# TONTINE

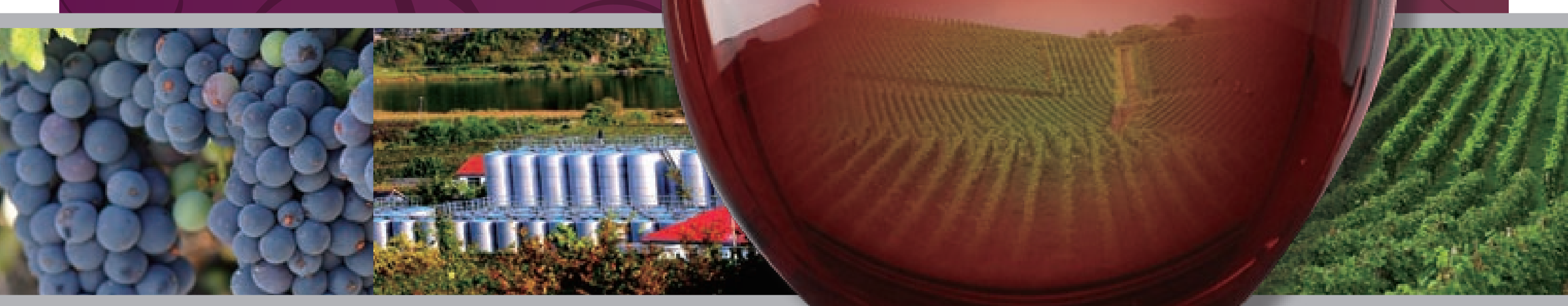
# China Tontine Wines Group Limited

# 中國通天酒業集團有限公司

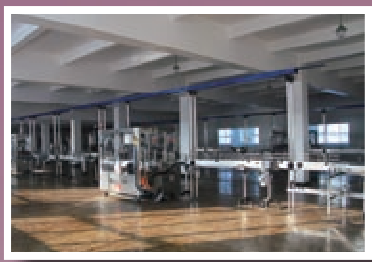
*(Incorporated in Bermuda with limited liability)*

*Stock Code: 389*

Annual Report 2010



# SIGNIFICANT EVENTS OF THE YEAR



The new production facilities were completed and came into operation in the fourth quarter of 2010, thereby increasing Group's annual production capacity to 39,000 tonnes.

The Company appointed Miss Jessey Meng (孟廣美) as the brand ambassador to promote our product and company image.


Tongtian Hong Ice Wine was awarded the Gold Award in Colombin Cup – The Fourth Yantai International Wine Competition (Domestic Group)



Retail shops were launched in Shanghai and Chengdu as sales and marketing platforms for Tontine brand products, and provide marketing support to the distributors.

## 2010 New Product Highlights

Tontine Premium Blueberry Wine
(通天特級藍莓酒)

Tontine Premium Ice Wine
(通天特級冰葡萄酒)


Tontine Dry White Wine
(通天干白葡萄酒)

Tontine Wild Rose Mountain Grape Wine
(通天野玫瑰山葡萄酒)

Tontine Dealcoholized Mountain Grape Wine
(通天脱醇山葡萄酒)

China Tontine Mountain Grape Wine
(中國通天山葡萄酒)

# Contents

# Financial Highlights

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* *(Note 12)* |
| **Profitability data** | | | | | |
| Revenue | **703,514** | 584,336 | 486,708 | 391,570 | 281,823 |
| Gross profit | **413,871** | 338,191 | 276,939 | 209,009 | 141,346 |
| Profit and total comprehensive income for the year attributable to owners of the Company | **208,125** | 174,105 | 136,788 | 105,231 | 62,178 |
| Basic earnings per share | | | | | |
| – basic *(RMB cents) (Note 1)* | **11.9** | 12.7 | 10.3 | 7.9 | 4.7 |
| – diluted *(RMB cents) (Note 2)* | **11.9** | N/A | N/A | N/A | N/A |

