Date. The balance of the Foreign Investor Loan, which is a personal loan between Mr. Wang and Youth Group, will continue to accrue interest until repayment. Mr. Wang will repay the balance of the Foreign Investor Loan by his personal resources.

(d) Incorporation of Rich Treasure

Rich Treasure was incorporated in Hong Kong on 18 July 2008 as an investment holding company with an authorised capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each, of which ten ordinary shares of HK\$1.00 each were allotted and issued or transferred at par to Fullest Power on 20 August 2008.

(e) Incorporation of our Company and change in currency denomination

Our Company was incorporated in Bermuda on 21 August 2008 as an exempted company and the holding company of our Group. As at the date of incorporation, our Company had an authorised share capital of S\$20,000 initially divided into 200,000 ordinary shares with a par value of S\$0.10 each, of which 100,000 ordinary shares with a par value of S\$0.10 each were allotted and issued nil paid by our Company to Up Mount on 8 September 2008.

On 5 June 2009, the denomination of the par value of the ordinary shares in our Company was changed from S\$0.10 each to HK\$0.01 each. Accordingly, the authorised share capital of our Company became HK\$107,200 comprising 10,720,000 ordinary shares of HK\$0.01 each, and the issued share capital of our Company became HK\$53,600 divided into 5,360,000 Shares.

HISTORY AND CORPORATE STRUCTURE

(f) Acquisition of Tongtian Winery by Rich Treasure from Fullest Power

On 27 August 2008, Rich Treasure entered into an equity transfer agreement with Fullest Power pursuant to which Fullest Power agreed to transfer the entire equity interest in Tongtian Winery to Rich Treasure at the consideration of US\$10,848,100 (equivalent to the registered and paid-up capital of Tongtian Winery as at the date of the equity transfer agreement) which was settled by the allotment and issue of an aggregate of 9,990 ordinary shares of HK\$1.00 each in the capital of Rich Treasure, credited as fully paid, to Fullest Power, upon completion of the transfer. The transfer was approved on 22 September 2008 when the Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the PRC (《中華人民共和國台港澳僑投資企業批准證書》), “Certificate of Approval”) numbered Shang Wai Zi Ji Fu Zi 【2006】 No.0039 (商外資吉府字【2006】 0039號) was issued by People’s Government of Jilin Province (吉林省人民政府) to Tongtian Winery.

Following completion of the abovementioned transfer, Tongtian Winery became the wholly-owned subsidiary of Rich Treasure, which was in turn the wholly-owned subsidiary of Fullest Power.

(g) Increase in authorised share capital of Fullest Power

On 28 November 2008, the directors of Fullest Power approved the increase of the authorised share capital of Fullest Power from US\$50,000 to US\$100,000 by the creation of an additional 50,000 new Fullest Power Shares of US\$1.00 each.

HISTORY AND CORPORATE STRUCTURE

(h) Capitalisation of the Fullest Power Loan

On 28 November 2008, the full amount of the Fullest Power Loan was capitalised by the allotment and issue of an aggregate of 50,000 Fullest Power Shares, credited as fully paid, at the request and as directed by Mr. Wang as follows: (i) 25,500 Fullest Power Shares to Mr. Wang, (ii) 5,000 Fullest Power Shares to Mr. Zhang Hebin, (iii) 3,000 Fullest Power Shares to Mr. Kang Hong, (iv) 3,000 Fullest Power Shares to Mr. Sun Yankun, (v) 3,000 Fullest Power Shares to Ms. Pei Zhilan, (vi) 3,000 Fullest Power Shares to Youth Group, (vii) 2,500 Fullest Power Shares to Crystal Planet, (viii) 2,500 Fullest Power Shares to Add Noble and (ix) 2,500 Fullest Power Shares to Top Star Fortune.

Following this, the shareholding structure of Fullest Power was as follows:

Name of shareholder of Fullest Power	Number of Fullest Power Shares	Percentage shareholding in Fullest Power (%)
Mr. Wang	51,000	51.0
Mr. Zhang Hebin	10,000	10.0
Mr. Kang Hong	6,000	6.0
Mr. Sun Yankun	6,000	6.0
Ms. Pei Zhilan	6,000	6.0
Youth Group	6,000	6.0
Crystal Planet	5,000	5.0
Add Noble	5,000	5.0
Top Star Fortune	5,000	5.0
Total	100,000	100.0

HISTORY AND CORPORATE STRUCTURE

(i) Transfer of Fullest Power Shares to the investment holding companies of the founding members of Tongtian Winery

On 28 November 2008, each of Mr. Wang, Mr. Zhang Hebin, Mr. Kang Hong, Mr. Sun Yankun and Ms. Pei Zhilan transferred all their respective 51,000, 10,000, 6,000, 6,000 and 6,000 Fullest Power Shares to their respective investment holding companies (namely, Up Mount, Wing Move, Win Honour, Public Success and Glory Wish) at nil consideration (the “Exchange”).

Immediately upon completion of the Exchange, the shareholding structure of Fullest Power was as follows:

Name of shareholder of Fullest Power	Number of Fullest Power Shares	Percentage shareholding in Fullest Power (%)
Up Mount	51,000	51.0
Wing Move	10,000	10.0
Win Honour	6,000	6.0
Public Success	6,000	6.0
Glory Wish	6,000	6.0
Youth Group	6,000	6.0
Crystal Planet	5,000	5.0
Add Noble	5,000	5.0
Top Star Fortune	5,000	5.0
Total	100,000	100.0

(j) Increase in authorised share capital of our Company

On 28 October 2009, Up Mount, the then sole shareholder of our Company, approved the increase in our authorised share capital of HK\$107,200 comprising 10,720,000 Shares to HK\$100,000,000 comprising 10,000,000,000 Shares by the creation of an additional 9,989,280,000 Shares.

HISTORY AND CORPORATE STRUCTURE

(k) Acquisition of Fullest Power

On 28 October 2009, our Company (as purchaser), and all the shareholders of Fullest Power (as vendors) entered into a share swap agreement (the “Share Swap Agreement”). Pursuant to the Share Swap Agreement, our Company acquired the entire issued and paid-up share capital of Fullest Power comprising 100,000 Fullest Power Shares from the shareholders of Fullest Power. The consideration for the acquisition was satisfied by (i) crediting as fully paid, at par, the [●] nil-paid ordinary shares of HK\$0.01 each in our Company held by Up Mount and (ii) the allotment and issue of an aggregate of [●] new ordinary shares of HK\$0.01 each in the capital of our Company, credited as fully paid. Immediately after completion of the Share Swap Agreement on 28 October 2009, the resultant shareholding of our Company was as follows:

Name of allottee	Number of Shares Issued to the allottee	Percentage of the issued and paid capital of our Company (%)
Up Mount	[●]	51.0
Wing Move	[●]	10.0
Win Honour	[●]	6.0
Public Success	[●]	6.0
Glory Wish	[●]	6.0
Youth Group	[●]	6.0
Add Noble	[●]	5.0
Crystal Planet	[●]	5.0
Top Star Fortune	[●]	5.0
Total	[●]	100.0

HISTORY AND CORPORATE STRUCTURE

SAFE REGISTRATION

According to the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Vehicle (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the “SAFE Circular 75”), which was issued by SAFE on 21 October 2005, and effective on 1 November 2005:

- domestic residents who plan to establish or control an overseas special purpose vehicle must conduct foreign exchange registration with the local foreign exchange authority;
- domestic residents who have contributed their assets or shares of a domestic enterprise into an overseas special purpose vehicle, or have raised funds overseas after such contribution, must conduct foreign exchange registration for the modification of the record concerning the overseas special purpose vehicle with the local foreign exchange authority; and
- domestic residents who are the shareholder of an overseas special purpose vehicle are required to go through registration for the modification of the record with the local foreign exchange authority within 30 days from the date of any major capital change event, such as an increase/decrease of capital, share transfer, share swap, merger or division, long-term equity or debt investment or foreign guarantee where no round-trip investment is involved.

Our PRC legal advisers, Jingtian & Gongcheng, have advised that Mr. Wang, Mr. Zhang Hebin, Mr. Kang Hong, Mr. Sun Yankun and Ms. Pei Zhilan, being the relevant beneficial shareholders of our Group and domestic residents of the PRC, have completed their foreign exchange registration of overseas investments at the Jilin Branch of SAFE and confirmed that the requirements stipulated in SAFE Circular 75 have been satisfied.

OUR CORPORATE REORGANISATION AND THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

Under the Rules on the Acquisition of Domestic Enterprises by Foreign Investors in the PRC (關於外國投資者併購境內企業的規定) (the “M&A Rules”) promulgated by PRC governmental and regulatory agencies on 8 August 2006, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic company thereby converting it into an foreign-invested enterprise, or subscribes for new equity via an increase of registered capital thereby converting it into a foreign-invested enterprise; (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. The acquisition shall be based on the appraisal result on the equity or assets to be acquired. According to Article 15 of the M&A Rules, where parties to an acquisition are related including where the control is only de facto,

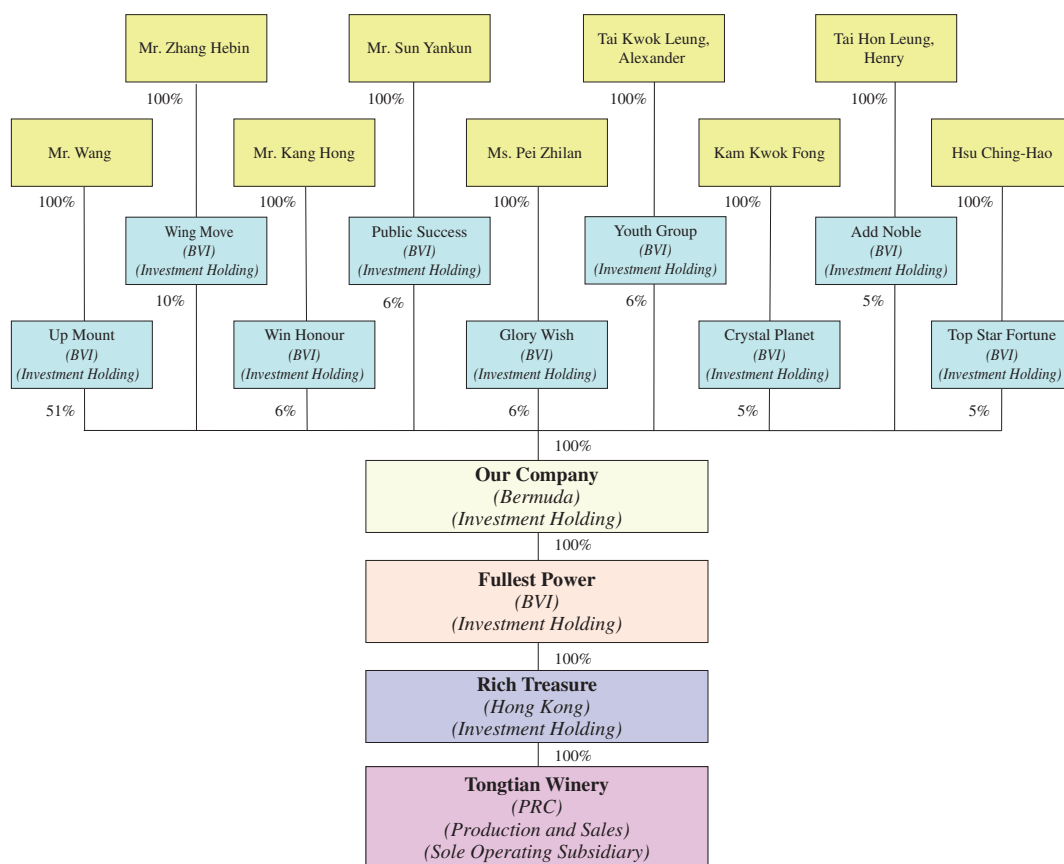
HISTORY AND CORPORATE STRUCTURE

the parties must “provide an explanation on the purpose of the acquisition and whether the appraisal result is consistent with fair market value”. Avoiding this requirement by using trusts, nominees, or other means is prohibited.

Our PRC legal advisers, Jingtian & Gongcheng, have advised that the acquisition by Fullst Power of the equity interests in Tongtian Winery does not fall within the scope of the above regulated activities, as the acquisition of the entire equity interests in Tongtian Winery was approved by Jilin Provincial People’s Government on 5 September 2006, which is before 8 September 2006, being the effective date of the M&A Rules. Our PRC legal advisers, Jingtian & Gongcheng, have advised that all approvals or permits required under PRC laws and regulations in connection with each stage of the Corporate Reorganisation and the [●] of our Company have been obtained.

CORPORATE STRUCTURE

Set out below is the shareholding structure of our Group after the Corporate Reorganisation and immediately prior to the Capitalisation Issue and the [●]:



BUSINESS

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 broadly be categorised into sweet wine and dry wine. All our signature wine products are sold under the “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 COMPETITIVE STRENGTHS

We believe that the following strengths enable us to compete effectively:

Strategically located production facilities and access to good quality grapes

Our Directors believe that the critical factor in producing good wines is the quality of the grapes used. Our winery is located at the foothills of the Changbai mountain range near Ji’An City, Jilin Province, the PRC, surrounded by vineyards where we source our supply of grapes for the production of our grape wine products. The Ji’An region is among the few regions worldwide cultivating the unique *vitis amurensis* variety of grapes which give the distinctive taste to the wines produced by our Group. In particular, mountain grapes, as a natural produce of the region, have relatively higher levels of tannins and polyphenols, including resveratrol, compared with the levels in the other varietals. Our Directors believe that these mountain grapes used in our wines offer a range of health benefits to consumers, and enable us to effectively compete with other grape wine producers in the PRC.

The Ji’An region is recognised as one of the top 3 wine producing regions of the PRC, and is situated between the ideal latitudinal zone of between 40° and 50° north, which enjoys ideal grape growing conditions: a continental temperate climate with a temperature ranging from approximately -40°C to -45°C in winter and no more than approximately 36°C in summer each year, sufficient rainfall from 400mm to 1,100mm per year, adequate average total sunshine from 2,400 hours to 2,500 hours per year and 110 to 130 frost free days per year. This region is also blessed with ideal grape growing soil, being predominantly limestone and clay, and has been historically and culturally renowned for its ubiquitous vineyards. This has resulted in a deep pool of experienced vineyard and wine processing workers and experts in the region which we can tap, as well as a secure and stable source of grapes, including the mountain grape variety used in the production of our wines. Our winery facility is strategically located next to our grape supply base in this region, which is also in close proximity to our wine production facilities situated in the Tonghua region. These two regions are connected by a developed network of railways and vehicular expressways. The proximity to the suppliers of our raw materials and our wine production facilities enables our Group to maintain a stable and reliable supply of good quality grapes and grape juice for the production of our wines.

BUSINESS

Recognition of the “Tongtian” (通天) and “Tongtian Hong” (通天紅) brand names for niche sweet wine products in the PRC

All our grape wine products are sold under our brand labels “Tongtian” (通天) and “Tongtian Hong” (通天紅). Our Directors believe that since our establishment in 2001, our brand name has been well recognised as a leading producer of sweet wines. We were awarded the “Top 10 PRC Grape Wine Industry Brands” award and the “Top 500 Brands of the PRC” award by the China Market Brands Strategy Forum Organising Committee in March 2008. While we intend to continue producing our range of dry wines, our key focus has been targeted towards gaining a greater market share in sweet wines, which we believe has not been dominated by any competitors of comparable scale. Our Directors believe that the demand in the PRC for sweet wine will grow at a faster pace than the demand for dry wine.

We believe that our brand name is becoming widely recognised among our consumers as a symbol of quality sweet wines. Our grape wine products were recognised as “Wine of Excellent Quality” by the Expert Committee of the Grape and Fruit Wine, China Food Industry Association in 2004. We believe that such recognition is synonymous with our track record and market reputation in the industry for our high quality sweet wine products. With the PRC market for grape based wines being relatively undeveloped, we firmly believe that our established brand name will give us a competitive advantage in capturing more business opportunities in the provinces and municipal cities within our distribution network, and provide us with a solid platform for expanding into new markets throughout the PRC. We will continue to work towards increasing our brand visibility with strategic and more innovative marketing activities.

Extensive nationwide sales and distribution network in the PRC

We have established and maintained an extensive sales and distribution network in the PRC. As at the Latest Practicable Date, our wine products were being sold in [19] provinces and [3] municipal cities in the PRC. We sell our wine products to different distributors located in these provinces and municipal cities across the PRC, who in turn distribute and sell our wine products to third-party retailers, including supermarkets, and specialty stores selling tobacco and alcohol, food and beverage outlets such as restaurants, hotel restaurants and bars, as well as through their own direct sales distribution to end-consumers and other sub-distributors. As at the Latest Practicable Date, we have a total of [71] distributors. Not all of our distributors exclusively distribute and sell our Group’s products.

Our established sales and distribution network is supported by our experienced and dedicated sales team, led by our executive Director, Mr. Zhang. Our sales staff offer services to our distributors ranging from providing and updating of product information, taking sales orders and addressing the customers’ needs. Our sales staff also visit our customers regularly to further understand their requirements, and to obtain their feedback and suggestions on our products and services. Our Directors believe that the experience and dedication of our sales team enables us to maintain and continuously strengthen our relationship with our distributors and respond more quickly to changes in customer preferences in the market.

BUSINESS

Experienced management team with extensive experience in the PRC grape wine industry

Members of our senior management team, including, in particular, our Chairman and chief executive officer, Mr. Wang, possess an in-depth knowledge of the business and operating environment of the PRC grape wine industry. Most of our key employees have more than 20 years of experience in the PRC grape wine industry. Our technical experts, in addition to their industry experience, have received numerous provincial and national industry technical certifications and accreditations. We believe that the collective knowledge and experience of our senior management enables us to respond more rapidly to changes in the growing PRC grape wine industry, and are fundamental to the successful and sustainable long-term development of our business. For further details of our senior management team, please refer to the section headed “Directors, Senior Management and Employees” of this document.

Strong quality management system and the production of quality wine products

We place great emphasis on product quality and have established a strong quality management system to support the production of quality wine products. We have established a stringent quality management system to ensure adherence to, and consistency in, quality, cleanliness and hygiene standards for our raw ingredients and finished wine products, and consistency in taste, packaging and other product quality attributes. In December 2005, we obtained ISO 9001:2000 certification for our operation and management system with respect to our grape wine products. Our Directors believe that our quality management system is instrumental to our success and to maintaining our brand recognition as a producer of quality wine products. For further details of our quality management system, please refer to the section headed “Business – Quality Management System” of this document.

OUR STRATEGIES

Increase our production capacity

As at the Latest Practicable Date, our annual total wine production capacity (based on our maximum bottling capacity) was approximately 19,000 tonnes. To meet the anticipated increase in market demand for wine products, we intend to expand our annual production capacity from approximately 19,000 tonnes as at 30 June 2009 to approximately 39,000 tonnes in aggregate by the end of 2010. We plan to achieve this through the construction of additional wine production facilities, and the purchase and installation of additional wine-making machinery and equipment.

In September 2007, we commenced the expansion of our current wine production facility in Tonghua County, Jilin Province, the PRC, with the construction of new wine production facilities which are adjacent to our current wine production facilities in Tonghua City. Our new wine production facilities, which we expect to be operational by the end of 2010, will increase our annual wine production capacity by an additional approximately 20,000 tonnes to a total of approximately 39,000 tonnes by the end of 2010.

BUSINESS

The estimated cost for completing the construction of our new wine production facility is around HK\$[●] million, out of which approximately HK\$[●] million will be financed by internal resources and the remaining amount will be financed by [●], in which approximately HK\$[●] million will be applied towards the completion of our new wine production facility and the remaining HK\$[●] million will be applied towards the payment of other related expenses, including purchase of machinery.

Develop our Tongtian wine estate

We intend to develop a wine estate in Ji’An City, Jilin Province, the PRC, to produce premium range of our estate bottled wines from high quality grapes. Wines produced from our Tongtian wine estate, which will be labelled as “Estate Bottled”, will be produced from high quality grapes grown in our self-operated vineyards within our wine estate. We intend to acquire vineyards for the establishment of our wine estate [but we have not yet identified any specific site as at the Latest Practicable Date.] Our Tongtian wine estate will include wine production and wine cellaring facilities. Through an optimal crop yield control in volume and quality, and with advanced wine making facilities, we intend to produce our representative wines of Tongtian wine estate of premium quality. We plan to establish this Tongtian wine estate with 2,000 mu vineyards, and with an annual yield of [500] to [600] tonnes (equivalent to [400,000] to [480,000] 750ml bottles) of Tongtian estate wines. The development of our Tongtian wine estate will be financed entirely by [●].

Develop wine cellaring capabilities

We intend to develop wine cellaring capabilities to complement our production facilities in Tonghua County, Jilin Province, the PRC. A wine cellar is a place where a stock of wine is properly stored under a controlled environment to undergo an ageing process to produce a range of products. We intend to establish a wine cellar at our production facility in Tonghua with a storage capacity of up to [2,000] oak barrels of 225 litres in volume, in which could be bottled up to [600,000] 750ml bottles. The development of our wine cellar in Tonghua will be financed entirely by [●].

Continue to expand and develop our sales and distribution network in the PRC and strengthen our brand awareness

We plan to enhance our current sales and distribution capabilities and network throughout the PRC. In view of this, we intend to expand our sales team through the recruitment and training of additional sales staff, increase the number of our distributors and establish up to 20 Tongtian wine estate branded retail outlets in certain selected markets in the PRC within next 4 years. [We have not yet identified any specific site as at the Latest Practicable Date.] These retail outlets will function as direct sales and marketing platform for Tongtian brands, not only providing Tongtian wine experience for consumers but also providing marketing support to the designated local markets of major cities such as Beijing, Chengdu and Shenyang, to promote our wine products such as our Tongtian ice wines and rose wine.

BUSINESS

In addition, our Directors believe that our “Tongtian” (“通天”) and “Tongtian Hong” (“通天紅”) brand names are becoming widely recognised among consumers throughout the PRC. We have won various awards and certificates over the years at both the national and provincial levels, and were newly accredited as one of the “Top 10 PRC Grape Wine Industry Brands (中國葡萄酒行業十大品牌)” by the China Market Brands Strategy Forum Organising Committee (中國市場品牌戰略論壇組委會). We intend to continue our efforts to actively promote our “Tongtian” (“通天”) and “Tongtian Hong” (“通天紅”) brand names in the PRC.

We intend to achieve this through increasing our marketing and branding activities, which include advertising campaigns through mass media such as television, outdoor billboards and magazines.

Explore opportunities to further expand our market share

We will also explore further opportunities to expand our business and in particular, our production capacity, through acquisitions, joint ventures or strategic alliances with domestic and/or international entities that could create synergy with our existing business. We believe that suitable acquisitions or joint ventures or strategic alliances with other wine producers will enable us to increase our production capacities, benefit from synergies and allow us to access new markets and customer base, as well as bring about economies of scale.

As at the Latest Practicable Date, we had not identified any potential targets for acquisition or for the formation of joint ventures or strategic alliances. We intend to intensify our efforts to locate such suitable opportunities for growth. We have not planned to allocate any part of our [●] for expansion through acquisitions, joint ventures or strategic alliances. Should and when the opportunity arise, we will fund such expansion from internally generated funds and/or future external fund raising activities, and will seek approval, where necessary, from our Shareholders and the relevant authorities as required under applicable laws and regulations.

OUR PRODUCTS

We offer a range of grape wine products, including sweet wine and dry wine, sold under the “Tongtian” (通天) and “Tongtian Hong” (通天紅) labels. During the Track Record Period, our product range comprises [18] different grape wine products with different flavours and styles for consumer appeal, with prices (to our distributors) ranging from [RMB5.9] to [RMB115] per bottle.

Sweet Wine

Sweet wine refers to a type of wine which has 45gm or more of sugar residue per litre. Our sweet wines are produced using grapes which are grown and harvested at normal temperatures and made with the mountain grape variety unique to Tonghua area in Jilin Province, the PRC.

BUSINESS

Rose wine and ice wines are two typical categories of sweet wines. Our rose wine is made with mountain grapes and flavoured with rose extracts from wild mountain rose petals. Our ice wines are made with grapes that are harvested while still frozen on the vines. Our ice wines are sweet wines produced from frozen mountain grapes which are harvested at a temperature of minus 7 degree Celsius (-7°C) or lower. At this temperature, only the water, and not the sugar and other solid components in the grapes, is frozen, thereby allowing a more concentrated form of grape juice to be pressed from the frozen mountain grapes, which can be used to produce a very sweet wine. After being harvested, these frozen grapes are then pressed and fermented at low temperatures of 10 to 20 degree Celsius (10 to 20°C).

We set out below further details of some of our representative sweet wines:

Product and Year Launched	Major Raw Material	Alcohol Content	Sample Product Picture
Tongtian Hong Mountain Grape Wine (通天紅山葡萄酒) (2006)	Mountain grapes	7.0%	
Tongtian Hong Full Juice Mountain Grape Wine (通天紅全汁山葡萄酒) (2006)	Mountain grapes	11.0%	
Tongtian Wild Rose Grape Wine (通天野玫瑰 葡萄酒) (2007)	Mountain grapes and wild rose petals	8.5%	
Tongtian Ice Wine (通天冰酒) (2004)	Frozen mountain grapes	8.5%	

BUSINESS

Dry Wine

Our dry wine is mainly produced from the mountain grape varieties grown in the Tonghua area in Jilin Province, the PRC. Our dry wine is made with a sugar content of less than 4gm per litre. Some of our representative dry wine products include:

Product and Year Launched	Major Raw Material	Alcohol Content	Sample Product Picture
Tongtian Hong Cellar Stored Premium Mountain Grape Dry Wine (通天紅窖藏精品 干紅山葡萄酒) (2006)	Mountain grapes	11.5%	
Tongtian Hong Dry Wine (通天紅干紅山 葡萄酒) (2006)	Mountain grapes	11.5%	
Tongtian Dry Wine (通天干紅山 葡萄酒) (2001)	Mountain grapes	12.0%	

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	<u>[281,823]</u>	<u>[100.0]</u>	<u>[391,570]</u>	<u>[100.0]</u>	<u>[486,708]</u>	<u>[100.0]</u>	<u>[206,028]</u>	<u>[100.0]</u>	<u>[242,715]</u>	<u>[100.0]</u>

BUSINESS

Awards and recognition

Our grape wine products have been well recognised in the PRC since 2001 and have received the following awards and certificates:

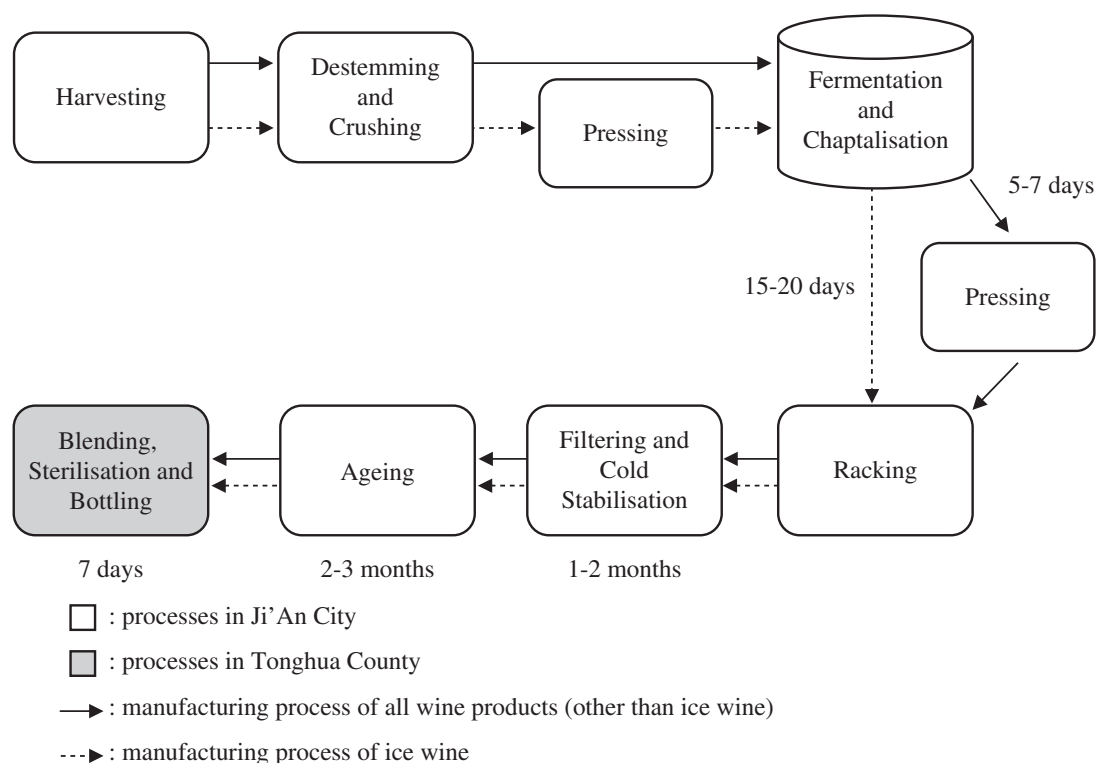
Year of grant	Awards/Certificate	Awarding body
2001	PRC Public Recommended Brand (全國公眾推薦名優品牌)	The China Socio-Economic Strategy Consultation Centre (中國社會經濟決策諮詢中心) and the Famous Brand Protection and Inspection Institute (名牌產品市場 保護調查所)
	China Famous and Premium Wine Award (中國名優葡萄酒)	The China Food Industry Association (中國食品工業協會)
2002	Asia-Pacific Satisfactory Consumer Products Awards in 2002 (2002年度亞太地區消費者 滿意的葡萄酒品牌)	The China International Food Industry Association (中國國際食品工業協會)
2004	Wine of Excellent Quality (優秀葡萄酒)	The Expert Committee of the Grape and Fruit Wine, China Food Industry Association (中國食品工業協會 葡、果酒專家委員會)
	Green Food – Class A (綠色食品A級標準)	The China Green Food Development Centre (中國綠色食品發展中心)
2006	Famous Product of Jilin Province Award (吉林省名牌產品)	People’s Government of Jilin Province (吉林省人民政府)
	The Geographic Indication Protected Products of the PRC (中華人民共和國 地理標誌保護產品)	The Association for Geographic Indication Protected Products of Jilin Province (吉林省地理標誌 產品保護協會)

BUSINESS

Year of grant	Awards/Certificate	Awarding body
2007	Green Food – Class A (綠色食品A級標準) (Renewed for another three years)	The China Green Food Development Centre (中國綠色食品發展中心)
2008	Top 500 Brands of the PRC (中國品牌500強)	The China Market Brands Strategy Forum Organising Committee (中國市場品牌戰略 論壇組委會)
	Top 10 PRC Grape Wine Industry Brands (中國葡萄酒行業 十大品牌)	The China Market Brands Strategy Forum Organising Committee (中國市場品牌戰略 論壇組委會)

PRODUCTION PROCESS

The production processes for all our products are basically similar, varying only in the types of grapes used and the harvesting period. The following flowchart illustrates a typical production process of our grape wines with the approximate time for some of the processes:



Generally speaking, our production process varies from approximately 4-6 months depending on kinds of product.

BUSINESS

General procedures

Harvesting

The harvest season of grapes is between September and November of each year. When the harvest seasons approach, we will inspect and test the natural sugar level of the grapes in the vineyards of Ji’An City in order to determine whether they are of a desired balance. The grapes are handpicked by the grape farmers at the vineyard and are then carefully collected in buckets or crates and transported to our winery facility in Ji’An City. Our quality management team will perform visual inspection to ensure that there are no rotten grapes, leaves or dirt and re-test the sugar level on a sampling basis at our winery facility.

During the Track Record Period, we also purchase raw grape juice from one supplier who is a manufacturer that has entered into a supply agreement with us. The kind of grape used by this supplier to produce grape juice is Cabernet Sauvignon. Pursuant to the supply agreement, we are not obliged to purchase grape juice exclusively from this supplier. Our supplier is located in Hebei province where Cabernet Sauvignon grows, and such grape juice is fermented and not concentrated when delivered to us. The grape juice supplier is not our exclusive supplier. We contract with our juice supplier to determine the price and quantity of purchase annually for the production of certain dry wines throughout the year. The contract prices of grape juice are determined by negotiation between the parties with reference to the market prices of grape juice. For our ice wine production, we harvest frozen mountain grapes in early November when the temperature drops to minus 7 degree Celsius (-7°C) or lower.

Destemming and Crushing

Once delivered to our winery facility in Ji’An City, the grapes are destemmed and crushed by grapes crushing and pressing machines. Destemming is the process of removing the grapes from the main stem which holds each bunch of grapes. This process is quality driven because the stems and the leaves may result in bitterness in our products. Crushing is the process of squeezing the grapes and breaking the skins. The grapes crushing and pressing machines are in operation only during the grape harvesting season.

The freshly extracted grape juice, together with the skin and pulp pips is called the must. The solid, pulp portion of the must is called pomace and can provide the necessary colour for red wines, accounting for up approximately 7% to 23% of the total weight of the must. The length of time before proceeding to the next step is critical for the wine’s quality.

Fermentation and Chaptalisation

Following the crushing process, the extracted grape juice is pumped into our stainless steel fermentation tanks for alcoholic fermentation with yeast at a specific temperature. The fermentation is initialised by yeast which converts the sugar into alcohol and carbon dioxide gas. The length of the fermentation process depends on the style of wine being made.

Chaptalisation is a process that involves the adding of sugar to unfermented grape must in order to increase the alcohol content as required after fermentation.

BUSINESS

For our rose wine production, the extracts from wild mountain rose petals are added at this stage to enrich the flavour of our product.

Pressing

After racking, the pomace is removed from the grape juice. The pomace is then pressed to extract the remaining grape juice.

For our ice wine production, because of its nature, the frozen mountain grapes are pressed to extract more grape juice immediately after destemming and crushing.

Racking

After the fermentation process is completed, the process of racking begins, where the yeast settled to the bottom of the tank is removed. This process may take place several times before the wine becomes clear. The grape juice has now become base wine, and is pumped out of the tank, leaving the yeast and sediment behind at the bottom of the container.

Filtering and Cold Stabilisation

Once the base wine is produced, it will undergo an extensive filtering process, where unwanted fine sediments are removed. After the filtering process is completed, the wines are then delivered to temperature-controlled stainless steel containers for further processing. Cold stabilisation removes tartrate crystals which are natural products that form when the wine gets too cold.

Ageing

The base wine is then to be stored in our stainless steel storage tanks for about 2 to 3 months for ageing.

Blending, Sterilisation and Bottling

The base wine is then transported to our production facilities in Tonghua County, Jilin Province.

Blending refers to blending different batches of wines before bottling in order to achieve the desired taste. In order to have a consistent taste for each type of our products, our winemaker can correct perceived inadequacies in the wine by mixing wines from different grapes and batches that were produced under different conditions.

Once the blending is completed, the wine has to go through stringent germ free filtration and assessment before bottling and packaging. Our Group currently has 2 bottling lines using advanced equipment to bottle, cork and label finished wine products.

BUSINESS

PRODUCTION FACILITIES

Current facilities

Our main wine production bottling facilities are located in Tonghua County, Jilin Province, the PRC which occupy an aggregate land area of approximately 58,343 sq.m. Our winery facility is located next to our grape supply base in Ji’An City, Jilin Province and occupies an aggregate land area of approximately 6,555 sq.m. Our grapes crushing and pressing machines and 289 tanks (of which 80 are owned by us and 209 are leased from three lessors located in Ji’An) are located in our winery facility in Ji’An City. The tanks are crucial to our Group’s operations. Each of the lease agreements for these tanks has a lease term of three years and our Directors intend to renew all of these lease agreements when they expire. The early stages of our production process are carried out in our facilities in Ji’An City, Jilin Province, where base wines are produced and transported to our wine production facilities in Tonghua County, Jilin Province, the PRC for further processing and bottling.

Our wine production bottling facilities in Tonghua County, Jilin Province, the PRC comprise wine storage tanks, bottling lines, warehouses, offices and staff quarters. As at the Latest Practicable Date, we have 28 storage tanks and 2 fully automated bottling lines, which commenced operation in August 2003 and August 2004, respectively. Our 2 fully automated bottling lines have an annual aggregate bottling capacity of up to approximately 19,000 tonnes of wine, below please find our actual annual production capacity for each of the three years ended 31 December 2008 and the six months ended 30 June 2009.

The average utilisation rates of our wine production facilities for our wine production and our actual production volumes for the three years ended 31 December 2008 and the six months ended 30 June 2009 are set forth as below:

	For the year ended 31 December				For the six months ended 30 June			
	2006		2007		2008		2009	
	Average	Actual	Average	Actual	Average	Actual	Average	Actual
	Utilisation	Production	Utilisation	Production	Utilisation	Production	Utilisation	Production
	Rate	Volume	Rate	Volume	Rate	Volume	Rate	Volume
	(%)	(tonnes)	(%)	(tonnes)	(%)	(tonnes)	(%)	(tonnes)
Finished Wine								
Products ⁽¹⁾	[70.1]	13,324	[78.2]	14,853	[89.8]	17,057	[89.1] ⁽²⁾	8,461

Notes:

- (1) Our annual production capacity of finished wine products is primarily limited by our aggregate bottling capacity. As at the Latest Practicable Date, we have 2 fully automated bottling lines capable of bottling up to approximately 19,000 tonnes of wine products per annum. The annual bottling capacity is calculated based on operation of our facilities for 2 shifts (or a total of 16 hours a day) and 300 production days a year, which excluded time required for maintenance and repair, and festive periods.
- (2) The utilisation rate for the six months ended 30 June 2009 was calculated based on the annualised actual production for the six months ended 30 June 2009.

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Planned expansion

In April 2008, we commenced the expansion of our current wine production facility in Tonghua County, Jilin Province, the PRC, with the construction of new production facilities which are adjacent to our current production facilities in Tonghua City. We expect that our planned expansion will be completed by the end of 2010 and increase our annual wine production capacity by approximately 20,000 tonnes to a total of approximately [39,000] tonnes. As our production capacity is measured in terms of bottling capacity, the output level of dry wine and sweet wine can be adjusted from time to time in response to market conditions.

PROCUREMENTS, RAW MATERIALS AND SUPPLIERS

Raw materials

Our principal raw materials for the production of our wine products comprise grapes, grape juice, packaging materials (including bottles, labels and corks), and ancillary ingredients such as sugar. We use grapes from local vineyards for the production of [15] different sweet and dry wine products and grape juice from a non-exclusive supplier, a company primarily engaged in the production of dry wine and located in Hebei province where Cabernet Sauvignon grapes are grown, for the production of [3] different dry wine products. Our grape juice supplier procured grapes from local farmers in Hebei province. Hence, grapes and grape juice are neither substitutes nor complements in our production process.

Long-term supply agreements for grapes

As at the Latest Practicable Date, we source our supply of grapes from local vineyards covering an area of approximately [14,577,408] sq.m. These vineyards are located in the regions around Ji’An City, Jilin Province, the PRC at the foothills of the Changbai mountain range on the banks of the Yalu river.

We have entered into long-term supply agreements with local grape farmers, under which they are to supply us with their annual harvests of grapes for a period of 20 years. As at the Latest Practicable Date, we entered into [173] long-term supply contracts with our local grape farmer suppliers. The first long-term supply agreement was entered into with local farmers in [2004], and we continued to enter into similar agreements up to and including [2008]. We source the grapes from them during the harvesting months between September and November of each year. All of our long-term supply agreements with the local grape farmers contain identical principal terms, except for the contracted supply quantity and the contract period. The salient terms of these long-term supply agreements are set out below:

- *Contract period.* We entered into these long-term supply agreements in either 2004, 2005, 2006, 2007 or 2008. Each of these long-term supply agreements took effect on the contract signing date and is valid for a period of 20 years.

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- *Rights and obligations.* The local grape farmers are required to supply a fixed quantity of their annual harvests of grapes. Such quantities are determined by the size of the vineyards owned by the local grape farmers. The long term supply agreements also specify the breakdown (by acreage) of the grape varieties to be grown.
- *Pricing and settlement.* The grapes are sold to us with reference to various minimum selling prices of the respective grape varieties as agreed in the long term supply agreements, and the actual selling prices may be adjusted upward subject to further negotiation and agreement between the parties with reference to the prevailing market prices. In practice, we would enter into a separate agreement with the local grape farmers when the actual selling prices are agreed with them each year by negotiation between the parties with reference to market prices of grapes. The actual prices paid by us may be lower than the agreed selling prices only if the harvested grapes do not fulfill certain pre-determined quality criteria (such as sugar levels). We pay grape farmers cash on delivery for the purchase of grapes.
- *Exclusivity.* Under the long-term supply agreements, the grape farmers are required to supply their harvest to us on an exclusive basis and are prohibited from selling their grapes to other third parties, including any of our competitors.
- *Logistics.* The grape farmers are required to bear their own costs of transporting the harvested grapes to our winery facility in Qingshi Town, Ji’An City.
- *Termination.* Any of the long-term supply contracts may be terminated if the relevant farmer(s) has/have breached the exclusivity supply term and supplies his/their harvest of grapes to another third party. To the best knowledge of our Directors, none of the local grape farmers who signed long-term supply agreements with us had supplied any of their harvest of grapes to other third parties during their respective contract period, and as at the Latest Practicable Date, we have not terminated any of the long-term supply contracts signed with local grape farmers. In order to ensure that the local grape farmers supply their harvest of grapes on an exclusive basis, our Group has taken the following measures: (i) in order to protect the long-term interests of the grape farmers, the grapes are sold to us with reference to various minimum selling prices of the respective grape varieties as agreed in the long term supply agreements, and the actual selling prices may be adjusted upward subject to further negotiation and agreement between the parties with reference to the prevailing market prices; and (ii) if the grape farmers sell any of their harvest of grapes to any other third parties, they shall be responsible for liabilities incurred as a result of their breach and our Group will be entitled to terminate the supply contracts. During the Track Record Period, we have [not experienced any material disputes with the grape farmers.] Except due to force majeure, such as natural disaster, neither party can terminate the contract at will or fail to carry out the contract, otherwise, the breaching party shall compensate the other party according to the PRC Contract Law (合同法). Save as disclosed in this paragraph, there are no other circumstances which will lead to termination of the contract.

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We do not rely on any particular grape farmer for the supply of quality grapes. In the event that any grape farmers who contracted with us fail to supply grapes to us in accordance with the long-term supply agreements, except due to force majeure such as natural disaster, the grape farmers that fail to satisfy the supply requirements under the long-term supply shall compensate for our losses in accordance with the PRC Contract Laws (合同法), and we will source grapes that meet our quality standards from other grape farmers in the Ji’An region.

As part of the long-term supply arrangements, in our winery facility in Qingshi Town, Ji’An City, we have a vineyard management team comprising a vineyard manager and two vineyard technicians to oversee the vineyards covered by the long term contracts. They are in charge of supervising the planting, nurturing and harvesting of the grapevines, as well as the delivery of the grapes to our winery facility. This is to ensure that we have optimum control over the quality of our grapes.

Supply contracts with our supplier of grape juice

During the Track Record Period, we purchased raw grape juice made from Cabernet Sauvignon grapes from one supplier. We contract with our juice supplier to determine the price and quantity of purchase annually for the production of certain dry wines throughout the year, while other terms and conditions among these supply contracts remain the same from year to year. The contract prices of grape juice are determined by negotiation between the parties with reference to the market prices of grape juice. We are provided with a credit period of three months under our supply contracts with the grape juice supplier. We are not obligated to exclusively source grape juice from this supplier nor is this supplier obligated to supply its grape juice to us exclusively.

Our suppliers

We have a pre-approved list of suppliers for raw materials other than grapes, who are selected based on the quality of raw materials they supply as well as the prices of raw materials they can offer and their background, such as their experience, management skill and reputation in the market. We pay grape farmers cash on delivery for the purchase of grapes. The average credit period offered by our suppliers on purchase of raw materials other than grapes is approximately 90 days.

We are not dependent on any single supplier. Our five largest suppliers together accounted for approximately [69.6]%, [63.0]%, [63.4]%, and [59.9]% of our raw materials purchases for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our largest supplier accounted for approximately [22.4]%, [19.0]%, [16.3]%, and [14.8]% of our total raw materials purchases for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. All of our five largest suppliers in 2008 by purchase volume were suppliers of grape juice, glass bottles, packaging and labels and sugar. None of our Directors or any person who owned 5% or more of the issued share capital of our Company as at the Latest Practicable Date or any of their respective associates has any interest in any of our five largest suppliers for the three years ended 31 December 2008 and the six months ended 30 June 2009.

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Save for the long-term supply agreements entered into with local grape farmers as mentioned above, we currently have not entered into any other formal long-term contracts with our other grape suppliers or other suppliers.

Our Group has not experienced any material difficulties in obtaining adequate raw materials.

SALES AND DISTRIBUTION

Sales and distribution network

We sell substantially all of our products to distributors, who distribute and sell our grape wine to third-party retailers, including supermarkets, and specialty stores selling tobacco and alcohol, food and beverage outlets such as restaurants, and hotel restaurants, as well as through their own direct sales distribution to end-consumers and other sub-distributors. As at the Latest Practicable Date, our products are sold through [71] distributors in [19] provinces and [3] municipal cities in the PRC.

The following map illustrates our Group’s distribution network in the PRC as at the Latest Practicable Date:



Notes:

1. ■: North-east region of China includes Liaoning Province, Jilin Province and Heilongjiang Province.
2. ■: Northern region of China includes Hebei Province, Shaanxi Province, Inner Mongolia, Shanxi Province and Beijing.
3. ■: Eastern region of China includes Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Shandong Province and Shanghai.

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4. ■: South-central region of China includes Henan Province, Hubei Province, Guangdong Province and Hainan Province.
5. ■: South-west region of China includes Sichuan Province, Yunnan Province, Guizhou Province and Chongqing.
6. The number of distributors of our products in each province or municipality is set next to the name of the relevant province or municipality.

The following table sets forth a breakdown of our revenue by sales region for the Track Record Period:

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

Note: Sale in North East region includes direct sales in Jilin Province, 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 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.

Our Group does not have any ownership or management control over the distribution network. In order to supervise these distributors, we assign sales managers to work closely with the distributors in order to monitor their performance and obtain market feedback on our wine products. In addition, we conduct annual appraisals on our distributors to determine whether we will renew the distribution agreements with them, taking into consideration their sales network, promotion approach, creditability and inventory accumulation.

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Major customers

We do not have any long-term framework agreements with our distributors, but enter into a standard distribution agreement with each of our selected distributors for a period of one year. We do not require our distributors to purchase a minimum initial or annual minimum amount from us. Our total number of distributors increased from 56 as at 31 December 2006 to 68 as at 31 December 2007. Our total number of distributors further increased from 68 as at 31 December 2007 to 71 as at 31 December 2008, representing the addition of 4 new distributors and the termination of 1 distributor. Although our total number of distributors remained the same at 71 as at 30 June 2009, we have added 3 new distributors and have terminated our relationship with 3 distributors. We terminated our relationship with some of our distributors in the past as they were unable to meet our sales expectation. Set forth below is the breakdown of our distributors by region during the Track Record Period:

Region	No. of distributors			Six months ended 30 June 2009
	Year ended 31 December			
	2006	2007	2008	
North-East	8	9	10	10
Northern	11	13	15	15
Eastern	21	25	25	25
South-Central	5	8	8	8
South-West	11	13	13	13
	56	68	71	71

As at the Latest Practicable Date, we had a total of [71] distributors, who are generally engaged in the business of distributing and selling of grape wine products, all of whom are Independent Third Parties. Our years of relationship with our distributors ranged from one to eight years, as a result of our continuous distribution network expansion and annual appraisal of our existing distributors. We generally have more than five years of relationship with our five largest distributors, and have more than seven years of relationship with our largest distributor. Our five largest customers together accounted for approximately 18.3%, 15.1%, 14.9%, and [11.0]% of our total revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. Our largest customer accounted for approximately 4.8%, 3.4%, 3.3%, and [2.3]% of our total revenues for each of the three years ended 31 December 2008 and the six months ended 30 June 2009, respectively. All of our five largest customers in 2008 were engaged in the business of distributing and selling of goods.

None of our Directors or any person who owned 5% or more of the issued share capital of our Company as at the Latest Practicable Date or any of their respective associates has any interest in any of our five largest customers for the three years ended 31 December 2008 and the six months ended 30 June 2009.

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Selection of our distributors

We have strict criteria for the selection of our distributors based on factors such as economic strength, sales network in our target market, product knowledge, mutual goodwill and common objectives, good track record and successful experience in consumption goods distribution, and high moral integrity, credibility and social standing. We believe that building long-term mutually beneficial relationships with our key distributors would also benefit our business.

Distribution agreements

We have no direct control over the business operation of our distributors and we generally select distributors to distribute our products within a designated geographical area. We enter into a standard distribution agreement with each of our selected distributors for a period of one year and following successful negotiation between the parties upon the expiry of the existing distribution agreements, will renew such agreements with our distributors each year. Each of the distribution agreements will specify an estimated sales volume for the coming year. The estimated sales volume can be negotiated and adjusted between our distributors and us according to the market situation; whilst such estimated sales volume serves as targets to be achieved by the distributors, we neither provide any incentives for distributors which meet the estimated sales volume nor impose any penalties on distributors who fail to meet the estimated sales volume. However, in order to facilitate and assist the marketing and the sales of our distributors, we implement and will continue to implement our advertising strategies primarily through television commercial, outdoor billboards, magazines and emphasize the health benefits of moderate consumption of grape wines in order to establish consumer loyalty and strengthen the popularity of our products. In addition, we bear the delivery costs in our distribution agreements. We do not enter into any separate agreements with the third-party retailers or any of the sub-distributors, who are customers of our distributors. The salient terms of the distribution agreements are as follows.

Contract Period. One year.

Rights and Liabilities. Our Company shall sell and the distributor shall purchase the wine products stipulated in the distribution agreement.

Pricing and Settlement. The payment is conducted generally by bank settlement and the settlement terms are generally three months.

Quality. Our Company shall provide the wine products in compliance with the industrial standards and the distributor shall inspect the wine products within five days after the goods are delivered.

Logistics. The wine products are delivered to the place designated by the distributor at our cost.

Goods Return. Any return of goods not due to our fault shall be approved by our Company and the relevant expenses shall be borne by the distributor.

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Termination and Renewal. The agreement terminates upon the expiry and there are no other termination and renewal clauses under the distribution agreement.

Pricing

The prices of our grape wine products are determined by reference to the costs and related expenses of our products, including the costs of grapes and grape juice and the relevant advertising expenses.

While the selling prices of our products to distributors are identical, the retail prices are generally determined by each distributor with reference to the local market conditions. We have set a recommended retail selling price range to our distributors but the final selling price is subject to market conditions and at the discretion of our distributors.

Revenue recognition, settlement and credit control

Revenue derived from sales to our distributors is recognised when our products are delivered and title to our products has passed to our distributors.