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| **Profitability ratios** | | | | | |
| Gross profit margin | **58.8%** | 57.9% | 56.9% | 53.4% | 50.2% |
| Profit margin | **29.6%** | 29.8% | 28.1% | 26.9% | 22.1% |
| Effective tax rate | **31%** | 30% | 32% | 24% | 37% |
| Return on equity *(Note 3)* | **15.9%** | 26.0% | 44.5% | 46.5% | 34.8% |
| Return on assets *(Note 4)* | **14.7%** | 22.9% | 37.5% | 38.9% | 24.7% |
| **Operating ratios (as a percentage of revenue)** | | | | | |
| Advertising and marketing expenses | **6.1%** | 5.3% | 4.5% | 10.7% | 6.5% |
| Staff costs | **4.4%** | 3.5% | 3.4% | 3.0% | 3.3% |
| Research and development | **0.2%** | 0.2% | 0.2% | 0.3% | 0.3% |

*Notes:*

1. The calculation of basic earnings per share is based on the profit and total comprehensive income for the year attributable to owners of the Company divided by the weighted average number of ordinary shares in issue during the relevant period.

2. The calculation of diluted earnings per share for the year ended 31 December 2010 does not assume the exercise of the Company's share options as the exercise price of those share options granted during the year ended 31 December 2010 was higher than the average market price per share from the date of grant to 31 December 2010.

   No diluted earnings per shares for the year ended 31 December 2006, 2007, 2008 and 2009 (the "Period") as there are no potential dilutive ordinary share outstanding during the Period.

3. Return on equity is equal to the profit and total comprehensive income for the year attributable to owners of the Company divided by the average balance of total equity including amount due to a shareholder as at the beginning of each year and as at the end of each year.

4. Return on assets is equal to the profit and total comprehensive income for the year attributable to owners of the Company divided by the average balance of total assets as at the beginning of each year and as at the end of each year.

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(Note 12)* | *(Note 12)* | *(Note 12)* |
| **Assets and liabilities data** | | | | | |
| Non-current assets | **268,208** | 106,399 | 109,072 | 88,955 | 92,473 |
| Current assets | **1,499,305** | 961,094 | 341,168 | 191,104 | 168,316 |
| Current liabilities | **93,987** | 79,515 | 71,466 | 132,755 | 112,216 |
| Non-current liability | **27,555** | 17,428 | 7,572 | – | – |
| Shareholders' equity | **1,645,971** | 970,550 | 371,202 | 147,304 | 148,573 |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| | | | *(Note 12)* | *(Note 12)* | *(Note 12)* |
| **Other key financial ratios and information** | | | | | |
| Current ratios *(Note 5)* | **16.0** | 12.1 | 4.8 | 1.4 | 1.5 |
| Quick ratios *(Note 6)* | **13.9** | 10.2 | 2.8 | 0.5 | 0.4 |
| Gearing ratio *(Note 7)* | **–** | – | – | 34.2% | 23.2% |
| Net asset value per share *(RMB) (Note 8)* | **0.8** | 0.6 | N/A | N/A | N/A |
| Inventory turnover days *(days) (Note 9)* | **287** | 284 | 302 | 318 | 348 |
| Trade receivables turnover days *(days) (Note 10)* | **58** | 56 | 54 | 51 | 66 |
| Trade payables turnover days *(days) (Note 11)* | **30** | 28 | 27 | 40 | 57 |

*Notes:*

5. Current ratio equals current assets divided by current liabilities as at the end of each year.

6. Quick ratio equals current assets minus inventory, divided by current liabilities as at the end of each year.

7. Gearing ratio equals the debts incurred in the ordinary course of business divided by total assets as at the end of each year.

8. The calculation of net asset value per share for the year ended 31 December 2010 is based on the total number of shares in issue after the Company's placing of its shares on 9 November 2010 and at the end of the year.

   The calculation of net asset value per share for the year ended 31 December 2009 is based on the total number of shares in issue immediately after the Company's share offer (by way of placing and public offer) and listing of its shares on the Main Board of the Stock Exchange of Hong Kong Limited on 19 November 2009 and at the end of the year.

9. 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.

10. 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.

11. 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 multiplied by 365 days.

12. The financial data of the Company for the year ended 31 December 2006, 2007 and 2008 and information as to its financial position as at 31 December 2006, 2007 and 2008 are extracted from the Company's prospectus dated 5 November 2009.

# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Wang Guangyuan
Mr. Zhang Hebin
Ms. Wang Lijuan

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sih Wai Kin, Daniel
Mr. Lai Chi Keung, Albert
Mr. Li Changgao

## COMPANY SECRETARY

Mr. Sum Chi Kan, *CISA, FCCA*

## AUDIT COMMITTEE

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

## REMUNERATION 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

## AUTHORISED REPRESENTATIVES

Mr. Wang Guangyuan
Mr. Sum Chi Kan

## LEGAL ADVISERS

### As to Hong Kong law

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place
Hong Kong

### As to Bermuda law

Conyers Dill & Pearman
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

### As to PRC law

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

## COMPLIANCE ADVISER

SBI E2-Capital (HK) Limited
Unit A2, 32nd Floor, United Centre
95 Queensway
Hong Kong

## AUDITOR

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

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## 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

## HEAD OFFICE IN THE PRC

No. 2199, Tuanjie Road
Tonghua County
Jilin Province
PRC

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

## BRANCH REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China Tower Branch
1 Garden Road
Hong Kong

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

## INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

## COMPANY WEBSITE

http://www.tontine-wines.com.hk
(information on the website does not form part of this annual report)

## SHARE INFORMATION

Listing date: 19 November 2009
Stock name: Tontine Wines
Number of issued shares as at 31 December 2010: 2,017,934,000 shares
Board lot: 2,000 shares

## STOCK CODE

389

## FINANCIAL YEAR-END DATE

31 December

# Chairman's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of China Tontine Wines Group Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2010.

Since the first half of 2010, the robust economic growth in the People's Republic of China ("China" or the "PRC") has been progressively accelerating the rate of growth in demand for country's domestic products and strengthening the national spending power. With vigorous business activities, stronger national consumption power and a growing interest in wine appreciation, the China's grape wine market is highly promising and has been flourishing during the year.

We are fortunate to benefit from the gradual shift in China's key economic growth driver from investments to domestic consumption and on the growing awareness of the whole population in leading a more health-conscious lifestyle as wine (in particular, grape wine) is generally perceived as healthier than traditional drinks like Chinese spirits.

During the financial year, the Group's results hit new records with revenue reaching RMB703.5 million, representing a healthy increase of 20.4% as compared with that of the preceding financial year. Profit and total comprehensive income for the year rose by approximately 19.5% to approximately RMB208.1 million as compared with that of the previous financial year mainly due to expansion of our distribution network, the ongoing enhancement of our brand and product quality that lead to increase in both average selling price and sales volume.

Basic earnings per share for the year were RMB11.9 cents (2009: RMB12.7 cents). The Board has recommended to declare a final dividend of HK3.0 cents (equivalent to RMB2.55 cents) (2009: HK2.88 cents (equivalent to RMB2.53 cents)) per share to share with shareholders the fruits of our rapid development.

In August 2010, the Company appointed Miss Jessey Meng (孟廣美), a famous female artiste, as the brand Ambassador to promote our products and the Company's image.

In September 2010, the Company's new product "Tongtian Hong Ice Wine" (通天紅冰酒), which was scheduled for launch in 2011, was awarded the Gold Award in the "Colombin Cup – The Fourth Yantai International Wine Competition (Domestic Group). The new product was unanimously regarded as among the best by the domestic and international judging panel. The prestigious award, once again, testifies to the unique, pure quality of the Group's sweet wine products.

To meet the anticipated increase in market demand for wine products, the Group commenced the second-phase annual production capacity expansion from approximately 19,000 tonnes to approximately 39,000 tonnes in 2007. Related construction in Tonghua County, Jilin Province, has been completed and came into operation in the fourth quarter of 2010. With an increased capacity to boost production, the Board is confident that the Group will be able to expand its business, achieve better market penetration and attract a broader customer base.

Due to the economic growth in the PRC, consumers are becoming wealthier. With the view of capturing the current opportunities and satisfying the huge market demand, the Group is actively introducing different types of high-end grape wine products and strengthening its products mix. During 2010, 10 types of new products have been launched in the market, and all were well-received by our customers.

A high efficient operation structure with competitive talents is the key to business success. During the year under review, the Group optimised its corporate structure and recruited high calibre talents and experts in the grape wine sector to assist in the expansion of regional business and thus enhanced the services and control effectiveness. In addition, the Board and the management of the Group are committed to improve the Group's corporate governance to a higher standard so as to enhance investor's confidence on the Group.