We require our new distributors to settle our invoices upfront in cash for the whole or substantially the whole of our initial shipments. For distributors with whom we have an established working relationship, we will usually review their credit rating and grant a credit period of 90 days. All credit terms and limits for each customer will be reviewed and are generally approved by our chief executive officer and/or executive Director, namely Mr. Wang and Mr. Zhang Hebin.

The credit terms and limits for each customer are based on factors such as our assessment of the relevant customer’s financial position, past collection history, volume of sales and its business performance. We monitor and follow up on the payment status of each customer through the combined efforts of our sales and finance departments. Our sales department will gather feedback from the finance department and assess each customer’s payment record, financial strength, as well as the size of the transaction. In addition, our sales personnel visit our customers regularly to better gauge their financial status, profitability and creditworthiness and report any significant changes to both the sales and finance departments. We also actively monitor our customers’ payments such that they do not exceed the credit period extended to them.

Sales return policies

We only accept return of our delivered goods due to quality defects, which must be notified to us within 5 business days upon delivery. Any loss or damage arising from transportation shall also be notified to us within 2 business days upon receipt of the goods. Except for such sales return, title to our products are passed to our customers without any recourse when delivered. During the Track Record Period, our Directors confirmed that we have received no such request for sales return from our distributors.

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INVENTORY CONTROL

Our inventory comprises raw materials, semi-finished wine products (i.e. base wine) and finished wine products (i.e. bottled wine). 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, while our base wine is stored in stainless steel storage tanks within our production facilities.

During the months of September to November of each year, we procure all grapes required for the production of our wine products for the following year. The grapes are then processed into base wine, and blended and aged accordingly to achieve the desired taste and quality of the respective wine products that we produce. Our inventory levels for our finished wine products are largely determined by forthcoming sales orders placed by our customers. We monitor the level of our inventory of packaging materials to maintain a level sufficient for our wine production.

The balance of our inventory levels as at 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 accounted for approximately 70.7%, 64.6%, 41.9%, and [25.9]%, respectively, of our total current assets. Most of our inventory at year-end comprises of base wine and bottled wine.

We plan our production and procurement based on our preliminary market assessment and sales plans developed by our sales and marketing department, in line with our overall long-term production and procurement strategies. Our management will monitor market demand levels, confirmed sales orders and the sufficiency of our inventory level on a regular basis to ensure that we will produce sufficient finished products and procure sufficient raw materials to meet assessed market demands, and update our production and procurement plans where necessary.

The physical conditions of our inventory are 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 obsolete or damaged inventory to have no residual value. In addition, specific provisions are made on the diminution in market value of the 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 for the three years ended 31 December 2008 and the six months ended 30 June 2009, as we have not experienced any significant damage or loss in respect of our inventory.

For the three years ended 31 December 2008 and the six months ended 30 June 2009, our average inventory turnover days were approximately [348], [318], [302], and [274], respectively. The inventory turnover days for our business are 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.

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LOGISTICS

Raw materials are delivered to us by our suppliers at their cost.

Our finished products are delivered by vehicle to the warehouses designated by our distributors. Based on the agreements with our distributors, we are responsible for delivering our finished goods to the destinations specified by our distributors and costs of delivery are borne by us. We currently engage one logistics company, which is an Independent Third Party and the transportation agreement between us and the logistics company is such that the logistics company will be compensated for any loss or damage to our goods during the transportation of our goods. We have not experienced any material loss in relation to the delivery of our products during the Track Record Period. We require our distributors to maintain suitable warehousing facilities with air-conditioning systems suitable for wine storage.

QUALITY MANAGEMENT SYSTEM

Our Directors believe that our ability to consistently produce quality products is one of the key factors to our Group’s success. In order to ensure the quality of our products, we have established a stringent quality management system to ensure adherence to quality, cleanliness and hygiene standards for our raw ingredients and finished wine products, and consistency in taste, packaging and other product quality attributes. As at the Latest Practicable Date, we have a team of 11 quality control personnel, of which four are based in our winery facility in Ji’An City, Jilin Province, the PRC and the other seven are based in our main production facility in Tonghua County. In December 2005, we obtained ISO 9001:2000 certification for our operation and management system in respect of our wine products, which our Directors believe is evidence of our stringent quality control systems and procedures. This ISO certification is subject to renewal every 3 years after an inspection entailing a review of our facilities and a test of our quality control systems by testers from China Environmental United Certification Centre Co., Ltd. (中環聯合北京認證中心有限公司) and has been renewed in December 2008.

We generally focus our quality control efforts on the following critical stages of our production processes:

Sourcing and Procurement

Our vineyard technicians closely supervise the nurturing of the grapes at the vineyards from where we source our grapes by visiting the vineyards and the grape farmers from time to time through out the year through regular inspection, and also recording the natural sugar content of the grapes during the grape harvest season from September to November in accordance with our strict standards. They also schedule the delivery of harvested grapes by the farmers to our winery facility to ensure that we are supplied only with grapes of suitable maturity and quality. A further inspection is carried out when the grapes are delivered to the winery facility. Grapes that are not suitable in terms of ripeness, sugar content or condition of the grape skin will be rejected then.

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A critical element in quality control at this stage is ensuring that grapes are processed by our grapes crushing and pressing machines immediately or as soon as possible after harvest, in order to reduce the risk of oxidization of the grapes through exposure to air as well as decomposition in relatively higher temperatures resulting from prolonged transport and storage.

As part of our quality assurance policy, our quality management team conducts quality control checks, by inspecting and testing random samples of our other raw materials at our main production facility in Tonghua County, Jilin Province, the PRC. These other raw materials include packaging materials (including bottles, labels, and corks), and ancillary ingredients such as sugar. We will reject delivery of poor quality raw materials and return the same to our suppliers immediately. As at the Latest Practicable Date, we have not experienced any significant incidences of receiving defective raw materials from our suppliers.

Production

Our quality management team is responsible for determining and setting our quality assurance policies and standards, implementing our quality management systems, evaluating and conducting quality control activities during our production process and conducting quality assurance inspections during the different stages of the production process.

MARKETING AND PROMOTION

Our Directors believe that our Group’s marketing and promotion strategy has been an important component of our success. In the major cities in China which we believe have relatively higher per capita income, and [where] we have an established market presence, we are able to focus on marketing our higher gross margins products, such as [rose wine and ice wines]. In other regions of China where we intend to expand our market presence, we will initially market and promote lower-end products. We believe that establishing a strong awareness of our brand name will contribute significantly to our ability to broaden our customer base and increase our sales of our products in the PRC.

For the three years ended 31 December 2008 and the six months ended 30 June 2009, our Group’s marketing and advertising expenditure amounted to approximately RMB18.2 million, RMB41.8 million, RMB22.0 million, and RMB[9.6] million, respectively, representing approximately 6.5%, 10.7%, 4.5%, and [3.9]% of our total revenue, respectively.

As part of our marketing and promotion strategies, we carry out the following activities:

Advertising

Our Directors believe that we are one of the leading suppliers of sweet wines, in terms of manufacturing and sales volume, in the PRC. Our advertising strategies focus on the fact that our sweet wines are made from mountain grape varieties from the Jilin Province. Grape wines are not traditionally the most popular alcoholic beverage in the PRC, but we believe they

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are becoming increasingly popular in the modern and affluent regions of the PRC. As such, we have put our efforts into marketing and promotion in those regions with the aim of increasing the level of [consumer] acceptance of grape wines and in particular our products. In addition, we emphasize the health benefits of moderate consumption of grape wines in order to establish consumer loyalty.

We implement and will continue to implement the above advertising strategies primarily through television advertising, outdoor billboards and magazines.

Food and beverage trade fairs

We also selectively participate in food and beverage trade fairs held in the PRC usually in the spring and autumn seasons, such as the China Food & Beverage Fairs (全國糖酒商品交易會), held semi-annually in the spring and autumn seasons. Through participating in these food and beverage trade fairs, we are able to showcase our products to consumers and current and potential distributors, and to gather information and feedback on the current market trends and changing consumer preferences.

PRODUCT AND PACKAGE DESIGN AND DEVELOPMENT

Product development

In order to maintain our competitiveness, we seek to constantly keep abreast of market trends and consumer preferences, and place strong emphasis on innovating new grape wine products and on improving the quality and taste of our existing wines. Our product development activities are undertaken by our product development team comprising 7 members, headed by our chief winemaker, Ms. Ji Chunhua.

The main activities of our product development team include the formulation of new wine products with varying degrees of alcohol content and flavours, improving the flavours and quality of our existing wine products and broadening our range of wine products to suit the market trends and changing consumer preferences. Our product development team also samples and tastes wine produced by other competitors to compare the quality and taste of our wine products.

In addition, from time to time, we also commission the Northwest A&F University (西北農林科技大學) to conduct certain research projects for us such as the development of new types of wines and studies on topics related to wine-making.

For the three years ended 31 December 2008 and the six months ended 30 June 2009, our product development costs amounted to approximately RMB0.85 million, RMB1.15 million, RMB1.18 million and nil, respectively.

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Package design and development

We have a dedicated package design team which is responsible for the design of all our packaging. Our aim is to create new and attractive ways of packaging our products to suit the corresponding target consumer markets. We believe that attractive product packaging will enhance the value of our product, brand image and increase the visibility of our products displayed at retail markets.

INTELLECTUAL PROPERTY RIGHTS

We currently use three trademarks including the Tongtian (通天) trademark for the marketing and sales of our wine products, all of which have been registered by us in the PRC but as at the Latest Practicable Date, we are still in the process of applying for registration of the Tongtian Hong (通天紅) trademark. Jingtian & Gongcheng, our PRC Law legal advisers, are of the opinion that there is no legal obstacle for us to use or registered the “Tongtian Hong” (“通天紅”) trademark because (i) it is not expected that the Trademark Office would turn down the trademark application for the same reason or for reason of resemblance because both of the trademarks are owned by Tongtian Winery; and (ii) having conducted a search through the online data base of the Trademark Bureau, there was no other identical or similar trademark application or registration regarding “Tongtian Hong” (“通天紅”) in the category of winery or other alcohol products by any third party [as at the Latest Practicable Date]. For further details of our intellectual property rights, please refer to the paragraph headed “Intellectual Property Rights of our Group” in Appendix VI to this document.

Save as disclosed above, our business or profitability is not dependent on any patent or licence, or new manufacturing process or any other intellectual property rights.

We rely on various intellectual property laws, especially trademark laws, to protect our proprietary rights. We recognise the importance of protecting and enforcing intellectual property rights.

As disclosed in the risk factor and financial information sections of this document, we might face possible infringement claim on the historical sales of our products under the “Tongtian Cabernet” (“通天解百納”) name. Jingtian & Gongcheng, our PRC legal advisers, have advised us that should such legal proceedings be successfully carried out by the Yantai Changyu group against our Group, the damages which may be awarded by the PRC courts under the Trademark Law of the PRC (中華人民共和國商標法) may be in the form of repatriation of profits earned by our Group through the sale of “解百納” labelled wine products, or the losses suffered by the Yantai Changyu group as a result of our Group’s infringement during the Period of Alleged Infringement (including any reasonable costs incurred by the Yantai Changyu group to stop such infringement). Pursuant to the Trademark Law, where the profit earned or losses incurred cannot be determined, the maximum damages shall be not more than RMB500,000. Jingtian & Gongcheng, our PRC legal advisers, have further advised us that if the Yantai Changyu group eventually fail to obtain a favourable court judgment for the Registration, our Company, as well as other wine producers, may use the Chinese characters for Cabernet, “解百納”, as a name for its winery products.

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Save as mentioned above, as at the Latest Practicable Date, we were also not aware of any pending or threatened claims against us or any of our subsidiaries in relation to the infringement of any intellectual property rights of third parties. As at the Latest Practicable Date, we were not aware of any material infringement of our intellectual property rights and we believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights.

COMPETITION

The wine industry is highly competitive within the PRC, fragmented with some large producers and many small producers. According to the 2008 Yearbook of the China Alcoholic Drinks Industry, there were approximately 600 wine enterprises in the PRC in 2007. The top ten wine producing enterprises in total accounted for approximately 61.84% of total wine output in the PRC in 2007. The output of the Changyu, Great Wall, Dynasty and Weilong brand wines in total accounted for approximately 40.73% of total wine output in the PRC in 2007. We face intense competition from existing producers and new market entrants, including competition from imported wines.

In Jilin Province, where the main raw material used in the production of wines is the *vitis amurensis* grape variety, our Directors consider the following to be our main competitors:

- Tonhwa Winery Limited (通化葡萄酒股份有限公司)
- Chang Bai Shan Wine Holding Co. Ltd. (長白山酒業集團有限公司)

In respect of the PRC market as a whole, our Directors consider the following to be our main competitors:

- Dynasty Fine Wines Group Limited (王朝葡萄酒業集團有限公司)
- Yantai Changyu Pioneer Wine Company Limited (煙台張裕葡萄釀酒股份有限公司)
- China Great Wall Wine Co., Ltd. (中國長城葡萄酒有限公司)

None of our Directors or Substantial Shareholders of our Group has any interest, direct or indirect, in any of the above competitors.

Our Directors believe that we are able to maintain our competitiveness as our strategic focus is on the production of wines using the *vitis amurensis* grape variety, which we are strongly placed to procure a consistent and sufficient supply of quality grapes in the long-run. Our Directors believe that the pricing of our wines is also attractive to the mass market in the PRC and that the “Tongtian” (通天) and “Tongtian Hong” (通天紅) are established brand names for niche sweet wine products recognised in the PRC wine market. In the future, we intend to strengthen our strategic focus on promoting our sweet wine products, which are products that our Directors believe would offer greater potential for growth.

BUSINESS

EMPLOYEES

As at the Latest Practicable Date, our Group had a total of [362] full-time employees. The following table shows a breakdown of our employees by functions as at the Latest Practicable Date:

	Numbers of Employees
Management	[10]
Control and compliance	[1]
Production	[267]
Technical and product development	[9]
Sales and marketing	[36]
Finance	[7]
Procurement	[7]
Human resource and administration	[25]
Total	[362]

In accordance with the applicable PRC laws and regulations on social insurance, we contribute to various social insurance plans such as pension contribution plans, medical insurance plans, work-related injury insurance plans, unemployment insurance plans and birth insurance plans as well as housing accumulation funds for our employees. Our PRC legal advisers, Jingtian & Gongcheng, have confirmed that we comply with all statutory social insurance obligations applicable to us under the PRC laws and regulations.

Our contributions to the statutory social insurance plans are charged to the consolidated profit and loss account as and when incurred. For the three years ended 31 December 2008 and the six months ended 30 June 2009, our total expenses under the statutory social insurance plans were approximately RMB0.4 million, RMB0.4 million, RMB0.6 million, and RMB[0.3] million, respectively.

We provide training to our staff as appropriate and also arrange for our staff in the finance department to attend finance related professional training conducted by the PRC Ministry of Finance every year.

We believe that we maintain a good working relationship with our employees, and we have not experienced significant problems with our employees or disruption to our operations due to labour disputes.

BUSINESS

ENVIRONMENTAL MATTERS

In accordance with Environmental Protection Law of the PRC (中華人民共和國環境保護法) adopted by the Standing Committee of the National People’s Congress on 26 December 1989, the State Environment Protection Administration of the PRC sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate. A company or enterprise, which causes environmental pollution and discharges other polluting materials which endanger the public, should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company’s business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalised or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate any losses or damages suffered as a result of such environmental pollution.

We were granted the waste discharge license issued by Tonghua Environmental Protection Bureau. Our PRC legal advisers, Jingtian & Gongcheng, have confirmed that during the Track Record Period, (i) we fully complied with the relevant environmental rules and regulations and have obtained all the required permits and environmental approvals for our production facilities, (ii) no environmental pollution incident was discovered, and (iii) no penalty of any kind was imposed on any member of our Group.

Our Directors confirm that we comply with the relevant requirements under the PRC laws and regulations for waste water treatment.

BUSINESS

PROPERTIES

Owned properties

As at the Latest Practicable Date, we owned the following [two] parcels of land:

- The land located at Dong’an Village, Kuaidamao Town, Tonghua County, Tonghua City (通化市通化縣快大茂鎮東安村) with an aggregate site area of 58,343.4 square metres, on which offices, warehouses, workshop, ancillary facilities and wine production line expansion construction project under progress are situated, with a total construction area of approximately [29,207.76] square metres (comprising about [12,038.76] sq.m. of area constructed, and [17,169.00] sq.m. of area under construction). We have obtained legal title to the land and buildings comprising this property and all required permits and licenses for the construction.
- The land located at Changchuan Village, Qingshi Town, Tonghua Jian City (通化集安市青石鎮長川村) with an aggregate site area of 6,555.5 square metres, on which offices and warehouses are situated, with a total construction area of [752] square metres. We have obtained legal title to the land and buildings comprising this property.

Further details of our owned properties are disclosed in the property valuation report set out in Appendix IV to this document.

Leased properties

As at the Latest Practicable Date, we leased an office building from Shenyang Maryland International Industrial Co., Ltd. Real Estate Development Branch (瀋陽瑪莉藍國際實業有限公司房產開發分公司), an [Independent Third Party], located at No. 69 Heping Bei Da Street Heping District (和平區和平北大街69號) with a gross floor area of approximately 336,476 square metres. The expiry date of the tenancy for these properties is 19 July 2011. If we intend to renew the lease agreement, we are required to notify the lessor within two months prior to the expiry of the tenancy. Our current leased properties have been filed and registered by the lessor with the relevant PRC government authority.

As at the Latest Practicable Date, we leased a warehouse located at Li Ming Industrial Zone, Kuaidamao Town, Tonghua County, Jilin Province (吉林省通化縣快大茂鎮黎明工業區) from Tonghua Da Sen Lin Ye Development Co., Ltd. (通化大森林業開發有限責任公司), an [Independent Third Party], for approximately 700 square metres. The expiry date of the tenancy for these properties is 29 September 2010. The lessor cannot provide the relevant building ownership certificates for the warehouse. According to a supplemental agreement executed by Tonghua Da Sen Lin Ye Development Co., Ltd. and our Company dated 30 September 2009, the lessor will compensate all our losses in case we cannot continue to use the warehouse during the lease period due to the lack of relevant building ownership certificates. As advised by our PRC legal advisor, Jingtian & Gongcheng, the lease may not be protected by relevant

BUSINESS

PRC governmental authorities due to the lack of the relevant building ownership certificates. However, our Company has the right pursuant to the supplemental agreement to require the lessor to compensate our losses. To the best of our knowledge, the lessor has not applied for the ownership certificate for the warehouse. Our Directors are of the view that the warehouse is not crucial to our business because our Directors do not anticipate any obstacles for our Company to lease an alternative warehouse should we be required to vacate from the said warehouse and the impact of the vacation on our Group’s operations would be minimal. Our Directors estimate that our Company will take not more than 3 months and incur an expenditure of not more than RMB500,000 if it is necessary for us to relocate to another warehouse.

Details of this property are disclosed in the property valuation report set out in Appendix IV to this document.

INSURANCE

Our insurance coverage includes composite property insurance for the fixed assets, product liability insurance and general insurance against risks to cash. We also have automobile insurance coverage in respect of all our vehicles, including our vans and trucks used for transporting the base wine from our winery facility in Ji’An to our production facility in Tonghua. Such coverage is in respect of third party liability and passenger and vehicular risks. Our Directors confirm that our insurance coverage is in line with the general practice in the industry and is adequate for our operations.

As at the Latest Practicable Date, we had not made nor been the subject of any material insurance claims. We have made contributions in relation to the retirement of our employees in accordance with applicable laws and regulations in the PRC which requires contribution by both our employees and us at a fixed percentage of the salaries of our employees. During the Track Record Period, we did not receive any material claim from customers or consumers relating to any liability arising or relating to the use of our products.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our operation results or financial condition.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the [●] and the Capitalisation Issue, the Controlling Shareholders will control the exercise of voting rights of [40.8]% of the Shares eligible to vote in the general meeting of our Company (assuming the [●] is not exercised). Save and except for their interest in our Company, the Controlling Shareholders have no interest in any other companies as at the Latest Practicable Date which (i) held interests in our business during the Track Record Period and ceased to hold such interests after the Corporate Reorganisation; or (ii) may, directly or indirectly, compete with our Group’s business.

NON-COMPETITION UNDERTAKING

Each of the Controlling Shareholders, Wing Move, Win Honour, Public Success, Glory Wish, Mr. Zhang Hebin, Mr. Kang Hong, Mr. Sun Yankun and Ms. Pei Zhilan (collectively the “Covenantors”) have entered into a deed of non-competition (the “Non-competition Deed”) in favour of our Company, pursuant to which the Covenantors have undertaken to our Company (for itself and for the benefit of its subsidiaries) that each of them would not, and would procure that their respective associates (except any members of our Group) would not, during [●], directly or indirectly, either on its or his or her own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, principal, partner, director, employee, consultant, agent or otherwise) any business which is or may be in competition, whether directly or indirectly, with the principal business of any member of our Group from time to time (the “Restricted Business”). Such non-competition undertaking does not apply where:

- (a) any opportunity to invest, participate, be engaged in and/or operate with a third party any Restricted Business has first been offered or made available to our Company, and at the request of our Company, the offer should include: (i) terms of offer between our Company and such third party, or (ii) terms for our Company to engage in the Restricted Business with the Covenantor and/or its/his/her associates, and our Company, after review and approval by the independent non-executive Directors, has declined such opportunity to invest, participate, be engaged in or operate the Restricted Business with such third party or together with the Covenantor and/or its/his/her associates, provided that the principal terms by which the Covenantor (or his or her relevant associate(s)) subsequently invests, participates, engages in or operates the Restricted Business are not more favourable than those disclosed to our Company; or

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (b) having interests in the shares of a company which shares are listed on a recognised stock exchange provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
 - (ii) the total number of the shares held by the Covenantor and/or its/his/her associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and the Covenantor and/or its/his/her associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by the Covenantor and its/his/her associates in aggregate.

If our Company decides and offers to invest, participate, be engaged in and/or operate any Restricted Business with the Covenantor and/or his associates (or any of them, as the case may be), pursuant to (a) above, the Covenantor and/or his associates can invest, participate, be engaged in and/or operate such Restricted Business with our Company. Our Company will comply with the requirements of the Listing Rules in case of such cooperation with the Covenantor and/or his associates (or any of them, as the case may be).

Each of the Covenantors has further undertaken to our Company that, for so long as the Non-competition Deed remains in effect, the Covenantor would:

- (i) promptly provide to our Company such information as our Company may from time to time reasonably request to ascertain compliance by the Covenantor of its/his/her obligations under the Non-competition Deed;
- (ii) allow the independent non-executive Directors to review, at least on an annual basis, the compliance with the Non-competition Deed by the Covenantor, the options, pre-emptive rights or first rights of refusals (if any) provided by the Covenantor on its/his/her existing or future competing businesses;
- (iii) undertake to provide all information necessary for annual review by the independent non-executive Directors and the enforcement of the Non-competition Deed;
- (iv) allow our Company to disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the Non-competition Deed either through the annual report, or by way of announcements;
- (v) make an annual declaration on compliance with the Non-competition Deed in the annual report of our Company; and
- (vi) where the Covenantor is a controlling shareholder of our Company or a Director, the Covenantor would not vote or be counted in the quorum on any resolution where there is actual or potential conflicting interest on the part of the Covenantor.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates after the [●]:

Management Independence

Our Board comprises three executive Directors and three independent non-executive Directors. Mr. Wang, a Controlling Shareholder, is one of our executive Directors and a chairman of the Board.

Save as disclosed above, no other Controlling Shareholder holds any directorship in our Company. Each of our Directors is aware of his or her fiduciary duties as a Director of our Company which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from the Controlling Shareholders after the [●].

Operational Independence

We have independent access to sources of supplies or raw materials for the production of our grape wine products, as well as independent access to our distributors. We have also established a set of internal controls to facilitate the effective operation of our business. Our Group has registered certain trademarks and is in the process of application for registration of additional trademarks which we utilise in marketing our grape wine products.

In addition, our Directors consider that our operations do not depend on the operation of the Controlling Shareholders for the following reasons:

- (i) there is no competing business between our Group and any of our Controlling Shareholders;
- (ii) there is no connected transaction between any of our Controlling Shareholders or their associates and any member of our Group; and
- (iii) we are not relying on any guarantee provided by any of our Controlling Shareholders in respect of bank borrowings nor have we been given any guarantee for the benefit of any of our Controlling Shareholders.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

On the basis of the matters described in this section, we believe that we are capable of carrying on our business independently of the Controlling Shareholders and their respective associates. Our Group, the Controlling Shareholders and their respective associates do not have any common, nor shared, facilities or resources during the Track Record Period and up to the Latest Practicable Date.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs.

Our Directors confirm that [during the Track Record Period and as at the Latest Practicable Date, none of the Controlling Shareholders had provided any guarantees to our Group]. In addition, our Directors confirm that as at the Latest Practicable Date, all of the loans from Mr. Wang have been repaid in full and our Group do not intend to obtain any further borrowing from any of the Controlling Shareholders. Therefore, there is no financial dependence on the Controlling Shareholders.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Our Board of Directors is responsible and has general powers for the management and conduct of our business. The following table sets forth information regarding members of the Board of Directors of our Company.

Name	Age	Position
Mr. Wang Guangyuan	[48]	chairman, chief executive officer and executive Director
Mr. Zhang Hebin	[49]	executive Director
Ms. Wang Lijuan	[52]	executive Director
Mr. Li Changgao	[41]	independent non-executive Director
Mr. Lai Chi Keung, Albert	[47]	independent non-executive Director
Mr. Sih Wai Kin, Daniel	[42]	independent non-executive Director

Executive Directors

Mr. Wang Guangyuan (王光遠), aged [48], was appointed as our executive Director on 8 September 2008, and is the chairman of our Board and the chief executive officer of our Company. Mr. Wang is one of the founding management team members of Tongtian Winery since its establishment in 2001. He is responsible for overall business strategy and development and management of our Group. Prior to establishing our Group, from November 1986 to August 2000 he served with Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange, and in September 1995 he was promoted to be a deputy general manager. Mr. Wang is currently a member of the People’s Representative of Tonghua City 5th People’s Congress (通化縣第五屆人民代表大會代表), the Vice Chairman of Tonghua County Industry and Commerce Association (通化縣工商業聯合會) and Tonghua County Non-government Commerce Chamber (通化縣民間商會), a standing director of Tonghua City Young Entrepreneurs Association (通化縣青年企業家協會常務理事), and a member of the 10th Executive Committee of Jilin Provincial Young Entrepreneurs (吉林省青年聯合會 第十屆委員會). Mr. Wang was awarded as the “Outstanding Worker of Tonghua County 1996-2001” (1996-2001年通化縣勞動模範) by People’s Government of Tonghua County (通化縣人民政府) in October 2002. He was also conferred the title of “Excellent Sales Manager” (優秀銷售總經理) jointly by China Winery Industry Association Grape Wine Sub-branch (中國釀酒工業協會葡萄酒分會) and China Agriculture Association Grape Sub-branch (中國農學會葡萄分會) in June 2006. He was certified as a senior economist by the Ministry of Finance of the PRC (中華人民共和國財政部) on 29 May 2003. Mr. Wang obtained a bachelor’s degree of business management from Jilin University (吉林大學) in July 1993. Mr. Wang is the brother of Ms. Wang Lijuan, an executive Director of our Company.

Mr. Zhang Hebin (張和彬), aged [49], was appointed as our executive Director on 8 September 2008. He is one of the founding management team members of Tongtian Winery since its establishment in 2001. He is responsible for sales, marketing and products promotion of our Group. Prior to joining our Group, from April 1984 to August, 2000 he worked with

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange, and in February 1986 he was promoted to be a district sales manager. He obtained a junior college diploma of economic management from the Party School of Jilin Province Government (吉林省黨委校) and graduated in July 1991.

Ms. Wang Lijuan (王麗娟), aged [52], was appointed as our executive Director on 17 December 2008, and is one of the founding management team members of Tongtian Winery since its establishment in 2001. She is responsible for overall administration and human resource matters of our Group. Prior to joining our Group, from December 1985 to August 2000 she worked at the Industry and Commerce Bank of China Tonghua Branch, and in April 1990 she was promoted to be a branch administrative manager. She has been nominated as a member of 8th Tonghua County’s People’s Political Consultative Conference (通化縣政協委員) in November 2006. She obtained a junior college diploma of accounting degree from Liaoning University (遼寧大學) in July 1990. Ms. Wang is the sister of Mr. Wang, the chairman of our Board and chief executive officer and an executive Director of our Company.

Independent non-executive Directors

Mr. Li Changgao (李常高), aged 41, was appointed as our independent non-executive Director on 17 December 2008. He joined Beijing Jun Yong Law Office (北京市君永律師事務所) as a lawyer in October 2008. He worked in Beijing Tian Chi Law Office (北京天馳律師事務所) as a trainee from September 2002 to October 2008 and was qualified to practise as a lawyer since October 2008. From October 1995 to May 2001, he started working in the People’s Court of Tonghua County (通化縣人民法院) as a court clerk (書記員) handling secretarial matters for a judge (審判員) and was later promoted as a Judge. From October 1990 to September 1995, he worked in the propaganda department of the Ministry of Justice of Tonghua County (通化縣司法局). Mr. Li graduated from Northeast Forestry University (東北林業大學) with a diploma of social sciences (politics) in July 1990, and from Jilin University (吉林大學) with a diploma of law in June 2001. He passed the national judicial examination held by the Ministry of Justice of the PRC (中華人民共和國司法部) and obtained the certificate of PRC legal professional qualification (中華人民共和國法律職業資格證書) in March 2004.

Mr. Lai Chi Keung, Albert (黎志強), aged [47], was appointed as our independent non-executive Director on 28 October 2009. Mr. Lai has been working as the regional sales manager in Noble Jewelry Ltd., a company principally engaged in the design and manufacturing of jewelry which is listed on the Stock Exchange (stock code: 475) since 2009. Prior to that, he worked in Brilligems Jewellery Company Ltd. since 1995 and has been responsible for strategizing and managing international distribution channels for product lines throughout the U.S market. Mr. Lai worked in Luen On Jewellery Factory Ltd. as a sales manager from November 1983 to August 1988 and during the period he was promoted and relocated to the overseas subsidiary company Chanco, Inc. in Atlanta, Georgia, the US as an export and sales director from 1988 to 1995.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Sih Wai Kin, Daniel (薛偉健), aged [42], was appointed as our independent non-executive Director on 28 October 2009. Mr. Sih has been working in Convoy Financial Services Limited as a consultant, providing independent financial advice, and being responsible for conducting financial analyses and devising wealth management plans since September 2004. Since June 2003, he worked in PC Asia Limited as a finance manager and was responsible for accounting, reporting, financial and treasury management of the company. From August 2002 to May 2003, he worked in ABC Communications (Holdings) Limited, a company currently listed on the Stock Exchange (stock code: 30) as a finance and administration manager and performed such functions as overseeing accounting, reporting and financial management of the company. From June 1994 to May 2000, he worked in the department of assurance and advisory business services of Ernst and Young (Hong Kong) and was promoted as a manager in October 2000 and responsible for conducting statutory audit and handling internal control engagements for companies listed or proposed to seek flotation in Hong Kong. Mr. Sih majored in Finance and Economics at the University of Western Ontario, Canada and graduated with a degree in Bachelor of Arts (administrative and commercial studies) in October 1989. Mr. Sih is licensed under the SFO to carry on Type 4 (advising on securities) regulated activities. He obtained the Mandatory Provident Fund Intermediary Certificate from the Mandatory Provident Fund Schemes Authority in January 2008 and is permitted to advise on securities and insurance policies. He is currently a member of the Professional Insurance Brokers Association.

Our independent non-executive Directors provide advice to us on compliance, corporate governance, development and business strategies.

Save disclosed above, there are no other matters concerning all our Directors' appointment that need to be brought to the attention of our Shareholders and the Stock Exchange and there are no other matters which shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Ms. Ji Chunhua (紀春花), aged [48], the chief winemaker of our Company, and is one of the founding management team members of Tongtian Winery since its establishment in 2001. She is responsible for product development, production and quality control. Prior to joining our Group, from May 1979 to August 2000 Ms. Ji worked as a technician in Tonzha Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange and she was promoted as the head of the technical department in August 1988. She has been a member of Tonghua City Wine Jury Panel (通化市葡萄酒、果酒評委) since March 1988 as well as a member of the 4th National Jury Panel for grape (fruit) wine (第四屆葡萄酒(果酒)國家評委) from 2007 to 2012. Ms. Ji was also a member of Jilin Province Jury Panel for Fruit and Grape Wine (吉林省果、葡萄酒評委) from 1990 to 1993. She has been awarded as “Excellent Wine Maker” (優秀釀酒師) jointly by China Winery Industry Association Grape Wine Sub-branch (中國釀酒工業協會葡萄酒分會) and China Agriculture Association Grape Sub-branch (中國農學會葡萄分會) in June 2006. She was also awarded as the “Most Charming China Wine Angel 2008” (最具魅力中國葡萄酒天使) by Huaxia Wine News (華夏酒報) in June 2008. Ms. Ji attended a training course on quality supervision on wine at Chengdu Technology University (成都科技大學) from January 1991 to

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

March 1991. She graduated from Jilin Television University (吉林廣播電視大學) with a junior college diploma of enterprise management degree in July 1994. Ms. Ji is Mr. Kang Hong’s wife.

Mr. Yu Dazhou (于大洲), aged [53], the vineyard manager and winemaker of our Company and he joined our Group in August 2003. He is responsible for overseeing and managing the vineyards of the local grape farmers whom we have entered into long-term contracts with, in order to ensure optimal quality control throughout the entire growing, nurturing and harvesting stages of grape growing as well as the early production stage of base wine production from freshly harvested grapes. From May 1979 to December 1997, Mr. Yu worked at Ji’An Winery Factory (集安葡萄酒廠), and he was promoted to a deputy general manager in July 1988 and was responsible for technology. [Mr. Yu established Ji’an Forestry Winery Factory (集安森林葡萄酒廠) in 1997, and operated it until it was acquired by our Group in [●] 2003.] Mr. Yu was appointed as a member of the 2nd National Jury Panel for Wine (第二屆果酒國家資格評委) since December 1995 for five years by China National Food Industry Association (中國食品工業協會). He graduated from Tianjin Light Industry College (天津輕工業學院) with a junior college diploma of food in July 1991.

Mr. Kang Hong (康虹), aged [51], a deputy general manager of our Company and is one of the founding management team members of Tongtian Winery since its establishment in 2001. He is primarily responsible for overall production and manufacturing processes. Prior to his present appointment, he served for over 20 years from December 1977 to August 2000 in Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange, and was appointed the chief of production department. Mr. Kang graduated from Tonghua Education College (通化師範學院) with a junior college diploma of chemistry degree in July 1986. He obtained his qualification of chemistry engineer from Personnel Bureau of Tonghua City (通化市人事局) in October 1999. Mr. Kang is Ms. Ji Chunhua’s husband.

Mr. Sun Yankun (孫延坤), aged [53], a deputy general manager of our Company and is one of the founding management team members of Tongtian Winery since its establishment in 2001. He is responsible for our procurement and logistics. From December 1978 to August 2000, Mr. Sun served in Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange and in October 1997 he was promoted to a division chief in charge of raw materials and supply procurement. He graduated from Tonghua City No.11 High School (通化市第十一中學) in 1974.

Ms. Pei Zhilan (裴志蘭), aged [58], the chief accountant of our Company and is one of the founding management team members of Tongtian Winery since its establishment in 2001. She is responsible for accounting matters of our Group. Prior to joining our Group, from June 1993 to August 2000, she was the chief accountant in Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange, and she was primarily responsible for corporate accounting matters. Ms. Pei graduated from Jilin Province Economic Management Institute (吉林省經濟管理幹部學院) with a junior college diploma of finance and accounting in April 1992. She was conferred her qualification of mid-level accountant in March 2003.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Li Jia (李愨), aged 32, the vice president of our Company. He is primarily responsible for our corporate strategy and business development. Mr. Li joined our Group in October 2007. He has over 5 years of experience in grape wine industry and has held management positions at sales planning and marketing in grape wine products in the PRC market. Mr. Li graduated from Guangdong University of Foreign Studies (廣東外語外貿大學) with a bachelor’s degree in English and literature in [June] 2000 and a bachelor’s degree in international trade and economics in June 2001 (double-degree). Subsequently, he studied in France and graduated from the Institute d’Adminis des Entreprises (I.A.E.), Universite de Poitiers (the Institute of Business Administration, University of Poitiers) with a DESS in 2003. Mr. Li obtained the WSET Level 2 intermediate certificate in wines and spirits from a division of Wine & Spirits Education Trust Limited in November 2007 and is accredited as an international bordeaux wine educator by L’Ecole du Vin CIVB (the Bordeaux Wine School) from January 2008 to December 2010.

Mr. Kwok Yuen Ying, Riki (郭元英), aged 41, is the chief financial officer of our Group and is responsible for the financial and accounting management of our Group. Prior to joining our Group in September 2007, Mr. Kwok worked as the company secretary and the financial controller for Daqing Petroleum and Chemical Group Limited (大慶石油化工集團有限公司), a company involved in the manufacturing and sales of petroleum refined products which is listed on the Stock Exchange (stock code: 362) from September 2000 to October 2005. Mr. Kwok had over 10 years of experience in auditing, accounting and finance. Mr. Kwok holds a bachelor’s degree in commerce from the University of Wollongong in Australia and is also an associate member of the Hong Kong Institute of Certified Public Accountants and Certified Practising Accountant of CPA Australia.

COMPANY SECRETARY

Mr. Sum Chi Kan (岑志勤), aged [38], is the company secretary and deputy head of the control and compliance department of our Company. Mr. Sum is responsible for the company secretarial functions and [reviewing and supervising our Group’s overall internal control systems and provides advice to the Board and audit committee]. Mr. Sum is employed on a full-time basis and he is ordinarily resident in Hong Kong as required under Rule 8.17 of the Listing Rules. Mr. Sum joined our Group in May 2009 and is responsible for overseeing matters related to control and compliance of our Group. Prior to joining our Group, he has worked as internal control and compliance manager in J.V. Fitness Limited, a company involved in operating premium fitness centres across the Asia Pacific region. Mr. Sum had over 10 years of experience in auditing, control and compliance. In 1994, he graduated from the Hong Kong University of Science & Technology with a Bachelor degree in Accounting. In 2007, he graduated from the Hong Kong Polytechnic University with a master degree in corporate governance. He has been an associate member of the Hong Kong Institute of Certified Public Accountants since March 2000 and became a fellow of the Association of Chartered Certified Accountants in June 2004. He was granted the qualification as a Certified Information System Auditor in September 2002 and that as a Certified Fraud Examiner in August 2007.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 28 October 2009 which, in the opinion of the Directors, will enable our Group to recruit and retain high-calibre employees and to improve employee loyalty. The principal terms of this scheme are summarised in the paragraph headed “Share Option Scheme” in Appendix VI to this document.

REMUNERATION POLICY

DIRECTORS’ REMUNERATION

Executive Directors

Each of the executive Directors has entered into a service agreement with our Company on 28 October 2009 for an initial term of three years commencing from 1 November 2009. Except for sooner determination of the service agreement in accordance with its terms and upon expiry of the initial term of the service agreement with each executive Director, the service agreement is renewable automatically thereafter for successive terms of one year until terminated by not less than three months’ prior notice in writing served by either party on the other. The aggregate annual basic salary of all the executive Directors will be HK\$1,800,000 and the salary of each executive Director after the expiry of the initial term is subject to annual review with such increment (if any) at such rate to be determined by the remuneration committee of our Company and approved by a majority in number of the members of the Board (excluding the Director whose salary is under review) and the relevant executive Director shall abstain from voting and shall not be counted in the quorum in respect of the proposed resolution regarding the increment.

Pursuant to the terms of the service contracts entered into between each executive Director and our Company, the annual salary of each executive Director is HK\$600,000. Moreover, each of the executive Directors may be entitled to a discretionary bonus in form of cash or in shares options determined and approved by the Board provided that the aggregate amount of such bonus payable in each financial year to all the executive Directors shall not exceed 5% of the audited consolidated net profit of our Group (before taxation but after minority interests and the taxation attributable to the minority interests).

Independent non-executive Directors

Each of the independent non-executive Directors has entered into an appointment letter with our Company for an initial term of two years commencing from the [●] and thereafter shall continue from year to year until terminated by the giving of one month’s notice in writing thereof by either party to the other, subject to the provisions of retirement and rotation of Directors under the Bye-Laws.

Pursuant to the terms of the appointment letter of our Company with each of the independent non-executive Directors, the annual director’s fee payable to each of them is HK\$160,000.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

For the three years ended 31 December 2008 and the six months ended 30 June 2009, the aggregate of the remuneration paid to the Directors amounted to approximately RMB84,000, RMB84,000, RMB111,000 and RMB52,000 respectively.

During the Track Record Period, the remuneration of the Directors was determined with reference to their respective experience, responsibilities with our Group and general market conditions. Any discretionary bonus (if any) is linked to the performance of our Group and of the individual Director. Our Company intends to continue its remuneration policy after [●], subject to the review by, and the recommendations of, the remuneration committee of our Company.

OUR GROUP’S RELATIONSHIP WITH STAFF

We recognise the importance of having a good relationship with our employees. We have not experienced any significant problems with our employees or disruption to our operations due to labour disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff. Our Directors believe that we have a good working relationship with our employees.

BOARD COMMITTEES

Audit committee

Our Company established an audit committee with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Pursuant to a resolution of our Directors passed on 28 October 2009 in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee are mainly to make recommendation to the Board on the appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; oversight of internal control procedures of our Company. At present, the audit committee of our Company consists of three members who are Mr. Sih Wai Kin, Daniel, Mr. Lai Chi Keung, Albert and Mr. Li Changgao. Mr. Sih Wai Kin, Daniel is the chairman of the audit committee.

Remuneration committee

Our Company established a remuneration committee on 28 October 2009 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group; review performance based remuneration; ensure none of our Directors determine their own remuneration. The remuneration committee consists of three members, namely Mr. Sih Wai Kin, Daniel, Mr. Lai Chi Keung, Albert and Mr. Li Changgao. Mr. Sih Wai Kin, Daniel is the chairman of the remuneration committee.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Nomination committee

We established a nomination committee on 28 October 2009 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The nomination committee consists of three members, comprising Mr. Lai Chi Keung, Albert, Mr. Wang Guangyuan and Mr. Li Changgao. The chairman of the nomination committee is Mr. Lai Chi Keung, Albert. The primary functions of the nomination committee are to make recommendations to the Board regarding candidates for directorship, either to fill vacancies on or appoint additional directors to the Board.

SHARE CAPITAL

RANKING

The [●] and the Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this document.

THE SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the section headed “Share Option Scheme” in Appendix VI to this document.

GENERAL MANDATE TO ISSUE SHARES

Subject to the [●] becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the [●] and the Capitalisation Issue (excluding any Shares which may fall to be issued pursuant to the [●]); and
- (ii) the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting; or
- (ii) the expiration of the period within which our Company is required by law or the Bye-laws to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Company’s Shareholders in a general meeting.

For further details of this general mandate, see the paragraph headed “Written resolutions of all the Shareholders of our Company passed on 28 October 2009” in Appendix VI to this document.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the [●] becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following completion of the [●] and the Capitalisation Issue (excluding any Shares which may fall to be issued upon the exercise of the [●]).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “Repurchase by our Company of our own securities” in Appendix VI to this document.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting; or
- (ii) the expiration of the period within which our Company is required by law or the Bye-laws to hold its next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Company’s Shareholders in a general meeting.

For further details of this repurchase mandate, see the paragraph headed “Written resolutions of all the Shareholders of our Company passed on 28 October 2009” in Appendix VI to this document.

SUBSTANTIAL SHAREHOLDERS

Each of the following persons will, immediately following completion of the [●] and the Capitalisation Issue (without taking into account the Shares which may be issued upon the exercise of the [●] or Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding
Up Mount ⁽¹⁾	Beneficial owner	[●]	[●]%
Mr. Wang ⁽¹⁾	Interest in a controlled corporation	[●]	[●]%
Zhang Min 張敏 ⁽²⁾	Interest of spouse	[●]	[●]%

Notes:

- (1) Mr. Wang solely and beneficially owns the entire issued share capital of Up Mount. Mr. Wang is therefore deemed to be interested in all the Shares held by Up Mount.
- (2) Zhang Min is the spouse of Mr. Wang and is therefore deemed to be interested in all the Shares held by Mr. Wang (through Up Mount) by virtue of the SFO.

Save as disclosed herein, the Directors are not aware of any person who will, immediately following the [●] and the Capitalisation Issue, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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

FINANCIAL INFORMATION

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 Tonthwa 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:

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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.

FINANCIAL INFORMATION

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.

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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	
	2006	2007	2008	30 June 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	<u>(140,477)</u>	<u>(182,561)</u>	<u>(209,769)</u>	<u>(89,433)</u>	<u>[(105,328)]</u>
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	<u>(2,869)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>[–]</u>
Profit before tax	98,981	138,719	200,910	87,369	[106,562]
Income tax expense	<u>(36,803)</u>	<u>(33,488)</u>	<u>(64,122)</u>	<u>(27,285)</u>	<u>[(31,207)]</u>
Profit for the year/period and total comprehensive income for the year/period attributable to owners of our Company	<u>62,178</u>	<u>105,231</u>	<u>136,788</u>	<u>60,084</u>	<u>[75,355]</u>
Earnings per share					
Basic (RMB)	<u>[0.05]</u>	<u>[0.08]</u>	<u>[0.10]</u>	<u>[0.05]</u>	<u>[0.06]</u>

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.

FINANCIAL INFORMATION

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.

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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	Average ¹	Total	Average ¹	Total	Average ¹	Total	Average ¹	Total	Average ¹
	units sold tonnes	selling price RMB'000 per tonne	units sold tonnes	selling price RMB'000 per tonne	units sold tonnes	selling price RMB'000 per tonne	units sold tonnes	selling price RMB'000 per tonne	units sold tonnes	selling price 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:

Region	Year ended 31 December						Six months ended 30 June			
	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]

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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.

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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]
<i>Grape & grape juice (Total)</i>	<i>[63,156]</i>	<i>[45.0]</i>	<i>[81,684]</i>	<i>[44.7]</i>	<i>[93,920]</i>	<i>[44.8]</i>	<i>[39,694]</i>	<i>[44.4]</i>	<i>[47,970]</i>	<i>[45.5]</i>
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]
<i>Total raw material cost</i>	<i>[103,283]</i>	<i>[73.6]</i>	<i>[133,537]</i>	<i>[73.1]</i>	<i>[154,839]</i>	<i>[73.8]</i>	<i>[65,907]</i>	<i>[73.7]</i>	<i>[78,059]</i>	<i>[74.1]</i>
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]

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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		Gross		Gross		Gross		Gross	
	Profit	Margin	Profit	Margin	Profit	Margin	Profit	Margin	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	<u>[141,346]</u>	<u>[50.2]</u>	<u>[209,009]</u>	<u>[53.4]</u>	<u>[276,939]</u>	<u>[56.9]</u>	<u>[116,595]</u>	<u>[56.6]</u>	<u>[137,387]</u>	<u>[56.6]</u>

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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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

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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.

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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.

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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.

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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.

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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
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
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	<u>(50,989)</u>	<u>(71,369)</u>	<u>(8,617)</u>	<u>(9,000)</u>	<u>[–]</u>
Net (decrease)/ increase in cash and cash equivalents	<u>(998)</u>	<u>961</u>	<u>112,832</u>	<u>43,186</u>	<u>[72,779]</u>
Cash and cash equivalents at beginning of year/period	<u>3,021</u>	<u>2,023</u>	<u>2,984</u>	<u>2,984</u>	<u>[115,816]</u>
Cash and cash equivalents at end of year/period	<u>2,023</u>	<u>2,984</u>	<u>115,816</u>	<u>46,170</u>	<u>[188,595]</u>

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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

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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.

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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.

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[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			For the
	31 December			six months
	2006	2007	2008	ended
	RMB’000	RMB’000	RMB’000	30 June 2009
				RMB’000
Plant and machinery	278	220	–	[–]
Construction in progress	–	–	26,700	[2,000]
Office equipment	10	–	–	[–]
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>288</u>	<u>220</u>	<u>26,700</u>	<u>[2,000]</u>

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.

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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]	<u>[50]</u>
Total	<u><u>[3,050]</u></u>

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
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Plant and machinery	1,150	1,850	2,010	925	[1,005]
Premises for office and warehouse	<u>–</u>	<u>234</u>	<u>395</u>	<u>197</u>	<u>[193]</u>
Total	<u><u>1,150</u></u>	<u><u>2,084</u></u>	<u><u>2,405</u></u>	<u><u>1,122</u></u>	<u><u>[1,198]</u></u>

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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	<u>[503]</u>
Total	<u><u>[2,513]</u></u>

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 2009 RMB’000
	2006 RMB’000	2007 RMB’000	2008 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	<u>2,023</u>	<u>2,984</u>	<u>115,816</u>	<u>[188,595]</u>
	<u><u>168,316</u></u>	<u><u>191,104</u></u>	<u><u>341,168</u></u>	<u><u>[394,515]</u></u>
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	<u>19,199</u>	<u>–</u>	<u>23,175</u>	<u>[14,205]</u>
	<u><u>112,216</u></u>	<u><u>132,755</u></u>	<u><u>71,466</u></u>	<u><u>[44,945]</u></u>
Net current assets	<u><u>56,100</u></u>	<u><u>58,349</u></u>	<u><u>269,702</u></u>	<u><u>[349,570]</u></u>

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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.

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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.

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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	<u>46,202</u>	<u>63,568</u>	<u>81,292</u>	<u>[103,403]</u>

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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.

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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

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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 (<i>Note 1</i>)	[1.5]	[1.4]	[4.8]	[8.8]
Quick ratio (<i>Note 2</i>)	[0.4]	[0.5]	[2.8]	[6.5]
Return on assets (<i>Note 3</i>)	[24.7]%	[38.9]%	[37.5]%	[15.8]%
Return on equity (<i>Note 4</i>)	[34.8]%	[46.5]%	[44.5]%	[18.4]%
Debt to Equity (<i>Note 5</i>)	41.8%	64.7%	nil	[nil]
Gearing ratio (<i>Note 6</i>)	[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.

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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.

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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

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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.

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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.

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ACCOUNTANTS’ REPORT

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the auditors and reporting accountants of our Group, Deloitte Touche Tohmatsu.

Deloitte.
德勤

[Date]

The Directors
[China Tontine Wines Group Limited]
[SBI E2-Capital (HK) Limited]

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to [China Tontine Wines Group Limited] (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2008 and the [six months ended 30 June 2009] (the “Relevant Periods”).

The Company was incorporated in Bermuda on 21 August 2008 as an exempted company with limited liability under the Bermuda Companies Act. The Company changed its name from China Wines Group Limited to China Tontine Wines Group Limited with effect from [Date]. Pursuant to a corporate reorganisation (the “Corporate Reorganisation”), the Company became the holding company of the companies comprising the Group on [date].

All companies now comprising the Group have adopted 31 December as their financial year end date. As at the date of this report, the Company has interests in the following subsidiaries comprising the Group:

Name of subsidiary	Place and date of incorporation	Issued and fully paid share/ registered capital	Attributable equity interest held by the Company		Principal activity
			Directly	Indirectly	
Fullest Power Investments Limited (“Fullest Power”)	British Virgin Islands (“BVI”) 19 May 2006	Ordinary shares US\$100,000	100%	–	Investment holding

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Name of subsidiary	Place and date of incorporation	Issued and fully paid share/ registered capital	Attributable equity interest held by the Company		Principal activity
			Directly	Indirectly	
Rich Treasure Link Limited (“Rich Treasure”)	Hong Kong (“HK”) 18 July 2008	Ordinary shares HK\$10,000	–	100%	Investment holding
通化通天酒業有限公司 Tonghua Tongtian Winery Co., Ltd (“Tongtian”) (<i>note</i>)	People’s Republic of China (“PRC”) 9 January 2001	Registered capital RMB87,110,000	–	100%	Wine, beverage production, grape juice processing

Note: Tongtian is a wholly-foreign owned enterprise established in the PRC.

No audited financial statements has been prepared for the Company since its date of incorporation as it has not carried on any business other than the transactions related to the Corporate Reorganisation.

No audited financial statements have been prepared for Fullest Power since its date of incorporation as there is no statutory requirement in BVI to do so. Deloitte Touche Tohmatsu is the statutory auditor of Rich Treasure since its incorporation. No audited financial statements have been prepared for Rich Treasure since its incorporation. Rich Treasure has not been involved in any significant business transactions other than the transactions related to the Corporate Reorganisation since its date of incorporation.

For the purpose of this report, we have, however, reviewed the relevant transactions of these companies since their respective dates of incorporation to 30 June 2009 and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in this document.

The statutory financial statements of Tongtian were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 吉林光大會計師事務所有限公司 Jilin Guangda Certified Public Accountants Co., Ltd., certified public accountants registered in the PRC, for each of the three years ended 31 December 2008. No audited financial statements have been prepared for the six months ended 30 June 2009 as there is no such statutory requirement.

For the purpose of this report, the directors of Fullest Power have prepared consolidated financial statements of Fullest Power, the then holding company, for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

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The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in note 1 of Section A below. No adjustment has been made by us to the Underlying Financial Statements in preparing our report for inclusion in this document.

The Underlying Financial Statements are the responsibility of the directors of Fullest Power who approve their issue. The directors of the Company are responsible for the contents of this document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2006, 2007, 2008 and 30 June 2009 and of the combined results and combined cash flows of the Group for the Relevant Periods.

The comparative combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows of the Group for the six months ended 30 June 2008 together with the notes thereon have been extracted from the unaudited consolidated financial statements of Fullest Power for the same period (the “30 June 2008 Financial Information”) which was prepared by the directors of Fullest Power solely for the purpose of this report. We have reviewed the 30 June 2008 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review of the 30 June 2008 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the 30 June 2008 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2008 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRS.

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ACCOUNTANTS’ REPORT

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	NOTES	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	7	281,823	391,570	486,708	206,028	[242,715]
Cost of sales		<u>(140,477)</u>	<u>(182,561)</u>	<u>(209,769)</u>	<u>(89,433)</u>	<u>[(105,328)]</u>
Gross profit		141,346	209,009	276,939	116,595	[137,387]
Other income	9	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	12	–	–	[(13,012)]	–	[(1,573)]
Finance costs	10	<u>(2,869)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit before tax		98,981	138,719	200,910	87,369	[106,562]
Income tax expense	11	<u>(36,803)</u>	<u>(33,488)</u>	<u>(64,122)</u>	<u>(27,285)</u>	<u>[(31,207)]</u>
Profit for the year/period and total comprehensive income for the year/period attributable to owners of the Company	12	<u>62,178</u>	<u>105,231</u>	<u>136,788</u>	<u>60,084</u>	<u>[75,355]</u>
Earnings per share Basic (RMB)	16	<u>[●]</u>	<u>[●]</u>	<u>[●]</u>	<u>[●]</u>	<u>[●]</u>

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ACCOUNTANTS’ REPORT

COMBINED STATEMENTS OF FINANCIAL POSITION

		At 31 December			At
	NOTES	2006	2007	2008	30 June
		RMB’000	RMB’000	RMB’000	2009
					RMB’000
Non-current Assets					
Property, plant and equipment	17	88,348	83,222	105,131	[104,734]
Prepaid lease payments	18	4,125	4,033	3,941	[3,895]
Deposit on acquisition of property, plant and equipment		—	1,700	—	[—]
		<u>92,473</u>	<u>88,955</u>	<u>109,072</u>	<u>[108,629]</u>
Current Assets					
Inventories	19	119,036	123,499	142,993	[102,374]
Trade receivables	20	46,202	63,568	81,292	[103,403]
Deposits and prepayments		963	961	975	[51]
Prepaid lease payments	18	92	92	92	[92]
Bank balances and cash	21	2,023	2,984	115,816	[188,595]
		<u>168,316</u>	<u>191,104</u>	<u>341,168</u>	<u>[394,515]</u>
Current Liabilities					
Trade payables	22	19,551	11,223	12,933	[7,793]
Other payables and accruals	23	12,870	25,805	35,358	[22,947]
Amount due to a shareholder	24	60,596	95,727	—	[—]
Tax liabilities		19,199	—	23,175	[14,205]
		<u>112,216</u>	<u>132,755</u>	<u>71,466</u>	<u>[44,945]</u>
Net Current Assets		<u>56,100</u>	<u>58,349</u>	<u>269,702</u>	<u>[349,570]</u>
Total Assets Less Current Liabilities		148,573	147,304	378,774	[458,199]
Non-current Liability					
Deferred tax liability	25	—	—	7,572	[11,642]
		<u>148,573</u>	<u>147,304</u>	<u>371,202</u>	<u>[446,557]</u>
Capital and Reserves					
Paid-in capital	26	40,415	415	758	[758]
Reserves		108,158	146,889	370,444	[445,799]
Total Equity		<u>148,573</u>	<u>147,304</u>	<u>371,202</u>	<u>[446,557]</u>

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COMBINED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory reserves <i>RMB'000</i>	Accumulated profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2006	40,000	–	15,147	85,833	140,980
Total comprehensive income for the year	–	–	–	62,178	62,178
Issue of shares by a subsidiary	415	–	–	–	415
Transfer to statutory reserves	–	–	9,328	(9,328)	–
Dividends	–	–	–	(55,000)	(55,000)
At 31 December 2006	40,415	–	24,475	83,683	148,573
Total comprehensive income for the year	–	–	–	105,231	105,231
Transfer upon reorganisation (note 26(b))	(40,000)	–	–	–	(40,000)
Transfer to statutory reserves	–	–	6,260	(6,260)	–
Dividends	–	–	–	(66,500)	(66,500)
At 31 December 2007	415	–	30,735	116,154	147,304
Total comprehensive income for the year	–	–	–	136,788	136,788
Issue of shares (note 26(c))	343	86,767	–	–	87,110
Transfer to statutory reserves	–	–	15,447	(15,447)	–
At 31 December 2008	758	86,767	46,182	237,495	371,202
Total comprehensive income for the period	[–]	[–]	[–]	[75,355]	[75,355]
At 30 June 2009	<u>[758]</u>	<u>[86,767]</u>	<u>[46,182]</u>	<u>[312,850]</u>	<u>[446,557]</u>
(Unaudited)					
At 1 January 2008	415	–	30,735	116,154	147,304
Total comprehensive income for the period	–	–	–	60,084	60,084
At 30 June 2008	<u>415</u>	<u>–</u>	<u>30,735</u>	<u>176,238</u>	<u>207,388</u>

In accordance with the relevant laws and regulations of the PRC, the PRC subsidiary is required to provide for PRC statutory reserves, including enterprise expansion fund and general reserve fund, by way of appropriations from their respective statutory net profit (based on the subsidiary’s PRC statutory financial statements) but before dividend distributions.

All appropriations to the funds are made at the discretion of the subsidiary’s board of directors. The board of directors shall decide on the amounts to be appropriated based on the profitability of each subsidiary each year.

The enterprise expansion fund may be used to increase registered capital subject to approval from the relevant PRC authorities. The general reserves fund may be used to offset accumulated losses or increase the registered capital of the subsidiary subject to approval from the relevant PRC authorities.

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COMBINED STATEMENTS OF CASH FLOW

	Year ended 31 December			Six months ended	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
OPERATING ACTIVITIES					
Profit before tax	98,981	138,719	200,910	87,369	[106,562]
Adjustments for:					
Finance costs	2,869	–	–	–	[–]
Interest income	(124)	(99)	(244)	(83)	[(476)]
Depreciation of property, plant and equipment	5,024	4,939	4,791	2,399	[2,397]
Amortisation of prepaid lease payments	92	92	92	46	[46]
Loss on disposal of property, plant and equipment	–	107	–	–	[–]
Operating cash flows before movements in working capital	106,842	143,758	205,549	89,731	[108,529]
(Increase) decrease in inventories	(32,334)	(4,463)	(19,494)	30,650	[40,619]
Decrease (increase) in trade receivables	9,778	(17,366)	(17,724)	(27,551)	[(22,111)]
(Increase) decrease in other receivables, deposits and prepayments	(584)	2	(14)	394	[924]
Increase (decrease) in trade payables	5,530	(8,328)	1,710	(5,198)	[(5,140)]
Increase (decrease) in other payables and accruals	2,226	12,935	9,553	(15,333)	[(12,411)]
Cash generated from operations	91,458	126,538	179,580	72,693	[110,410]
Income tax paid	(30,564)	(52,687)	(33,375)	(12,590)	[(36,107)]
Interest paid	(2,869)	–	–	–	[–]
NET CASH FROM OPERATING ACTIVITIES	58,025	73,851	146,205	60,103	[74,303]

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	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)	
INVESTING ACTIVITIES					
Interest received	124	99	244	83	[476]
Purchase of property, plant and equipment	(8,158)	(220)	(25,000)	(8,000)	[(2,000)]
Deposit paid on acquisition of property, plant and equipment	–	(1,700)	–	–	[–]
Proceeds from disposal of property, plant and equipment	–	300	–	–	[–]
NET CASH USED IN INVESTING ACTIVITIES	<u>(8,034)</u>	<u>(1,521)</u>	<u>(24,756)</u>	<u>(7,917)</u>	<u>[(1,524)]</u>
FINANCING ACTIVITIES					
Proceeds from issue of shares	415	–	–	–	[–]
Advances from a shareholder	5,596	103,131	–	–	[–]
Repayment of advances from a shareholder	(7,000)	(53,000)	(8,617)	(9,000)	[–]
Dividends paid	–	(121,500)	–	–	[–]
Repayment of bank loans	<u>(50,000)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>[–]</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(50,989)</u>	<u>(71,369)</u>	<u>(8,617)</u>	<u>(9,000)</u>	<u>[–]</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(998)	961	112,832	43,186	[72,779]
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	<u>3,021</u>	<u>2,023</u>	<u>2,984</u>	<u>2,984</u>	<u>[115,816]</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by bank balances and cash	<u>2,023</u>	<u>2,984</u>	<u>115,816</u>	<u>46,170</u>	<u>[188,595]</u>

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NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Pursuant to the Corporate Reorganisation, which was completed by establishing the Company, Fullest Power and Rich Treasure as the parent of Tongtian, the Company became the ultimate holding company of the companies now comprising the Group on [Date]. The Group comprising the Company and its subsidiaries resulting from the Corporate Reorganisation is regarded as a continuing entity. All the entities comprising the Group were under the control of Mr. Wong Guangyuan, a director of the Company and the founding number of Tongtian, prior to and after the Corporate Reorganisation.

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flow are prepared as if the current group structure had been in existence throughout the Relevant Periods, or since the respective dates of incorporation of the relevant entity, where this is a shorter period. The combined statements of financial position as at 31 December 2006, 2007, 2008 and 30 June 2009 present the assets and liabilities of the companies now comprising the Group which had been incorporated as at the end of each relevant reporting year/period as if the current group structure had been in existence at the end of those reporting year/period.

The Financial Information is presented in Renminbi (“RMB”), which is the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new or revised Hong Kong Accounting Standards (“HKAS(s)”), Hong Kong Financial Reporting Standards (“HKFRS(s)”), amendments and interpretations (“HK(IFRIC) – Int”) (hereinafter collectively referred to as the “New HKFRSs”) which are effective for the Group’s financial year beginning on 1 January 2009. For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Group has consistently adopted all these New HKFRSs throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following standards, amendments and interpretations that are not yet effective. The Group has not early applied these standards, amendments or interpretations.

HKFRSs (Amendments)	Improvements to HKFRSs 2008 – amendments to HKFRS 5 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 39 (Amendments)	Eligible Hedged Items ³
HKFRS 3 (Revised)	Business Combinations ³
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners ³
HK(IFRIC) – Int 18	Transfer of Assets from Customers ⁴

¹ Effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

³ Effective for annual periods beginning on or after 1 July 2009

⁴ Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group’s ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

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3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with the accounting policies below which conform with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of combination

The combined financial information incorporates the financial information of the companies now comprising the Group.

All intra-group transactions, balances, income and expenses are eliminated on combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business and net of discounts.

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

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Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Impairment losses

At the end of each reporting year/period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as income in profit or loss immediately.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting year/period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of each reporting year/period.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Financial instruments

Financial assets and financial liabilities are recognised on the combined statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group’s financial assets are all classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each of the reporting year/period subsequent to initial recognition, loans and receivables (including trade receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

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Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting year/period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets that are assessed not to be impaired individually, such as trade receivables, are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss where there is objective evidence that the asset is impaired, and is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

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Financial liabilities

Financial liabilities (including trade payables, other payables and accruals and amount due to a shareholder) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the relevant group entities are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged or cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Borrowing costs

All borrowing costs are recognised as and included in finance costs as an expense in the period in which they are incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Research and development expenditure

Expenditure on research activities is recognised as an expense in profit or loss in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from the profit as reported in the combined statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year/period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group’s accounting policies, which are described in note 3, the management has made various estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on past experience, expectations of the future and other information that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting year/period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimate useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining period.

Estimation allowances for inventories

The management estimates the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at the end of each of the reporting year/period and makes allowance on obsolete and slow moving items to write off or write down inventories to their net realisable values. Where the expectation on the net realisable value is lower than the cost, an impairment may arise.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2006, 2007, 2008 and 30 June 2009, the carrying amounts of trade receivables are RMB46,202,000, RMB63,568,000, RMB81,292,000 and RMB103,403,000 respectively.

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5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances.

The capital structure of the Group consists of debts, which includes the amount due to a shareholder as disclosed in note 24, and equity attributable to equity holders of the Company, comprising paid-in capital, reserves and accumulated profits.

The management of the Group reviews the capital structure periodically. The Group considers the cost of capital and risks associated with the capital, and will balance its overall capital structure through payment of dividends, repayment of amount due to a shareholder, issuance of new shares as well as the raising of new debts.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
<i>Financial assets</i>				
Loans and receivables (including cash and cash equivalent)	48,225	66,552	197,108	[291,998]
	<u>48,225</u>	<u>66,552</u>	<u>197,108</u>	<u>[291,998]</u>
<i>Financial liabilities</i>				
Amortised cost	82,951	115,794	18,102	[9,931]
	<u>82,951</u>	<u>115,794</u>	<u>18,102</u>	<u>[9,931]</u>

b. Financial risk management objectives and policies

The Group’s major financial instruments include trade receivables, bank balances, trade payables, other payables and accruals, and amount due to a shareholder. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The risk arising from the Group’s financial instruments are mainly credit risk and liquidity risk. The directors review policies for managing each of these risks and they are summarised below.

Credit risk

As at 31 December 2006, 2007, 2008 and 30 June 2009, the Group’s maximum exposure to credit risk which will cause a financial loss to the 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 statements of financial position.

The management considers the credit risk exposure of the Group is low as the sales are normally settled within 90 days. The 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 of the Company consider that the Group’s credit risk is significantly reduced.

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

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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Liquidity risk

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

The following table details the Group’s contractual maturity for its financial liabilities. The table has been draw up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Repayable on demand <i>RMB’000</i>	3 months or less <i>RMB’000</i>	Total undiscounted cash flows <i>RMB’000</i>	Carrying amounts <i>RMB’000</i>
At 31 December 2006				
Trade payables	–	19,551	19,551	19,551
Other payables	2,804	–	2,804	2,804
Amount due to a shareholder	60,596	–	60,596	60,596
	<u>63,400</u>	<u>19,551</u>	<u>82,951</u>	<u>82,951</u>
At 31 December 2007				
Trade payables	–	11,223	11,223	11,223
Other payables	8,844	–	8,844	8,844
Amount due to a shareholder	95,727	–	95,727	95,727
	<u>104,571</u>	<u>11,223</u>	<u>115,794</u>	<u>115,794</u>
At 31 December 2008				
Trade payables	–	12,933	12,933	12,933
Other payables	5,169	–	5,169	5,169
	<u>5,169</u>	<u>12,933</u>	<u>18,102</u>	<u>18,102</u>
At 30 June 2009				
Trade payables	[–]	[7,793]	[7,793]	[7,793]
Other payables	[2,138]	[–]	[2,138]	[2,138]
	<u>[2,138]</u>	<u>[7,793]</u>	<u>[9,931]</u>	<u>[9,931]</u>

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c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as inputs.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair values.

7. REVENUE

Revenue represents the net amounts received and receivable for goods sold less returns and discounts.

8. SEGMENT INFORMATION

The Group is principally engaged in the business of manufacturing and sales of red wine products.

The Group has five reportable segments based on different geographical zones in the PRC: North-East Region, Northern Region, Eastern Region, South-Central Region and South-West Region.

- North-East Region refers to north-east region of PRC and includes the provinces of Liaoning, Jilin, and Heilongjiang.
- Northern Region refers to the northern region of PRC and includes provinces of Hebei, Shaanxi, Inner Mongolia, Shanxi and city of Beijing.
- Eastern Region refers to the eastern region of PRC and includes provinces of Jiangsu, Zhejiang, Anhui, Fujian, Shandong and city of Shanghai.
- South-Central Region refers to the south-central region of PRC and includes provinces of Henan, Hubei, Hunan, Guangdong and Hainan.
- South-West Region refers to the south-west region of PRC and includes provinces of Sichuan, Yunnan and Guizhou and city of Chongqing.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

No major customers information is provided as there is no revenue from transactions with a single external customer amounting to 10 per cent or more of the Group’s revenue.

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Information about reportable segment revenues, profit, assets and liabilities

	North- East Region	Northern Region	Eastern Region	South- Central Region	South- West Region	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
For the year ended 31 December 2006						
Revenue from external customers	<u>38,588</u>	<u>60,992</u>	<u>89,780</u>	<u>33,298</u>	<u>59,165</u>	<u>281,823</u>
Reportable segment profit	<u>17,190</u>	<u>28,085</u>	<u>39,190</u>	<u>15,348</u>	<u>24,298</u>	<u>124,111</u>
As at 31 December 2006						
Reportable segment assets	<u>4,099</u>	<u>10,933</u>	<u>10,793</u>	<u>10,010</u>	<u>10,367</u>	<u>46,202</u>
Reportable segment liabilities	<u>612</u>	<u>1,883</u>	<u>3,160</u>	<u>2,011</u>	<u>2,390</u>	<u>10,056</u>
For the year ended 31 December 2007						
Revenue from external customers	<u>58,403</u>	<u>71,715</u>	<u>136,063</u>	<u>42,753</u>	<u>82,636</u>	<u>391,570</u>
Reportable segment profit	<u>28,985</u>	<u>33,663</u>	<u>65,412</u>	<u>19,570</u>	<u>38,408</u>	<u>186,038</u>
As at 31 December 2007						
Reportable segment assets	<u>11,339</u>	<u>8,353</u>	<u>23,323</u>	<u>4,647</u>	<u>15,906</u>	<u>63,568</u>
Reportable segment liabilities	<u>3,723</u>	<u>1,662</u>	<u>7,343</u>	<u>1,629</u>	<u>3,324</u>	<u>17,681</u>
For the year ended 31 December 2008						
Revenue from external customers	<u>76,479</u>	<u>89,535</u>	<u>166,945</u>	<u>58,544</u>	<u>95,205</u>	<u>486,708</u>
Reportable segment profit	<u>41,275</u>	<u>46,256</u>	<u>83,734</u>	<u>28,795</u>	<u>45,393</u>	<u>245,453</u>

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	North- East Region <i>RMB'000</i>	Northern Region <i>RMB'000</i>	Eastern Region <i>RMB'000</i>	South- Central Region <i>RMB'000</i>	South- West Region <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2008						
Reportable segment assets	9,183	8,351	30,147	11,191	22,420	81,292
Reportable segment liabilities	3,601	4,162	7,746	4,454	2,686	22,649
For the six months ended 30 June 2008						
Revenue from external customers (unaudited)	27,579	44,239	67,637	27,828	38,745	206,028
Reportable segment profit (unaudited)	14,718	22,823	33,188	13,995	18,745	103,469
For the six months ended 30 June 2009						
Revenue from external customers	[33,054]	[48,251]	[85,538]	[29,591]	[46,281]	[242,715]
Reportable segment profit	[17,539]	[24,632]	[43,032]	[14,054]	[21,755]	[121,012]
As at 30 June 2009						
Reportable segment assets	[15,277]	[15,642]	[35,117]	[14,079]	[23,288]	[103,403]
Reportable segment liabilities	[1,614]	[2,357]	[4,177]	[2,260]	[1,445]	[11,853]

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Reconciliations of reportable segment revenue, profit, assets and liabilities

Revenue

No reconciliation of reportable segment revenues is provided as the total revenues for reportable segments is the same as the Group’s revenue.

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Profit					
Total profit for reportable segments	124,111	186,038	245,453	103,469	[121,012]
Unallocated amounts:					
Other corporate income	124	99	244	83	[476]
Other corporate expenses	(25,254)	(47,418)	(44,787)	(16,183)	[(14,926)]
Profit before tax	<u>98,981</u>	<u>138,719</u>	<u>200,910</u>	<u>87,369</u>	<u>[106,562]</u>

Segment profit represented the profit earned by each segment without allocation of depreciation, selling expense and other corporate expenses.

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Assets				
Total assets for reportable segments	46,202	63,568	81,292	[103,403]
Other unallocated amounts	<u>214,587</u>	<u>216,491</u>	<u>368,948</u>	<u>[399,741]</u>
Group’s assets	<u>260,789</u>	<u>280,059</u>	<u>450,240</u>	<u>[503,144]</u>

Reportable segment assets exclude property, plant and equipment, prepaid lease payments, inventories and bank balances and cash which are commonly used for all segments.

	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
	RMB’000	RMB’000	RMB’000	RMB’000
Liabilities				
Total liabilities for reportable segments	10,056	17,681	22,649	[11,854]
Other unallocated amounts	<u>102,160</u>	<u>115,074</u>	<u>56,389</u>	<u>[44,733]</u>
Group’s liabilities	<u>112,216</u>	<u>132,755</u>	<u>79,038</u>	<u>[56,587]</u>

Reportable segment liabilities exclude trade payables, amount due to a shareholder, tax liabilities and deferred tax liability which cannot be allocated to the segment on a reasonable basis.

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9. OTHER INCOME

Other income represents the interest income from bank deposits.

10. FINANCE COSTS

For the year ended 31 December 2006, the finance costs solely represent the interest expense on bank borrowings which was wholly repaid during that year.

11. INCOME TAX EXPENSE

	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)	
The charge comprises:					
Current tax					
PRC Enterprise Income tax	36,803	33,488	56,550	24,085	[27,137]
Deferred tax (<i>note 25</i>)					
Current year/period	—	—	7,572	3,200	[4,070]
	<u>36,803</u>	<u>33,488</u>	<u>64,122</u>	<u>27,285</u>	<u>[31,207]</u>

Provision for the PRC Enterprise Income Tax for the Relevant Periods was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws applicable to Tongtian.

No provision for Hong Kong Profits Tax has been made as the Group’s income neither arises in, nor is derived from, Hong Kong.

On 16 March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income tax (the “New Law”) by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 33% to 25% for the PRC subsidiary from 1 January 2008.

The Company’s PRC subsidiary was approved to be converted into a wholly foreign-owned enterprise on 5 September 2006 and obtained its business license on 24 April 2007 and was entitled to tax exemption from the PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter to a 50% relief from the PRC Enterprise Income Tax for the following three years. Pursuant to Article 57 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises with Foreign Investment Enterprises issued on 26 December 2007 and effective from 1 January 2008, the tax holidays and concessions are only eligible to an entity if the entity has been registered as foreign owned enterprises on or before March 2007. As the Company’s PRC subsidiary obtained its business license on 24 April 2007, it is therefore not entitled to any tax holiday from 1 January 2008.

According to a joint circular of the Ministry of Finance and State Administration of Taxation – Cai Shui 2008 No. 1, dividend distributed out of the profits generated since 1 January 2008 shall be subject to PRC Enterprise Income Tax which is withheld by the PRC entity. Deferred tax expense of RMB7,572,000, RMB3,200,000 (unaudited) and RMB[●] on the undistributed earnings of Tongtian has been charged to the combined statements of comprehensive income for year ended 31 December 2008 and six months ended 30 June 2008 and 30 June 2009 respectively.

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Taxation for the year/period can be reconciled to the profit before tax per the combined statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2006 RMB’000	2007 RMB’000	2008 RMB’000	2008 RMB’000 (unaudited)	2009 RMB’000
Profit before tax	<u>98,981</u>	<u>138,719</u>	<u>200,910</u>	<u>87,369</u>	<u>[106,562]</u>
Tax charge at income tax rate of 33% for 2006 and 2007 and 25% for 2008 [and 2009]	32,664	45,777	50,228	21,842	[26,641]
Tax effect of income not taxable for tax purpose	–	(2)	–	–	[–]
Tax effect of expenses not deductible for tax purpose	4,139	7,088	6,322	2,243	[496]
Effect of tax exemptions granted to PRC subsidiary	–	(19,375)	–	–	[–]
Deferred tax on undistributed earnings of PRC subsidiary	<u>–</u>	<u>–</u>	<u>7,572</u>	<u>3,200</u>	<u>[4,070]</u>
Taxation for the year/period	<u>36,803</u>	<u>33,488</u>	<u>64,122</u>	<u>27,285</u>	<u>[31,207]</u>

12. PROFIT FOR THE YEAR/PERIOD AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD

	Year ended 31 December			Six months ended 30 June	
	2006 RMB’000	2007 RMB’000	2008 RMB’000	2008 RMB’000 (unaudited)	2009 RMB’000
Profit for the year/period and total comprehensive income for the year/period has been arrived at after charging:					
Auditors’ remuneration	100	100	120	60	[60]
Cost of inventories recognised as an expense	107,965	139,104	161,098	68,830	[81,057]
Depreciation of property, plant and equipment	5,024	4,939	4,791	2,399	[2,397]
Amortisation of prepaid lease payments	92	92	92	46	[46]
Research and development costs	850	1,150	1,180	–	[–]
Foreign exchange loss	–	13	57	57	[–]
Loss on disposal of property, plant and equipment	–	107	–	–	[–]
Staff costs, including directors’ remuneration					
– salaries and other benefits costs	2,297	2,367	4,553	1,999	[2,177]
– sales commission	6,505	9,055	11,246	4,741	[5,602]
– retirement benefits scheme contribution	433	425	642	311	[314]
Professional fees (included in other expenses)	<u>–</u>	<u>–</u>	<u>13,012</u>	<u>[–]</u>	<u>[1,573]</u>

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13. DIRECTORS’ EMOLUMENTS

Details of the emoluments paid and payable to the three directors of the Company for the Relevant Periods are as follows:

	Salary <i>RMB'000</i>	Retirement benefits scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
For the year ended 31 December 2006			
Mr. Wang Guangyuan	24	6	30
Mr. Zhang He Bin	23	6	29
Ms. Wang Lijuan	21	4	25
	<u>68</u>	<u>16</u>	<u>84</u>
For the year ended 31 December 2007			
Mr. Wang Guangyuan	25	5	30
Mr. Zhang He Bin	24	5	29
Ms. Wang Lijuan	21	4	25
	<u>70</u>	<u>14</u>	<u>84</u>
For the year ended 31 December 2008			
Mr. Wang Guangyuan	35	7	42
Mr. Zhang He Bin	31	6	37
Ms. Wang Lijuan	26	6	32
	<u>92</u>	<u>19</u>	<u>111</u>
For the six months ended 30 June 2008 (unaudited)			
Mr. Wang Guangyuan	17	4	21
Mr. Zhang He Bin	15	3	18
Ms. Wang Lijuan	13	3	16
	<u>45</u>	<u>10</u>	<u>55</u>
For the six months ended 30 June 2009			
Mr. Wang Guangyuan	[16]	[3]	[19]
Mr. Zhang He Bin	[15]	[3]	[18]
Ms. Wang Lijuan	[12]	[3]	[15]
	<u>[43]</u>	<u>[9]</u>	<u>[52]</u>

None of the directors waived any emoluments in the Relevant Periods.

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14. EMPLOYEES’ EMOLUMENTS

The five individuals with the highest emoluments in the Group did not include any director of the Company for the Relevant Periods. The emoluments of the five highest paid individuals were as follows:

	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)	
Performance related incentive payments	2,977	3,745	4,683	2,124	[2,388]
Retirement benefits scheme contribution	40	54	65	32	[87]
	<u>3,017</u>	<u>3,799</u>	<u>4,748</u>	<u>2,156</u>	<u>[2,475]</u>

Their emoluments were within the following bands:

	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)	
Less than RMB980,000 (equivalent to HK\$1,000,000)	5	4	3	5	[5]
RMB980,001 to RMB1,320,000 (equivalent to HK\$1,000,000 to HK\$1,500,000)	—	1	2	—	[—]
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>[5]</u>

During the Relevant Period, no emolument was paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

15. DIVIDENDS

	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)	
Dividends recognised as distribution during the year	<u>55,000</u>	<u>66,500</u>	<u>—</u>	<u>—</u>	<u>[—]</u>

During the year ended December 31, 2006, Tongtian declared dividend of RMB55,000,000 to its then shareholders. The dividend payable was transferred to and included in the amount due to a shareholder at 31 December 2006. The amount was settled during the year ended 31 December 2007.

During the year ended December 31, 2007, Tongtian declared and paid dividend of RMB66,500,000 to its then shareholders.

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16. EARNINGS PER SHARE

The calculations of basic earnings per share for the Relevant Periods are based on the profit for each of the years ended 31 December 2006, 31 December 2007 and 31 December 2008 and for the six months ended 30 June 2008 and 30 June 2009 of RMB62,178,000, RMB105,231,000, RMB136,788,000 and RMB60,084,000 (unaudited) and [RMB75,355,000] respectively and on the basis of [●] ordinary shares issued pursuant to the Group Reorganisation that is deemed to have become effective on 1 January 2006.

No diluted earnings per share has been presented for the Relevant Periods as there is no outstanding potential ordinary share at each balance sheet date.

17. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress <i>RMB'000</i>	Building <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
COST						
At 1 January 2006	–	22,998	77,688	97	1,172	101,955
Additions	–	–	278	10	–	288
At 31 December 2006	–	22,998	77,966	107	1,172	102,243
Additions	–	–	220	–	–	220
Disposals	–	–	(602)	–	–	(602)
At 31 December 2007	–	22,998	77,584	107	1,172	101,861
Additions	26,700	–	–	–	–	26,700
At 31 December 2008	26,700	22,998	77,584	107	1,172	128,561
Additions	2,000	–	–	–	–	2,000
At 30 June 2009	28,700	22,998	77,584	107	1,172	130,561
ACCUMULATED DEPRECIATION						
At 1 January 2006	–	1,906	6,141	60	764	8,871
Provided for the year	–	874	3,909	20	221	5,024
At 31 December 2006	–	2,780	10,050	80	985	13,895
Provided for the year	–	874	3,922	10	133	4,939
Eliminated on disposals	–	–	(195)	–	–	(195)
At 31 December 2007	–	3,654	13,777	90	1,118	18,639
Provided for the year	–	874	3,912	5	–	4,791
At 31 December 2008	–	4,528	17,689	95	1,118	23,430
Provided for the period	[–]	[437]	[1,957]	[3]	[–]	[2,397]
At 30 June 2009	[–]	[4,965]	[19,646]	[98]	[1,118]	[25,827]
CARRYING VALUES						
At 31 December 2006	–	20,218	67,916	27	187	88,348
At 31 December 2007	–	19,344	63,807	17	54	83,222
At 31 December 2008	26,700	18,470	59,895	12	54	105,131
At 30 June 2009	[28,700]	[18,033]	[57,938]	[9]	[54]	[104,734]

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The above items of property, plant and equipment except for construction in progress are depreciated on a straight-line basis over their estimated useful lives and after taking into account of their estimated residual value at the following rates per annum:

Building	4%
Plant and machinery	5% – 10%
Office equipment	20%
Motor vehicles	20%

The building is situated in the PRC and is held under long lease.

18. PREPAID LEASE PAYMENTS

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Leasehold land in the PRC				
Long lease	4,217	4,125	4,033	[3,987]
	<u>4,217</u>	<u>4,125</u>	<u>4,033</u>	<u>[3,987]</u>
Analysed for reporting purposes as:				
Non-current asset	4,125	4,033	3,941	[3,895]
Current asset	92	92	92	[92]
	<u>4,217</u>	<u>4,125</u>	<u>4,033</u>	<u>[3,987]</u>

19. INVENTORIES

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Raw material	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]
	<u>119,036</u>	<u>123,499</u>	<u>142,993</u>	<u>[102,374]</u>

20. TRADE RECEIVABLES

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	46,202	63,568	81,292	[103,403]
	<u>46,202</u>	<u>63,568</u>	<u>81,292</u>	<u>[103,403]</u>

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The Group allows a credit period of 90 days to its trade customers except for the new customers newly accepted which payment is made when goods are delivered. The following is an aged analysis of trade receivables at the reporting date:

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
0 – 30 days	36,077	51,202	77,558	[44,378]
31 – 60 days	9,197	12,366	3,734	[44,121]
61 – 90 days	928	–	–	[14,904]
	<u>46,202</u>	<u>63,568</u>	<u>81,292</u>	<u>[103,403]</u>

Before accepting any new customer, the Group assesses the potential customer’s credit quality and defines credit limits by customer.

No trade receivable balance is past due at the end of each of the respective reporting year/period.

21. BANK BALANCES AND CASH

Bank balances carry interest at market rates with average market rates of 0.79%, 0.81%, 0.57% and 0.32% per annum, for the year ended 31 December 2006, 2007, 2008 and six months ended 30 June 2009 respectively.

22. TRADE PAYABLES

The following is an aged analysis of trade payables at the end of each of the respective reporting year/period:

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
0 – 30 days	7,316	671	7,548	[2,232]
31 – 60 days	6,683	3,049	5,385	[4,347]
61 – 90 days	5,552	7,503	–	[1,214]
	<u>19,551</u>	<u>11,223</u>	<u>12,933</u>	<u>[7,793]</u>

The average credit period on purchase of material other than grapes is 90 days and cash on delivery on purchase of grapes.

23. OTHER PAYABLES AND ACCRUALS

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Other tax payable	8,743	15,279	18,893	[9,920]
Accrued expenses	1,323	1,682	11,296	[10,889]
Other creditors	2,804	8,844	5,169	[2,138]
	<u>12,870</u>	<u>25,805</u>	<u>35,358</u>	<u>[22,947]</u>

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24. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder, which is denominated in RMB, is unsecured, interest-free and repayable on demand. Included in the amount due to a shareholder as at 31 December 2006 was dividend payable of RMB55,000,000 declared during the year ended 31 December 2006. The amount was settled during the year ended 31 December 2007.

25. DEFERRED TAX LIABILITY

	Undistributed earnings of a PRC subsidiary RMB’000
At 1 January 2006, 31 December 2006 and 31 December 2007	–
Charge for the year (<i>note 11</i>)	<u>7,572</u>
At 31 December 2008	7,572
Charge for the period (<i>note 11</i>)	<u>[4,070]</u>
At 30 June 2009	<u><u>[11,642]</u></u>

26. PAID-IN CAPITAL

- (a) Paid-in capital in the combined statement of financial position as at 31 December 2006 represents the aggregate of the issued share capital of Fullest Power comprising 50,000 shares of US\$1 each (equivalent to RMB415,000) and paid-up capital of Tongtian of RMB40,000,000.

Paid-in capital in the combined statement of financial position as at 31 December 2007 represents the issued share capital of Fullest Power comprising 50,000 shares of US\$1 each (equivalent to RMB415,000).

Paid-in capital in the combined statement of financial position as at 31 December 2008 and 30 June 2009 represents the issued share capital of Fullest Power comprising 100,000 shares of US\$1 each (equivalent to RMB758,000).

- (b) In 2006, the founding members of Tongtian established Fullest Power with a view to transfer all equity interest in Tongtian to Fullest Power and Fullest Power becoming the holding company of Tongtian.

Pursuant to written resolutions of the board of directors of Fullest Power passed on 21 August 2006, Fullest Power entered into an equity transfer agreement with the founding members of Tongtian and, where relevant, their respective nominees to acquire the entire equity interests of Tongtian for a consideration of RMB87,110,000. The acquisition of Tongtian was financed by the shareholders of Fullest Power. The injection of additional paid-up capital to Tongtian and the equity interest transfer was completed on 30 September 2007 and Fullest Power became the holding company of Tongtian.

- (c) Pursuant to written resolutions of the board of directors of Fullest Power passed on 28 November 2008, the amount due to a shareholder of RMB87,110,000 was capitalised by Fullest Power by the allotment of an aggregate of 50,000 shares of US\$1 each in Fullest Power to the existing shareholders in proportion to their shareholding.

27. MAJOR NON-CASH TRANSACTIONS

The Group’s major non-cash transactions are disclosed in notes 15 and 26(c) above.

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28. CONTINGENT LIABILITIES

Prior to October 2008, Cabernet Sauvignon wine products were produced by Tongtian 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 Bureau of the State Administration for Industry and Commerce (“SAIC”) (“Trademark Bureau”) (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 ceased the sale of its Cabernet Sauvignon products under the “通天解百納” name in October 2008, and commenced repackaging its Cabernet Sauvignon wine products using a different label in Chinese characters. Should the Yantai Changyu group of companies commence legal proceedings against Tongtian 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’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.

29. OPERATING LEASES

The Group as lessee

	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)	
Minimum lease payments paid under leases during the year/period:					
Plant and machinery	1,150	1,850	2,010	925	[1,005]
Premises for office and warehouse	—	234	395	197	[193]
	<u>1,150</u>	<u>2,084</u>	<u>2,405</u>	<u>1,122</u>	<u>[1,198]</u>

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At the end of each of the reporting year/period, the future lease payments under non-cancellable operating leases in respect of plant and machinery and rented premises which fall due as follows:

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Plant and machinery				
Within one year	–	617	1,894	[2,010]
In the second to fifth year inclusive	–	4,933	1,522	[503]
	<u>–</u>	<u>5,550</u>	<u>3,416</u>	<u>[2,513]</u>
Rented premises for office and warehouse				
Within one year	–	267	251	[54]
In the second to fifth year inclusive	–	120	–	[–]
	<u>–</u>	<u>387</u>	<u>251</u>	<u>[54]</u>

Operating lease payments represent rentals paid or payable by the Group for certain of its office premises and plant and equipment.

30. CAPITAL COMMITMENTS

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of construction of new plant contracted for but not provided in the Financial Information	–	46,335	21,355	[19,335]

31. RETIREMENT BENEFITS SCHEMES

The employees of the Company’s subsidiary established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. The subsidiary is required to contribute certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specific contributions.

The Group made contributions to the retirement benefits schemes of RMB433,000, RMB425,000, RMB642,000 and RMB311,000 (unaudited) and [RMB334,000] for the year ended 31 December 2006, 2007, 2008 and six months ended 30 June 2008 and 30 June 2009 respectively.

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32. RELATED PARTIES TRANSACTIONS

Compensation of key management personnel

The remuneration of directors and other members of key management during the Relevant Periods was as follows:

	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)	
Short-term benefits	131	120	144	72	[81]
Post-employment benefits	28	25	30	15	[17]
	<u>159</u>	<u>145</u>	<u>174</u>	<u>87</u>	<u>[98]</u>

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

B. NET ASSETS OF THE COMPANY

The Company was incorporated on 21 August 2008. As at 31 December 2008 and 30 June 2009, the Company has no asset and liability. Pursuant to the Corporate Reorganisation, the Company became the holding company of the Group on [Date]. Had the Corporate Reorganisation been completed on 30 June 2009, the net assets of the Company as at 30 June 2009 would have been approximately RMB[●], representing its interests in subsidiaries.

C. DIRECTORS’ REMUNERATION

Under the arrangement currently in force, the aggregate amount of remunerations of the directors of the Company payable for the year ending 31 December 2009 is estimated to be RMB[●] (equivalent to approximately HK\$[●]).

D. ULTIMATE HOLDING COMPANY

At the date of this report, the directors of the Company consider Up Mount Limited, a company incorporated in the BVI, to be the ultimate holding company of the Company which is under the control of Mr. Wong Guangyuan.

APPENDIX I**ACCOUNTANTS’ REPORT**

E. SUBSEQUENT EVENTS

[●]

F. SUBSEQUENT FINANCIAL STATEMENTS

[No audited financial statements of any of the companies in the Group have been prepared in respect of any period subsequent to 30 June 2009.]

Yours faithfully
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

APPENDIX IV

PROPERTY VALUATION

The following is the text of a letter, summary of values and valuation certificate prepared for the purpose of incorporation in this document received from Savills Valuation and Professional Services Limited, an independent property valuer, in connection with their opinion of values of the property interests of the Group as at 30 September 2009.



The Directors
China Tontine Wines Group Limited
No. 2199 Tuanjie Road
Tonghua County
Jilin Province
PRC

Savills Valuation and
Professional Services Limited
23/F Two Exchange Square
Central, Hong Kong

T: (852) 2801 6100
F: (852) 2530 0756

EA Licence: C-023750
savills.com

[●] 2009

Dear Sirs,

In accordance with your instructions for us to value the properties situated in the People's Republic of China (the “PRC”) and Hong Kong in which China Tontine Wines Group Limited (the “Company”) and its subsidiaries (hereinafter referred to as the “Group”) have interests, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such property interests as at 30 September 2009 for the purpose of incorporation in this document.

Our valuation of each of the properties is our opinion of its market value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

APPENDIX IV

PROPERTY VALUATION

In the course of our valuation of the properties in the PRC, we have assumed that, unless otherwise stated, transferable land use rights in respect of the properties for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have also assumed that, unless otherwise stated, the owners of the properties have proper legal titles and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the terms as granted.

In valuing the property interests in Group I, which are held for owner-occupation by the Group in the PRC, due to the nature of the buildings and structures that were constructed, there are no readily identifiable market comparables, and the buildings and structures cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of their depreciated replacement costs. We would define “depreciated replacement cost” to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings and structures, including professional fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on market sales.

In valuing the property interest in Group II, which are held under development by the Group in the PRC, we have valued them on the basis that they will be developed and completed in accordance with the Group’s latest development proposals provided to us and by depreciated replacement cost approach with regard to their prevailing cost levels and status of construction as at the date of valuation. We have also assumed that all consents, approvals and licences from the relevant government authorities for the development have been granted without any onerous conditions or undue delay.

In valuing the property interests in Groups III and IV, which are rented by the Group in the PRC and Hong Kong, we have assigned no commercial values to these properties, due either to the short-term nature of the leases or the prohibition against assignments or sub-lettings or otherwise due to the lack of substantial profit rents.

We have been provided with extracts of documents in relation to the titles to the properties. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given by the Group and its PRC legal adviser, Jingtian & Gongcheng Attorneys at Law, on PRC laws, regarding the titles to the properties. We have also accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, site and floor areas and all relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on the information provided to us and are therefore only approximations. No on-site measurements have been taken. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view.

APPENDIX IV

PROPERTY VALUATION

We have inspected the exterior and, where possible the interior of the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other defects. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In preparing our valuation report, we have complied with the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Unless otherwise stated, all money amounts are stated in Renminbi.

We enclose herewith our summary of values and valuation certificate.

Yours faithfully,
For and on behalf of
Savills Valuation and Professional Services Limited

Charles C K Chan
MSc FRICS FHKIS MCIArb RPS(GP)
Managing Director

Note: Charles C K Chan is a qualified valuer and has about 25 years' experience in the valuation of properties in Hong Kong and has about 20 years' experience in the valuation of properties in the PRC.

APPENDIX IV

PROPERTY VALUATION

SUMMARY OF VALUES

No.	Property	Capital value in existing state as at 30 September 2009
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Group I – Property interests held for owner-occupation by the Group in the PRC

1.	An industrial complex located at Changchuan Village, Qingshi Town, Tonghua Jian City, Jilin Province, the PRC	RMB1,910,000
2.	An industrial complex located at No. 2199 Tuan Jie Road, Kuaidamao Town, Tonghua County, Tonghua City, Jilin Province, the PRC	RMB33,700,000

<i>Sub-total:</i>		<u>RMB35,610,000</u>

Group II – Property interest held under development by the Group in the PRC

3.	A workshop and composite building located at No. 2199 Tuan Jie Road, Kuaidamao Town, Tonghua County, Tonghua City, Jilin Province, the PRC	RMB24,360,000

<i>Sub-total:</i>		<u>RMB24,360,000</u>

APPENDIX IV

PROPERTY VALUATION

No. Property	Capital value in existing state as at 30 September 2009
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Group III – Property interests rented by the Group in the PRC

4. Rooms 2003, 2005 and 2006, Level 20, Tower C, President Building, No. 69 Heping Bei Daji, Heping District, Shenyang City, Liaoning Province, the PRC	No commercial value
5. A warehouse located at Dong'an Village, Kuaidamao Town, Tonghua County, Tonghua City, Jilin Province, the PRC	No commercial value

<i>Sub-total:</i>	Nil
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Group IV – Property interest rented by the Group in Hong Kong

6. Unit 3612 on 36/F, West Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central Sheung Wan, Hong Kong	No commercial value
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<i>Sub-total:</i>	Nil
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Grand total	RMB59,970,000
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APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

Group I – Property interests held for owner-occupation by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2009
1.	An industrial complex located at Changchuan Village, Qingshi Town, Tonghua, Jian City, Jilin Province, the PRC	The property comprises a parcel of land with a site area of approximately 6,555.50 sq.m. (70,563 sq.ft.) on which two buildings and structures completed in 1999 are erected. The buildings comprise a single-storey warehouse and a single-storey office building with a total gross floor area of approximately 752.00 sq.m. (8,095 sq.ft.). The land use rights of the property have been granted for a term expiring on 18 November 2057 for industrial uses.	The property is occupied by the Group as office and warehouse.	RMB1,910,000

Notes:

- Pursuant to the State-owned Land Use Rights Certificate Ji Guo Yong (2007) No. 058210172 issued by the Jian Municipal People’s Government on 19 November 2007, the land use rights of the property with a site area of approximately 6,555.50 sq.m. have been granted to Tonghua Tongtian Winery Co., Ltd (“Tongtian Winery”), an indirect wholly-owned subsidiary of the Company, for a term expiring on 18 November 2057 for industrial uses.
- Pursuant to the Building Ownership Certificate Ji Fang Quan Zheng Quan Zi Nos. 00028520 and 00028521 issued on 15 November 2007, the building ownership of the property with a total gross floor area of approximately 752.00 sq.m. is vested in Tongtian Winery for office and warehouse uses.
- We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal adviser, Jingtian & Gongcheng, which contains, inter-alia, the following information:
 - the land use rights and the building ownership of the property are legally held by Tongtian Winery;
 - Tongtian Winery is entitled to use, transfer, lease or mortgage the land use rights and the buildings of the property;
 - Tonghua Winery has fully paid the land premium; and
 - the property is free from any mortgages, charges, liens or any form of securities.

APPENDIX IV

PROPERTY VALUATION

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2009																		
2.	An industrial complex located at No. 2199 Tuan Jie Road, Kuaidamao Town, Tonghua County, Tonghua City, Jilin Province, the PRC	The property comprises a parcel of land with a site area of approximately 58,343.40 sq.m. (628,008 sq.ft.) on which 9 buildings and structures completed in 2003 are erected. The buildings comprise a 5-storey office building, a 2-storey warehouse building and seven blocks of single-storey industrial and ancillary buildings with a total gross floor area of approximately 12,038.76 sq.m. (129,586 sq.ft.), the breakdown of which is as follows: <table> <tr> <th colspan="3">Approximate gross floor area</th> </tr> <tr> <th></th> <th><i>sq.m.</i></th> <th><i>sq.ft.</i></th> </tr> <tr> <td>Office</td> <td>5,438.28</td> <td>58,538</td> </tr> <tr> <td>Workshop</td> <td>6,094.29</td> <td>65,599</td> </tr> <tr> <td>Ancillary facilities</td> <td>506.19</td> <td>5,449</td> </tr> <tr> <td>Total:</td> <td>12,038.76</td> <td>129,586</td> </tr> </table> The land use rights of the property have been granted for a term expiring on 8 October 2052 for industrial uses.	Approximate gross floor area				<i>sq.m.</i>	<i>sq.ft.</i>	Office	5,438.28	58,538	Workshop	6,094.29	65,599	Ancillary facilities	506.19	5,449	Total:	12,038.76	129,586	The property is occupied by the Group as workshop, warehouse, office and ancillary facilities.	RMB33,700,000
Approximate gross floor area																						
	<i>sq.m.</i>	<i>sq.ft.</i>																				
Office	5,438.28	58,538																				
Workshop	6,094.29	65,599																				
Ancillary facilities	506.19	5,449																				
Total:	12,038.76	129,586																				

Notes:

- Pursuant to the State-owned Land Use Rights Certificate Tong Guo Yong (2007) Zi No. 052112359 issued by Tonghua County People’s Government on 4 December 2007, the land use rights of the property with a site area of approximately 58,343.40 sq.m., have been granted to Tongtian Winery, an indirect wholly-owned subsidiary of the Company, for a term expiring on 8 October 2052 for industrial uses.

APPENDIX IV

PROPERTY VALUATION

2. Pursuant to the 9 Building Ownership Certificates issued by Tonghua County People’s Government, the building ownership of the property with a total gross floor area of approximately 12,038.76 sq.m. is vested in Tongtian Winery. Details of the said certificates are shown as below:

Building Ownership Certificate No.	Use	Number of Storey	Approximate Gross Floor Area (sq.m.)
Fang Quan Zheng Zi No. 0000019174	Office	5	5,438.28
Fang Quan Zheng Zi No. 0000019175	Warehouse	2	1,386.72
Fang Quan Zheng Zi No. 0000019176	Industrial	1	2,590.83
Fang Quan Zheng Zi No. 0000019177	Industrial	1	545.86
Fang Quan Zheng Zi No. 0000019178	Ancillary	1	340.40
Fang Quan Zheng Zi No. 0000019179	Industrial	3	1,570.88
Fang Quan Zheng Zi No. 0000019180	Ancillary	1	64.89
Fang Quan Zheng Zi No. 0000019181	Ancillary	1	40.84
Fang Quan Zheng Zi No. 0000019182	Ancillary	1	60.06
Total:			12,038.76

3. We have been provided with a legal opinion on the title to the property issued by the Group’s legal adviser, Jingtian & Gongcheng, which contains, inter-alia, the following information:
- (i) the land use rights and the building ownership of the property are legally held by Tongtian Winery;
 - (ii) Tongtian Winery is entitled to use, transfer, lease or mortgage the land use rights and the buildings of the property;
 - (iii) Tonghua Winery has fully paid the land premium; and
 - (iv) the property is free from any mortgages, charges, liens or any form of securities.

APPENDIX IV

PROPERTY VALUATION

Group II – Property interest held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2009
3.	A workshop and a composite building located at No. 2199 Tuan Jie Road, Kuaidamao Town, Tonghua County, Tonghua City, Jilin Province, the PRC	The property comprises a parcel of land with a site area of approximately 58,343.40 sq.m. (628,008 sq.ft.) on which two buildings are being constructed. Upon completion, the property will comprise a 2-storey workshop and a 5-storey composite building with a total planned gross floor area of approximately 17,169.00 sq.m. (184,807 sq.ft.). The proposed development is scheduled to be completed by 2009. The land use rights of the property have been granted for a term expiring 8 October 2052 for industrial uses.	The property is under construction.	RMB24,360,000

Notes:

- Pursuant to the State-owned Land Use Rights Certificate Tong Guo Yong (2007) Zi No. 052112359 issued by Tonghua County People's Government on 4 December 2007, the land use rights of the property with a site area of approximately 58,343.40 sq.m., have been granted to Tongtian Winery, an indirect wholly-owned subsidiary of the Company, for a term expiring on 8 October 2052 for industrial uses.
- Pursuant to the Construction Land Planning Permit No. 2002-02 issued by Tonghua County Construction Bureau on 10 March 2002, the construction works of the property with a site area of approximately 58,343.40 sq.m. have been approved for construction on the land of the property.
- Pursuant to the Construction Works Planning Permit No. 2007-27 issued by Tonghua County Construction Bureau on 25 August 2007, the construction project with a construction scale of approximately 17,169.00 sq.m. is in compliance with the requirements of urban planning and is approved for construction.
- Pursuant to the Construction Works Commencement Permit No. 220521200709280201 issued by Tonghua County Construction Bureau on 28 September 2007, the construction works of the property with a construction scale of approximately 17,169.00 sq.m. have been permitted to commence.
- As advised by the Group, the estimated total construction cost for the completion of the proposed development is approximately RMB48,035,210 in which RMB28,700,000 was spent as at the date of valuation. We have taken into account the said amounts in our valuation.
- In our opinion, the capital value of the proposed development as if completed as at 30 September 2009 is RMB48,035,000.
- In the course of our valuation, the underlying land with a site area of approximately 58,343.40 sq.m. has been valued in Property No. 2, thus, we have excluded the valuation of the land in this property.

APPENDIX IV

PROPERTY VALUATION

8. We have been provided with a legal opinion on the title to the property issued by the Group’s PRC legal adviser, Jingtian & Gongcheng, which contains, inter-alia, the following information:
- (i) the land use rights of the property are legally held by Tongtian Winery;
 - (ii) Tongtian Winery is entitled to use, transfer, lease or mortgage the land use rights of the property;
 - (iii) Tongtian Winery has fully paid the land premium;
 - (iv) Tongtian Winery has obtained all the requisite permits/approvals for the construction works of the property; and
 - (v) the property is free from any mortgages, charges, liens or any form of securities.

APPENDIX IV

PROPERTY VALUATION

Group III – Property interests rented by the Group in the PRC

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 30 September 2009
4.	Rooms 2003, 2005 and 2006, Level 20, Tower C, President Building, No. 69 Heping Bei Da Street, Heping District, Shenyang City, Liaoning Province, the PRC	The property comprises 3 adjoining office units on Level 20 of a 28-storey commercial building completed in 2003. The total gross floor area of the property is approximately 336.476 sq.m. (3,622 sq.ft.). The property is leased for a term commencing on 20 July 2009 and expiring on 19 July 2011.	The property is occupied by the Group as an office.	No commercial value

Notes:

1. The property is leased to Tongtian Winery (the “leasee”) by Shenyang Maryland International Company Limited Real Estate Development Branch (the “Lessor”), an independent third party, for a term of 2 years commencing on 20 July 2009 and expiring on 19 July 2011 at an annual rental of RMB224,793.78 exclusive of annual property management fee of RMB80,011.34.
2. We have been provided with legal opinion on the title of the property issued by the Group’s PRC legal adviser, Jingtian & Gongcheng, which contains, inter alia, the following information:
 - (i) according to the lease approval document Shen Fang Chu Zu Zhun Zi 【2002】 No. 21 and the Commodity Building Pre-Sale Permit Shen Fang Yu Shou Zi No.01607-1, the Lessor has the rights to lease the property to the lessee;
 - (ii) the lease agreement has been registered; and
 - (iii) the lease agreement is valid, binding and enforceable under the PRC laws.

APPENDIX IV

PROPERTY VALUATION

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 30 September 2009
5.	A warehouse located at Dong'an Village, Kuaidamao Town, Tonghua County, Tonghua City, Jilin Province, the PRC	The property comprises a single-storey warehouse completed in 2004. The gross floor area of the property is approximately 700.00 sq.m. (7,535 sq.ft.). The property is leased for a term commencing on 30 September 2009 and expiring on 29 September 2010.	The property is occupied by the Group for storage use.	No commercial value

Notes:

1. The property is leased to Tonghua Winery by Tonghua Da Sen lin Ye Development Co., Ltd. (the "Lessor") for a term commencing on 30 September 2009 and expiring on 29 September 2010 at an annual rental of RMB170,000.
2. We have been provided with legal opinion on the title to the property issued by the Group's PRC legal adviser, Jingtian & Gongcheng, which contains, inter alia, the following information:
 - (i) the Lessor has not obtained the Building Ownership Certificate of the property;
 - (ii) according to a supplemental agreement executed by the Lessor and the tenant on 30 September 2009, the Lessor will compensate Tonghua Winery for all its losses in case that Tonghua Winery cannot continue use the aforesaid warehouse during the period of the lease due to the lack of building ownership certificate; and
 - (iii) the Lessor cannot provide the relevant building ownership certificate regarding the aforesaid warehouse, the lease may not be protected by relevant PRC governmental authorities; however, Tonghua Winery can ask the Lessor to compensate for its losses in accordance with the aforesaid supplemental agreement.

APPENDIX IV

PROPERTY VALUATION

Group IV – Property interest rented by the Group in Hong Kong

No.	Property	Description and tenancy particulars	Particulars of occupancy	Capital value in existing state as at 30 September 2009
6.	Unit 3612 on 36/F, West Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Sheung Wan, Hong Kong	The property comprises an office unit on 36th Floor of a 30-storey office building erected over a 9-storey common podium completed in 1986. The gross floor area of the property is approximately 2,109.62 sq.m. (22,708 sq.ft.). The property is leased for a term commencing on 15 August 2009 and expiring on 14 August 2011.	The property is occupied by the Group for office use.	No commercial value

Note:

- The property is leased to Rich Treasure Link Limited, a wholly-owned subsidiary of the Company, from Hom Fu Lee Company, Limited, an independent third party, for a term commencing on 15 August 2009 and expiring on 14 August 2011 at an annual rental of HK\$895,488.

APPENDIX V

SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND BERMUDA COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum of Association and the Bye-laws of our Company (the “Bye-laws”) and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that our Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which our Company was formed which are unrestricted and that our Company has the capacity, rights, powers and privileges of a natural person. As an exempted company, our Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association of our Company empowers it to purchase its own Shares and, pursuant to the Bye-laws, this power is exercisable by the directors of our Company (the “Directors”) upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws were adopted on [●]. The following is a summary of certain provisions of the Bye-laws.

(a) Directors

(i) Power to allot and issue shares

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as our Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may, subject to the Companies Act and with the sanction of a special resolution, be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of our Company or, if so authorised by the Memorandum of Association of our Company, at the option of the holder. The Directors may subject to the approval of the members in general meeting, issue warrants to subscribe for any class of shares or securities of our Company on such terms as they may from time to time determine.

APPENDIX V

SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND BERMUDA COMPANY LAW

All unissued shares in our Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

(ii) Power to dispose of the assets of our Company or any subsidiary

There are no specific provisions in the Bye-laws relating to the disposal of the assets of our Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Bye-laws or relevant statutes of Bermuda to be exercised or done by our Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

(iv) Loans and the giving of security for loans to Directors

Save as described in sub-paragraph (vi) below, there are no provisions in the Bye-laws relating to the making of loans or the giving of security for loans to Directors. However, the Companies Act contains restrictions on companies making loans and giving security for loans to their directors, the relevant provisions of which are summarised in paragraph 4(l) below.

(v) Financial assistance to purchase shares of our Company or its holding company

- (aa) subject to the provisions of all relevant statutes of Bermuda (see paragraph 4(b) below regarding the relevant provisions of the Companies Act), our Company may in accordance with an employees' share scheme provide money on such terms as the Directors think fit for the acquisition of fully or partly paid shares in our Company or its holding company. For the purposes of the Bye-law in this regard, an employees' share scheme is a scheme for encouraging or facilitating the holding of shares or debentures in our Company by or for the benefit of bona fide employees of our Company (including any such bona fide employee or former employee who is or was a Director), our Company's subsidiary or holding company or a subsidiary of our Company's holding company, or the wives, husbands, widows, widowers or children or step-children under the age of twenty-one of such employees or former employees;

APPENDIX V

SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND BERMUDA COMPANY LAW

(bb) subject to the provisions of all relevant statutes of Bermuda, our Company may make loans to persons (including Directors) employed or formerly employed in good faith by our Company with a view to enabling those persons to acquire fully or partly paid shares in our Company or its holding company to be held by them by way of beneficial ownership; and

(cc) the conditions subject to which money and loans may be provided under the provisions of the Bye-laws summarised in paragraphs (aa) or (bb) above may include a provision to the effect that when an employee ceases to be employed by our Company, a subsidiary or holding company of our Company or a subsidiary of the holding company of our Company, the shares acquired with such money or loans shall or may be sold to our Company or any other company on such terms as the Directors think fit.

(vi) *Disclosure of interests in contracts with our Company or any of its subsidiaries*

Subject to the Companies Act, a Director may hold any other office or place of profit with our Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with our Company or any other company in which our Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Companies Act and the Bye-laws, no Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or

APPENDIX V

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being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company, he must declare the nature of his or, as the case may be, his associates' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associates is or has become so interested.

Save as otherwise provided by the Bye-laws, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or his associates is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director or his associates of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of our Company;
- (bb) any contract or arrangement for the giving by our Company of any security to a third party in respect of a debt or obligation of our Company or any company in which our Company has an interest for which the Director or his associates has himself/themselves guaranteed or secured in whole or in part;
- (cc) any contract or arrangement by a Director or his associate(s) to subscribe for shares or debentures or other securities of our Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director and his associates any privilege not accorded to any other members or debenture or other securities holders or to the public;
- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by our Company for subscription or purchase where the Director or his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;

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- (ee) any contract or arrangement in which the Director or his associates is/are interested as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
- (ff) any contract or arrangement concerning any other company in which the Director or his associates is/are interested directly or indirectly whether as an officer and/or executive and/or a member, other than a company in which the Director or his associates owns five per cent. or more of the voting equity capital or voting rights of any class of shares of such company (or of any third company through which his interest is derived), excluding shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights;
- (gg) any proposal or arrangement for the benefit of employees of our Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director or his associates and employees of our Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates both to Directors, associates of Directors and employees of our Company or any of its subsidiaries and does not give the Director or his associates any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;
- (hh) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by our Company to, or for the benefit of, the employees of our Company or its subsidiaries under which the Director or his associates may benefit; and
- (ii) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his associates, officer or employee pursuant to the Bye-laws.

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(vii) Remuneration

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in our Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of our Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of our Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of chairman, deputy chairman, managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of our Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of our Company, or of any company which is a subsidiary of our Company, or is allied or associated with our Company or with any such subsidiary company, or who are or were at any time directors or officers of our Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in our Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

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(viii) Retirement, appointment and removal

At each annual general meeting one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than two. A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and our Company) provided that the notice of any general meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and at such meeting the Director shall be entitled to be heard on the motion for his removal. Our Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election.

The Directors may from time to time entrust to and confer upon the chairman, managing director, joint managing director, deputy managing director or executive director of our Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

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(ix) Borrowing powers

Subject to the provisions of the Companies Act, the Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Act, by the issue of debentures, debenture stock, bonds or other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

Note: The provisions summarised above, in common with the Bye-laws in general, may be varied with the sanction of a special resolution of our Company.

(x) Qualification shares

Directors of our Company are not required under the Bye-laws to hold any qualification shares.

(xi) Indemnity to Directors

The Bye-laws contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

(b) Alterations to constitutive documents

The Memorandum of Association of our Company may be altered by our Company in general meeting. In certain circumstances, consent to the alteration must be obtained from the Minister of Finance of Bermuda. The Bye-laws may be amended by the Directors subject to the approval of our Company in general meeting. As more fully described in paragraph 3 below, the Bye-laws provide that a special resolution is required to alter the Memorandum of Association, to approve any alteration to the Bye-laws and to change the name of our Company.

(c) Alterations of capital

Our Company may from time to time by ordinary resolution:

- (i) increase its share capital;

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- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to our Company for our Company's benefit;
- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;
- (v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the Companies Act, and so that the resolution whereby any shares are sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares;
- (vi) change the currency of denomination of its share capital; and
- (vii) make provision for the issue and allotment of shares which do not carry any voting rights.

Our Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or any share premium account or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. Our Company may apply its share premium account in any manner permitted by law.

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(d) Variation of rights of existing shares or classes of shares

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Act, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

(e) Special resolutions – majority required

A special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where voting is by poll, by proxy, at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right, a resolution may be proposed and passed as a special resolution at a meeting of which not less than 21 clear days' notice has been given.

(f) Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way. At all times during the Relevant Period (as defined in the Bye-laws) (but not otherwise), whereby any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

At any general meeting a resolution put to the vote of the meeting shall be decided on by way of a poll.

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So far as permitted by the Companies Act, where a shareholder is a clearing house (as defined in the Bye-laws) or a nominee of a clearing house and, in each case, being a corporation, it may authorise such persons as it thinks fit to act as its representatives at any meeting of our Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Bye-laws shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of our Company held by the clearing house (or its nominee) in respect of the number and class of shares specified in the relevant authorisation.

(g) Requirements for annual general meetings

An annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or, as the case may be, its statutory meeting or such longer period as is permissible or not prohibited under the rules of the stock exchange of the Relevant Territory (as defined in the Bye-laws).

(h) Accounts and audit

The Directors shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by Companies Act affecting our Company or are necessary to give a true and fair view of the state of our Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of our Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors provided that such records as are required by the Companies Act shall also be kept at the registered office. No member (not being a Director) or other person has any right to inspect any account or book or document of our Company except as conferred by Companies Act or ordered by a court of competent jurisdiction or authorised by the Directors or by our Company in general meeting.

The Directors shall from time to time cause to be prepared and laid before our Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports as are required by the Companies Act. Every balance sheet of our Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before our Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, our Company and

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every other person entitled to receive notices of general meetings of our Company under the Companies Act or of the Bye-laws. If all or any of the shares or debentures of our Company are for the time being (with the consent of our Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice. However, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Bye-laws), our Company may send to such persons a summary financial statement derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to a summary financial statement, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and their duties regulated in accordance with the Companies Act. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of our Company at each annual general meeting, but in respect of any particular year, our Company in general meeting may delegate the fixing of such remuneration to the Directors.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any special general meeting at which the passing of a special resolution is to be considered shall be called by notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days. All other special general meetings may be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the place, the day and the hour of meeting and particulars of the resolutions to be considered at the meeting, in the case of special business, the general nature of that business.

(j) Transfer of shares

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in our Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the execution of the instrument of transfer by the transferor or the transferee of a share.

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The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office in Bermuda.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which our Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with our Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do). Where applicable, the permission of the Bermuda Monetary Authority with respect thereto shall be obtained.

The registration of transfers may, on giving notice by advertisement in an appointed newspaper in Bermuda and in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

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(k) Power for our Company to purchase its own shares

The Bye-laws supplement our Company's Memorandum of Association (which empowers our Company to purchase its own shares) by providing that the power is exercisable by the Directors upon such term and conditions as they think fit.

(l) Power of any subsidiary to own securities in our Company

There are no provisions in the Bye-laws relating to ownership of securities in our Company by a subsidiary.

(m) Dividends and other methods of distribution

Our Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. Our Company may also make a distribution out of contributed surplus (as to the meaning of this term, see paragraph 4(d) below).

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

Whenever the Directors or our Company in general meeting have resolved that a dividend be paid or declared on the share capital of our Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

Our Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

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Whenever the Directors or our Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to our Company and, in the case where any of the same are securities in our Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

(n) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company or a meeting of the holders of any class of shares in our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of our Company or at a class meeting. At any general meeting where voting is by poll, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of our Company.

A proxy or proxies representing either an individual or a corporate member shall be entitled to exercise the same powers on behalf of the member whom he or they represent as such member could exercise.

(o) Corporate representatives

A corporate member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint any person as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

(p) Calls on shares and forfeiture of shares

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or

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persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced our Company may pay interest at such rate (if any) not exceeding 20 per cent. per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all moneys which, at the date of forfeiture, were payable by him to our Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

(q) Inspection of register of members

There are no provisions in the Bye-laws relating to inspection of the register of members as the matter is dealt with in the Companies Act (as to which see paragraph 4(m) below).

(r) Inspection of register of Directors

There are no provisions in the Bye-laws relating to the inspection of the register of Directors of our Company, as the matter is dealt with in the Companies Act (as to which see paragraph 4(m) below).

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(s) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

(t) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of our Company under Bermuda company law as summarised in paragraph 4(e) below.

(u) Procedures on liquidation

A resolution for a court or voluntary winding up of our Company must be passed by way of a special resolution.

If our Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If our Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of our Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

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(v) Untraceable members

Our Company may sell the shares of any member if: (i) dividends or other distributions have been declared by our Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) our Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of our Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) our Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) our Company has notified the stock exchange on which the ordinary share capital of our Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to our Company and upon the receipt of such net proceeds by our Company, our Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

(w) Stock

Subject to the provisions of the relevant statutes of our Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of our Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Bye-laws as are applicable to paid up shares shall apply to stock, and the words “share”, “shareholder” and “member” therein shall include “stock” and “stockholder”.

(x) Other provisions

The Bye-laws provide that, to the extent that it is not prohibited by and is in compliance with Bermuda law, if any rights attaching to any warrants which our Company may issue after the date of this document shall remain exercisable and our Company does

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any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by our Company in general meeting. The Bye-laws may be amended by the Directors subject to the confirmation of our Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of our Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of our Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of twenty-one (21) clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 percent in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

Our Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of our Company except that the share premium account may be applied by our Company:

- (i) in paying up unissued shares of our Company to be issued to members of our Company as fully paid bonus shares;

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(ii) in writing off:

(aa) the preliminary expenses of our Company; or

(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of our Company; or

(iii) in providing for the premiums payable on redemption of any shares or of any debentures of our Company.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in our Company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that our Company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due. In certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of our Company otherwise available for

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dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of our Company otherwise available for dividend or distribution or out of our Company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of our Company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may not be made if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that our Company is, or after the purchase would be, unable to pay its liabilities as they become due. The shares so purchased may either be cancelled or held as treasury shares. Any purchased shares that are cancelled will, in effect, revert to the status of authorised but unissued shares. If shares of our Company are held as treasury shares, our Company is prohibited to exercise any rights in respect of those shares, including any right to attend and vote at meetings, including a meeting under a scheme of arrangement, and any purported exercise of such a right is void. No dividend shall be paid to our Company in respect of shares held by our Company as treasury shares; and no other distribution (whether in cash or otherwise) of our Company's assets (including any distribution of assets to members on a winding up) shall be made to our Company in respect of shares held by our Company as treasury shares. Any shares allotted by our Company as fully paid bonus shares in respect of shares held by our Company as treasury shares shall be treated for the purposes of the Companies Act as if they had been acquired by our Company at the time they were allotted.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) our Company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of our Company's assets would thereby be less than the aggregate of its

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liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to our Company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to our Company where the act complained of is alleged to be beyond the corporate power of our Company or is illegal or would result in the violation of our Company's Memorandum of Association and the Bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of our Company's shareholders than actually approved it.

Any member of a company who complains that the affairs of our Company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up our Company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of our Company's affairs in future or for the purchase of shares of any members of our Company by other members of our Company or by our Company itself and in the case of a purchase by our Company itself, for the reduction accordingly of our Company's capital, or otherwise. Bermuda law also provides that our Company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a document in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against our Company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of our Company.

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(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of our Company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the Bye-laws. The directors of our Company may, subject to the Bye-laws, exercise all the powers of our Company except those powers that are required by the Companies Act or the bye-laws to be exercised by the members of our Company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by our Company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by our Company and (iii) the assets and liabilities of our Company.

Furthermore, it requires that a company keeps its records of account at the registered office of our Company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of our Company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of our Company in Bermuda such records as will enable the directors or the resident representative of our Company to ascertain with reasonable accuracy the financial position of our Company at the end of each three month period, except that where our Company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of our Company to ascertain with reasonable accuracy the financial position of our Company at the end of each six month period.

The Companies Act requires that the directors of our Company must, at least once a year, lay before our Company in general meeting financial statements for the relevant accounting period. Further, our Company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of our Company are entitled to receive a copy of every

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financial statement prepared in accordance with these requirements, at least five (5) days before the general meeting of our Company at which the financial statements are to be tabled. A company the shares of which are listed on an appointed stock exchange may send to its members summarized financial statements instead. The summarized financial statements must be derived from our Company's financial statements for the relevant period and contain the information set out in the Companies Act. The summarized financial statements sent to our Company's members must be accompanied by an auditor's report on the summarized financial statements and a notice stating how a member may notify our Company of his election to receive financial statements for the relevant period and/or for subsequent periods.

The summarized financial statements together with the auditor's report thereon and the accompanied notice must be sent to the members of our Company not less than twenty-one (21) days before the general meeting at which the financial statements are laid. Copies of the financial statements must be sent to a member who elects to receive the same within seven (7) days of receipt by our Company of the member's notice of election.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than twenty-one (21) days before the annual general meeting. Our Company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than seven (7) days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of our Company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within fifteen (15) days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of our Company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

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(i) Exchange control

An exempted company is usually designated as “non-resident” for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and securities by our Company and the subsequent transfer of such shares and securities. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before our Company can issue or transfer any further shares and securities in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

The Bermuda Monetary Authority has granted general permission for the issue and transfer of shares and securities to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as any equity securities, including shares, are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as “resident” for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of our Company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to our Company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

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(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a twenty per cent. (20%) interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of our Company. These prohibitions do not apply to (a) anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of our Company, provided that our Company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting, (b) in the case of a company whose ordinary business includes the lending of money or the giving of guarantees in connection with loans made by other persons, anything done by our Company in the ordinary course of that business, or (c) any advance of moneys by our Company to any officer or auditor under Section 98(2)(c) of the Companies Act which allows our Company to advance moneys to an officer or auditor of our Company for the costs incurred in defending any civil or criminal proceedings against them, on condition that the officer or auditor shall repay the advance if any allegation of fraud or dishonesty is proved against them. If the approval of our Company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include our Company's certificate of incorporation, its Memorandum of Association (including its objects and powers) and any alteration to our Company's Memorandum of Association. The members of our Company have the additional right to inspect the bye-laws of a company, minutes of general meetings and our Company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of our Company without charge for not less than two (2) hours during business hours each day. The register of members of a company is open for inspection by members of the public without charge. Our Company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by our Company is subject to the same rights of inspection as the principal register of members of our Company in Bermuda. Any person may on payment of a fee prescribed by the Companies Act require a copy of the register of members or any part thereof which must be provided within fourteen (14) days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

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A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two (2) hours in each day by members of the public without charge. If summarized financial statements are sent by a company to its members pursuant to section 87A of the Companies Act, a copy of the summarized financial statements must be made available for inspection by the public at the registered office of our Company in Bermuda.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by our Company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of our Company by its Memorandum expires, or the event occurs on the occurrence of which the Memorandum provides that our Company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for our Company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, our Company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of our Company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of our Company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of our Company has been disposed of, and thereupon call a general meeting of our Company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

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In the case of a creditors’ voluntary winding up of a company, our Company must call a meeting of creditors of our Company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of our Company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors’ meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors’ winding up continues for more than one year, the liquidator is required to summon a general meeting of our Company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of our Company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of our Company has been disposed of, and thereupon shall call a general meeting of our Company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, our Company’s legal advisers on Bermuda law, have sent to our Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed “Documents delivered to the Registrars of Companies and available for inspection” in Appendix [VII] to this document. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

FURTHER INFORMATION ABOUT OUR COMPANY AND SUBSIDIARIES

1. Incorporation of our Company

Our Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 21 August 2008 with an authorised share capital of S\$20,000 initially divided into 200,000 ordinary shares with a par value of S\$0.10 each, of which 100,000 ordinary shares with a par value of S\$0.10 each were allotted and issued nil paid by our Company to Up Mount on 8 September 2008 (which were subsequently paid up in the manner described in paragraph 4 below).

Our Company is subject to the relevant laws and regulations of Bermuda. Its constitution comprises a Memorandum of Association and the Bye-laws. A summary of certain relevant parts of its constitution and certain relevant aspects of the Companies Act is set out in Appendix V to this document.

2. Changes in share capital of our Company

- (a) As at the date of incorporation of our Company, its authorised share capital was S\$20,000 initially divided into 200,000 ordinary shares with a par value of S\$0.10 each;
- (b) On 5 June 2009, Up Mount (as the then sole Shareholder) approved the change in the denomination of the par value of the ordinary shares in our Company from S\$0.10 each to HK\$0.01 each, and accordingly, the authorised share capital of our Company became HK\$107,200 divided into 10,720,000 Shares and the issued share capital of our Company became HK\$53,600 divided into 5,360,000 Shares.
- (c) On 28 October 2009, the authorised share capital of our Company was increased from HK\$107,200 divided into 10,720,000 Shares to HK\$100,000,000 by the creation of a further 9,989,280,000 Shares pursuant to a resolution passed by Up Mount (as the then sole Shareholder).
- (d) Immediately following completion of the [●] and the Capitalisation Issue but without taking into account any Shares which may be allotted and issued upon the exercise of the [●] or any options which may be granted under the Share Option Scheme, [●] Shares will be issued fully paid or credited as fully paid, and [●] Shares will remain unissued. In the event that the [●] is exercised in full, [●] Shares will be issued fully paid or credited as fully paid, and [●] Shares will remain unissued. Other than pursuant to the exercise of the [●] or any options which may be granted under the Share Option Scheme, our Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

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Our Company has no founder shares, management shares or deferred shares.

Save as disclosed herein and in paragraphs 1 and 3 of this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of all the Shareholders passed on 28 October 2009

On 28 October 2009, pursuant to resolutions in writing passed by all the Shareholders:

- (a) our Company approved and adopted the Bye-laws;
- (b) conditional on [●]
 - (i) the [●] and the grant of the [●] were approved and our Directors were authorised to allot and issue of the Offer Shares pursuant to the [●] and such number of Shares as may be required to be allotted and issued upon the exercise of the [●];
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 14 to this Appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder, to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme;
 - (iii) conditional on the share premium account being credited as a result of the [●], our Directors were authorised to capitalise HK\$[●] standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par [●] Shares for allotment and issue to Shareholders whose names appear on the register of members of our Company at the close of business on 28 October 2009 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their then existing shareholdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution should rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;
 - (iv) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Bye-laws, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or under the [●] or the Capitalisation Issue or upon the exercise of the [●], Shares with an aggregate nominal amount

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of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the [●] and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of the [●] or exercise of options that may be granted under the Share Option Scheme); and (bb) the aggregate nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in paragraph (v) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Bye-laws or any applicable laws of Bermuda to be held, or the passing of an ordinary resolution by Shareholders of our Company revoking or varying the authority given to our Directors, whichever occurs first;

- (v) a general unconditional mandate (“Repurchase Mandate”) was given to our Directors to exercise all powers of our Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue and to be issued immediately following completion of [●] and the Capitalisation Issue (excluding the Shares which may be issued pursuant to the exercise of the [●] or exercise of options that may be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Bye-laws or any applicable laws of Bermuda to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and
- (vi) the extension of the general mandate to allot, issue and deal with Shares to include the nominal amount of Shares which may be purchased or repurchased pursuant to paragraph (v) above.

4. Reorganisation

The companies comprising our Group underwent the Corporate Reorganisation to rationalise our Group’s structure in preparation [●], pursuant to which our Company became the ultimate holding company within our Group. The reorganisation involved the transfer to our Company by Up Mount, Wing Move, Win Honour, Public Success, Glory Wish, Youth Group, Add Noble, Crystal Planet and Top Star on 28 October 2009 of an aggregate of 100,000 Shares of US\$1 each in, being the entire issued share capital of Fullest Power, the intermediate holding company of our Group, in consideration of and in exchange for which our Company (i) allotted and issued, credited as fully paid, an aggregate of [●] new Shares, as to [●] Shares to Up Mount, [●] Shares to Wing Move, 7,948,032 Shares to Win Honour, [●] Shares to Public Success, [●] Shares to Glory Wish, [●] Shares to Youth Group, [●] Shares to Add Noble, [●] Shares to Crystal Planet and [●] Shares to Top Star and (ii) credited as fully paid at par the [●] nil paid Shares held and owned by Up Mount.

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In addition to the transfer of shares in Fullest Power referred to above, our Group also underwent the following reorganisation:

- (a) on 18 October 2007, Youth Group, Crystal Planet, Add Noble and Top Star acquired from Mr. Wang an aggregate of 10,500 ordinary shares of US\$1 each in Fullest Power (as to 3,000 shares to Youth Group, 2,500 shares to Crystal Planet, 2,500 shares to Add Noble and 2,500 shares to Top Star) at an aggregate consideration of US\$8,630,168 (as to US\$2,465,762 from Youth Group, US\$2,054,802 from Crystal Planet, US\$2,054,802 from Add Noble and US\$2,054,802 from Top Star). Such consideration was satisfied by setting off against an equivalent amount of the respective portions of the loan advanced by Youth Group, Crystal Planet, Add Noble and Top Star (collectively, “Foreign Investors”) on 12 September 2007 to Mr. Wang to finance the contribution of Tongtian Winery towards its registered capital of US\$10,848,100 following the approval of its establishment as a wholly foreign-owned enterprise by the Department of Commerce of Jilin Province (吉林省商務廳), the PRC. Following the contribution, Fullest Power became indebted to Mr. Wang for the principal amount of US\$10,848,100 (“Fullest Power Loan”), which was fully settled on 28 November 2008 in the manner described in sub-paragraph (c) below;
- (b) on 27 August 2008, Rich Treasure entered into an equity transfer agreement with Fullest Power pursuant to which Fullest Power agreed to transfer the entire equity interest in Tongtian Winery to Rich Treasure at the consideration of US\$10,848,100 (equivalent to the registered and paid-up capital of Tongtian Winery), which was settled by the allotment and issue of an aggregate of 9,990 ordinary shares of HK\$1 each in the capital of Rich Treasure, credited as fully paid, to Fullest Power on completion of the equity transfer agreement on 22 September 2008;
- (c) on 28 November 2008, the full amount of the Fullest Power Loan as disclosed in sub-paragraph (a) above was capitalised by the allotment and issue of an aggregate of 50,000 shares of US\$1 each in Fullest Power, credited as fully paid, at the request and by the direction of Mr. Wang, as to 51,000 shares to Mr. Wang, 10,000 shares to Mr. Zhang Hebin, 6,000 shares to Mr. Kang Hong, 6,000 shares to Mr. Sun Yankun, 6,000 shares to Ms. Pei Zhilan, 6,000 shares to Youth Group, 5,000 shares to Crystal Planet, 5,000 shares to Add Noble and 5,000 shares to Top Star; and
- (d) on 28 November 2008, each of Mr. Wang, Mr. Zhang Hebin, Mr. Kang Hong, Mr. Sun Yankun and Ms. Pei Zhilan transferred all their respective 51,000 shares, 10,000 shares, 6,000 shares, 6,000 shares and 6,000 shares of US\$1 each in Fullest Power to their respective investment holding companies (namely, Up Mount, Wing Move, Win Honour, Public Success and Glory Wish) at nil consideration.

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5. Changes in share capital of subsidiaries

The changes in the share capital of the subsidiaries of our Company are listed in the accountants’ report set out in Appendix I to this document.

In addition to the alterations described in paragraph 4 above, the following alterations in the share capital of each of our Company’s subsidiaries took place within two years immediately preceding the date of this document:

- (a) on 18 July 2008, Rich Treasure was incorporated with an authorised share capital of HK\$ 10,000 divided into 10,000 ordinary shares of HK\$1 each, of which 10 ordinary shares were subscribed by, and allotted and issued to, Fullest Power for cash at par on 20 August 2008; and
- (b) on 28 October 2008, the authorised share capital of Fullest Power was increased from US\$50,000 to US\$100,000 by the creation of an additional 50,000 new shares of US\$1 each.

Save as disclosed herein and in paragraph 4 to this Appendix, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this document.

6. Further information about our Group’s PRC wholly-owned foreign enterprise

Our Group has interest in the registered capital of Tongtian Winery, a wholly-owned foreign enterprise in the PRC. A summary of the corporate information of Tongtian Winery as at the Latest Practicable Date is set out below:

- (i) Corporate name : Tonghua Tongtian Winery Co., Ltd.
- (ii) Date of incorporation : 9 January 2001 (as a limited liability company without foreign investment)
- (iii) Date of conversion into a wholly-owned foreign enterprise : 24 April 2007
- (iv) Registered address : No.2199, Tuanjie Road, Tonghua County, Jilin Province, the PRC
- (v) Economic nature : Wholly-owned foreign enterprise
- (vi) Registered owner : Rich Treasure

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- (vii) Total investment capital : US\$10,848,100
- (viii) Registered capital : US\$10,848,100
- (ix) Attributable interest to our Group : 100%
- (x) Term of operation : 50 years from 24 April 2007 to 23 April 2057
- (xi) Scope of business : Wine, beverage production, grape juice processing
- (xii) Legal representative : Mr. Wang

7. Repurchase by our Company of its own securities

[●]

8. Registration under Part XI of the Companies Ordinance

Our Company has been registered in Hong Kong under Part XI of the Companies Ordinance as a non-Hong Kong company and our principal place of business in Hong Kong is at Unit No. 3612, 36th Floor, West Tower, Shun Tak Centre, No. 168-200 Connaught Road Central, Hong Kong. In compliance with the requirements of the Companies Ordinance, Mr. Sum Chi Kan (the company secretary of our Company) of Flat 113, Wang Wai House, Wang Tau Hom Estate, Kowloon, Hong Kong and Mr. Kwok Yuen Ying, Riki (the chief financial officer of our Company) of Flat D, 17th Floor, Block 26, 550-555 Victoria Road, Baguio Villa, Pok Fu Lam, Hong Kong have been appointed as our agents for the acceptance of service of process and any notice required to be served on our Company in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

9. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

- (a) an equity transfer agreement dated 27 August 2008 entered into by Fullest Power as vendor and Rich Treasure as purchaser for the transfer by Fullest Power of the entire equity interest in Tongtian Winery to Rich Treasure at the consideration of US\$10,848,100;
- (b) a share swap agreement dated 28 October 2009 entered into by all the shareholders of Fullest Power as vendors and our Company as purchaser for the acquisition by our Company of the entire issued and paid-up share capital of Fullest Power comprising 100,000 shares of US\$1.00 each in Fullest Power from its shareholders;

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- (c) a deed of indemnity dated [●] executed by [Up Mount and Mr. Wang] in favour of our Company (for itself and as trustee for its subsidiaries stated therein) containing the indemnities more particularly referred to in paragraph 15 to this Appendix;
- (d) the Non-competition Deed dated 28 October 2009 executed by the Controlling Shareholders, Wing Move, Win Honour, Public Success, Glory Wish, Mr. Zhang Hebin, Mr. Kang Hong, Mr. Sun Yankun and Ms. Pei Zhilan in favour of our Company (for itself and for the benefit of its subsidiaries) giving, among others, certain non-compete undertakings more particularly referred in the paragraph headed “Non-Competition Undertaking” under the section headed “Relationship with Controlling Shareholders” in this document; and
- (e) [●]

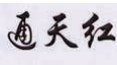
10. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, our Group is the registered proprietor and beneficial owner of the following trademarks:

No.	Trademark	Place of registration	Class	Registration number	Duration of validity
1.		PRC	33	946127	14 February 2007 to 13 February 2017
2.		PRC	33	1711104	7 February 2002 to 6 February 2012
3.		PRC	33	4861217	14 May 2008 to 13 May 2018

As at the Latest Practicable Date, our Group had applied for registration of the following trademarks, the registration of which has not yet been granted:

No.	Trademark	Place of application	Class	Application number	Date of application
1.		PRC	33	4861218	15 July 2009
2.		Hong Kong	33	301440026	29 September 2009

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(b) *Domain Name*

As at the Latest Practicable Date, our Group had registered the following domain name:

Domain name	Registration date	Expiry date
tontine-wines.com	14 March 2008	14 March 2010

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF AND EXPERTS

11. Directors

(a) *Disclosure of interests*

- (i) Mr. Wang and Mr. Zhang Hebin are interested in the Corporate Reorganisation referred to in paragraph 4 of this Appendix.
- (ii) Save as disclosed in this document, none of our Directors or their associates was engaged in any dealings with our Group during the two years preceding the date of this document.

(b) *Particulars of Directors’ service agreements*

Executive Directors

Each of the executive Directors has entered into a service agreement with our Company pursuant to which each of them agreed to act as an executive Director for an initial term of three years commencing from 1 November 2009. Except for sooner determination of the service agreement in accordance with its terms and upon expiry of the initial term of the service agreement with each executive Director, the service agreement is renewable automatically thereafter for successive terms of one year until terminated by not less than three months’ prior notice in writing served by either party on the other.

Each of these executive Directors is entitled to a basic salary subject to an annual increment after 1 January 2010 at the discretion of our Directors of not more than 15% of the annual salary immediately prior to such increase. In addition, each of the executive Directors is also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of our Company may not exceed 5% of the audited combined or consolidated audited net profit of our Group (after taxation and minority interests and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of our Company. An executive

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Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

Name	Annual salary (HK\$)
Mr. Wang	600,000
Mr. Zhang Hebin	600,000
Ms. Wang Lijuan	600,000
Total:	1,800,000

Independent non-executive Directors

Each of the independent non-executive Directors has been appointed for an initial term of two years commencing from [●], and thereafter shall continue from year to year until terminated by the giving of one month’s notice in writing thereof by either party to the other. Our Company intends to pay a director’s fee of HK\$160,000 per annum to each of the independent non-executive Directors. Save for directors’ fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

(c) Directors’ remuneration

- (i) During the year ended 31 December 2008, the aggregate emoluments paid by our Group to our Directors was approximately HK\$126,136.
- (ii) Under the arrangements currently in force, the aggregate emoluments payable by our Group to our Directors for the year ending [31 December 2009] are estimated to be approximately HK\$[486,070].
- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December 2008 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 December 2008.

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(d) Interests and short positions of Directors in the Shares, underlying Shares or debentures of our Company and its associated corporations

So far as our Directors are aware, immediately following the completion of the [●] and the Capitalisation Issue (and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the [●]), the interests and short positions of our Directors in the Shares, underlying Shares or debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once [●], or which will be required, pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required to notify our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules [●], will be as follows:

Name of Director	Name of Group member/ associated corporation	Capacity/ Nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Wang	Our Company	Interest of a controlled corporation	[●] Shares (L) (Note 2)	[●]%
Mr. Zhang Hebin	Our Company	Interest of a controlled corporation	[●] Shares (L) (Note 3)	[●]%

Notes:

- (1) The letter “L” denotes the Director’s long position in the Shares.
- (2) These Shares will be registered in the name of and beneficially owned by Up Mount, a company incorporated in the BVI and whose entire issued share capital is owned by Mr. Wang.
- (3) These Shares will be registered in the name of and beneficially owned by Wing Move, a company incorporated in the BVI and whose entire issued share capital is owned by Mr. Zhang Hebin.

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12. Interest discloseable under the SFO and substantial Shareholders

So far as our Directors are aware, immediately following the completion of the [●] and the Capitalisation Issue (but without taking account of any Shares which may be taken up under the [●] and any Shares which may be allotted and issued upon the exercise of the [●]), the following persons (other than our Directors or chief executive officer of our Company) will have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and who will be expected, directly or indirectly, to be interested in 10% or more of the Shares:

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of issued Shares
Up Mount (<i>Note 1</i>)	Beneficial owner	[●]	[●]%
Zhang Min 張敏 (<i>Note 2</i>)	Interest of spouse	[●]	[●]%

Notes:

- (1) Up Mount is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Wang, the chairman of our Company and an executive Director.
- (2) Zhang Min is the spouse of Mr. Wang and is therefore deemed to be interested in all the Shares held by Mr. Wang (through Up Mount) by virtue of the SFO.

13. Disclaimers

Save as disclosed in this document:

- (i) and taking no account of any Shares which may be taken up or acquired under the [●] or upon the exercise of the [●] or the options granted or which may be granted under the Share Option Scheme, our Directors are not aware of any person who will, immediately following the completion of the [●] and the Capitalisation Issue, have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group;
- (ii) none of our Directors has for the purpose of Divisions 7 and 8 of Part XV of the SFO or the Listing Rules, nor is any of them taken to or deemed to have under such provisions of the SFO, any interests or short position in the Shares or underlying Shares and debentures of our Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which will have to be entered in

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the register to be kept by our Company pursuant to section 352 of the SFO or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules [●];

- (iii) none of our Directors nor the experts named in paragraph 20 of this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of our Group within the two years immediately preceding the date of this document, or which are proposed to be acquired or disposed of by or leased to any member of our Group nor will any Director apply for Shares either in his own name or in the name of a nominee;
- (iv) none of our Directors nor the experts named in paragraph 20 of this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole; and
- (v) none of the experts named in paragraph 20 of this Appendix has any shareholding in any member in our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member in our Group.

OTHER INFORMATION

14. Share Option Scheme

(a) Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by all the Shareholders of our Company on 28 October 2009:

(i) Purposes of the scheme

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward the employees, our Directors and other selected participants for their contributions to our Group. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

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(ii) Who may join

Our Directors (which expression shall, for the purpose of this paragraph 15, include a duly authorised committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time, including any executive director but excluding any non-executive director) of our Company, any of its subsidiaries or any entity ("Invested Entity") in which our Group holds an equity interest ("Eligible Employee");
- (bb) any non-executive directors (including independent non-executive directors) of our Company, any of its subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of our Group or any Invested Entity;
- (dd) any customer of our Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to our Group or any Invested Entity;
- (ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of our Group or any Invested Entity; and
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of our Group,

and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of participants shall not, by itself, unless our Directors otherwise determined, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' option as to his contribution to the development and growth of our Group.

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(iii) Maximum number of Shares

- (aa) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of our Group shall not in aggregate exceed 30% of the issued share capital of our Company from time to time.
- (bb) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group shall not in aggregate exceed 10% of the Shares in issue on [●] (“General Scheme Limit”).
- (cc) Subject to (aa) above but without prejudice to (dd) below, our Company may issue a circular to its Shareholders and seek approval of its Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of our Group shall not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the refreshed limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to its Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.
- (dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders’ approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to its Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share

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option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being (“Individual Limit”). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders’ approval in general meeting of our Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders’ approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) Grant of options to connected persons

- (aa) Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of our Company or any of their respective associates (as defined under the Listing Rules) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).
- (bb) Where any grant of options to a substantial Shareholder of our Company or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
 - (i) representing in aggregate over 0.1% of the Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by Shareholders of our Company in general meeting. Our Company must send a circular to the Shareholders. All connected persons of our Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive director of our Company or any of their respective associates must be approved by the Shareholders of our Company in general meeting.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

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An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless our Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for Shares and consideration for the option

The subscription price per Share under the Share Option Scheme will be a price determined by our Directors, but shall not be less than [●].

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) Ranking of Shares

- (aa) Shares allotted upon the exercise of an option will be subject to all the provisions of the Bye-laws of our Company and will rank pari passu in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (“Exercise Date”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee on the register of members of our Company as the holder thereof.

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- (bb) Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or reduction of the share capital of our Company from time to time.

(x) Restrictions on the time of grant of options

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the meeting of our Directors for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the last date on which our Company must publish its announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the announcement of the results, no option may be granted.

Our Directors may not grant any option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of its subsidiaries or any Invested Entity.

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(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If our Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and our Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option scheme shall lapse, his option will lapse automatically and will not in any event be exercisable on or after the date on which our Directors have so determined.

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(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of our Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two Business Days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one Business Day before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

- (i) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and

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- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares, the subject matter of the Share Option Scheme and the option so far as unexercised and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (iii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant to sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

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(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the period referred to in paragraph (vi);
- (bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvii) and (xviii);
- (cc) the date on which our Directors shall exercise our Company’s right to cancel the option by reason of a breach of paragraph (xxii) by the grantee in respect of that or any other options.

(xxiv) Others

- (aa) The Share Option Scheme is conditional on [●].
- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders of our Company in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the Shareholders of our Company in general meeting.

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(b) Present status of the Share Option Scheme

(i) [●]

(ii) [●]

(iii) Grant of option

As at the date of this document, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

15. Estate duty and tax indemnities

Up Mount and Mr. Wang (“Indemnifiers”) have pursuant to a deed of indemnity (“Deed of Indemnity”) (being the material contract (c) referred to in paragraph 9 headed “Summary of material contracts” in this Appendix), given indemnities in favour of our Company (for itself and as trustee for its subsidiaries) in connection with, among others, any taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received on or before the date on which the [●] becomes unconditional (“Effective Date”).

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The indemnifiers will, however, not be liable under the Deed of Indemnity in respect of taxation or liability:

- (a) to the extent (if any) to which provision or allowance has been made for such taxation, liabilities and claims in the audited combined accounts of the members of our Group for the Track Record Period ("Accounts");
- (b) to such taxation liabilities and claims falling on any of the members of our Group in respect of their current accounting periods or any account period commencing on or after [1 July 2009] unless liability for such taxation, liabilities and claims would not have arisen but for some act or omission of, or transaction voluntarily effected by, any of the members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) with the prior written consent or agreement or acquiescence of the Indemnifiers other than any such act, omission or transaction (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after [30 June 2009]; or (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before [30 June 2009]; or (iii) consisting of any of the members of our Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation; or
- (c) to the extent of any provision or reserve made for such taxation liabilities and claims in the Accounts which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation, liabilities and claims shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to this paragraph to reduce the Indemnifiers' liability in respect of such taxation, liabilities and claims shall not be available in respect of any such liability arising thereafter and for the avoidance of doubt, such over-provision or excess reserve shall only be applied to reduce the liability of the Indemnifiers under the Deed of Indemnity and none of the members of our Group shall in any circumstances be liable to pay the Indemnifiers any such excess; or
- (d) to the extent that any taxation, liabilities and claims arises or is incurred as a result of the imposition of such taxation, liabilities and claims as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority of the PRC or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the Effective Date or to the extent that such taxation, liabilities and claims arises or is increased by an increase in rates of such taxation, liabilities and claims after the Effective Date with retrospective effect.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries under the laws of Bermuda, the BVI or the PRC, being jurisdictions in which one or more of the companies comprising our Group are incorporated.

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16. Litigation

Save as the legal proceedings in respect of the possible infringement of the intellectual property rights regarding the use of the “Tongtian Cabernet (通天解百納)” name as disclosed in the section headed “Risk Factors” of this document, neither our Company nor any of its subsidiaries is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company or any of its subsidiaries, that would have a material adverse effect on the results of operations or financial condition of our Group.

17. Sponsor

[●]

18. Preliminary expenses

The estimated preliminary expenses of our Company are approximately HK\$[●] and are payable by our Company.

19. Promoter

- (a) The promoter of our Company is Mr. Wang.
- (b) Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities, amount or other benefit has been paid, allotted or given to any promoter in connection with the [●] of the related transactions described in this document.

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20. Qualifications of experts

The qualifications of the experts who have given opinions and/or whose names are included in this document are as follows:

Name	Qualification
SBI E2-Capital (HK) Limited	Licensed under the SFO for Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified public accountants
Jingtian & Gongcheng	Legal advisers to our Company as to PRC law
Conyers Dill & Pearman	Bermuda barristers and attorneys
Savills Valuation and Professional Services Limited	Independent professional surveyors and valuers

21. Consents of experts

Each of SBI E2-Capital (HK) Limited, Deloitte Touche Tohmatsu, Jingtian & Gongcheng, Conyers Dill & Pearman, and Savills Valuation and Professional Services Limited has given and has not withdrawn its written consents to the issue of this document with copies of their reports, letters, valuation, opinions or summaries of opinions (as the case may be) and the references to its names or summaries of opinions included herein in the form and context in which they respectively appear.

22. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

23. Taxation of holders of Shares

(a) *Hong Kong*

Dealings in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

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(b) Bermuda

Under present Bermuda law, transfers and other dispositions of Shares are exempt from Bermuda stamp duty.

(c) Consultation with professional advisers

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasized that none of our Company, [●], our Directors or the other parties involved in the [●] can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription of, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

24. Miscellaneous

(a) Save as disclosed herein:

- (i) within two years immediately preceding the date of this document:
 - (aa) no share or loan capital of our Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
 - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Share in our Company or any of its subsidiaries; and
 - (dd) no amount or benefit has been paid or given or intended to be paid or given to the promoter of our Company;
- (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) there has been no material adverse change in the financial position or prospects of our Group 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; and
- (iv) there has not been any interruption in the business of our Group which may have or has had a material adverse effect on the financial position of our Group.

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- (b) Subject to the provisions of the Companies Act, the register of members of our Company will be maintained in Bermuda by Butterfield Fulcrum Group (Bermuda) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, our Company’s branch share registrar in Hong Kong and may not be lodged in Bermuda.
- (c) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

25. Particulars of [●]

Particulars of [●] as at the Latest Practicable Date are set out as follows:

[●]

None of our Directors are interested in the [●].