Looking forward, the Group believes that China's ongoing rapid economic growth and urbanisation will continue to offer a favourable environment for the grape wine sector as a whole. The Group will continue to expand its sales channels and work towards the objective of establishing a distribution network that covers second- and third-tier cities throughout the country. Meanwhile, the Group will proactively identify merger and acquisition opportunities so as to solidify its business foundation and bring better return to the shareholders of the Company.

On behalf of the Board, I would like to express my sincere appreciation to our shareholders, investors, business partners and customers for their continued support. I would also like to thank our senior management team and all staff for their unfailing hard work and brilliant contributions in the past few years.

**Wang Guangyuan**
*Chairman and Executive Director*
21 March 2011

## OVERVIEW

Following the earlier global financial crisis, the Chinese government adopted a series of positive economic stimulus plans, and in particular, initiated most favourable financial policies to spur the rural and consumer sectors. Given China's strength in its underlying economy, strong domestic demand and favourable government policies in place, the Directors consider that the Group is well positioned to penetrate into China's retail and consumer markets that offer enormous opportunities for our business to grow.

The Group recorded a revenue of approximately RMB703.5 million (2009: RMB584.3 million), representing an increase of approximately 20.4% for the year ended 31 December 2010 and the Group's profit and total comprehensive income attributable to owners of the Company increased by approximately 19.5% to approximately RMB208.1 million (2009: RMB174.1 million).

The Company's basic earnings per share reached RMB11.9 cents (2009: RMB12.7 cents) based on the weighted average number of shares in issue during the year.

The improvement in financial results in 2010 was mainly attributable to increase in sales volume and improvement of the gross profit margin.

## PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES (THE "PLACING AND SUBSCRIPTION")

On 9 November 2010, the Company entered into a placing and subscription agreement (the "Placing and Subscription Agreement") with Up Mount International Limited (being a controlling shareholder of the Company) (the "Vendor") as vendor and a placing agent pursuant to which an aggregate of 300,000,000 existing shares (the "Placing Shares") of HK$0.01 each in the Company held by the Vendor were successfully placed in full by the placing agent to independent placees at HK$2.08 per Placing Share and, as part of the arrangement of the Placing and Subscription Agreement, a total of 300,000,000 new shares (the "Subscription Shares") of HK$0.01 each in the Company (equivalent to the number of the Placing Shares) were subscribed for by the Vendor at HK$2.08 per Subscription Share. Net proceeds of approximately HK$594.1 million (equivalent to approximately RMB505.0 million) were raised from the transaction and were intended to be retained for future acquisitions and for general working capital. The satisfactory results of the Placing and Subscription reflected the confidence of investors in the prospects of our business as well as in the grape wine industry of the PRC.

## USE OF PROCEEDS

The Company was officially listed on the main board of the Stock Exchange on 19 November 2009 by way of placing and public offer (the "Share Offer") as disclosed in the prospectus of the Company dated 5 November 2009 (the "Prospectus") with net proceeds of approximately HK$438.9 million raised from the Share Offer.

The use or intended use of proceeds from the Share Offer and the Placing and Subscription is set out below:

| | **IPO** | **Placing and subscription** | **Utilised** | **Unutilised as at 31 December 2010** |
|---|---|---|---|---|
| | *HK$ million* | *HK$ million* | *HK$ million (Note)* | *HK$ million* |
| Expansion of production facilities | 113.6 | – | (113.6) | – |
| Development of wine estate | 68.2 | – | (50.9) | 17.3 |
| Development of wine cellar | 45.5 | – | (45.5) | – |
| Developing and increasing awareness of our brand | 105.2 | – | (47.3) | 57.9 |
| Expansion of distribution network | 52.6 | – | (1.5) | 51.1 |
| General working capital, future acquisition and other general corporate purposes | 53.8 | 594.1 | (49.4) | 598.5 |
| Total | 438.9 | 594.1 | (308.2) | 724.8 |

As at 31 December 2010, the unutilised net proceeds were placed in short term bank deposit in Hong Kong and in the PRC.

*Note:* The application of the proceeds was in line with the intended use of proceeds as disclosed in the Prospectus and the announcement of the Company dated 9 November 2010 relating to the Placing and Subscription.

## BUSINESS REVIEW

### Sales and distribution network

The Group sells substantially all of our products to distributors, who distribute and sell our grape wine to third-party retailers, including supermarkets, and speciality 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.

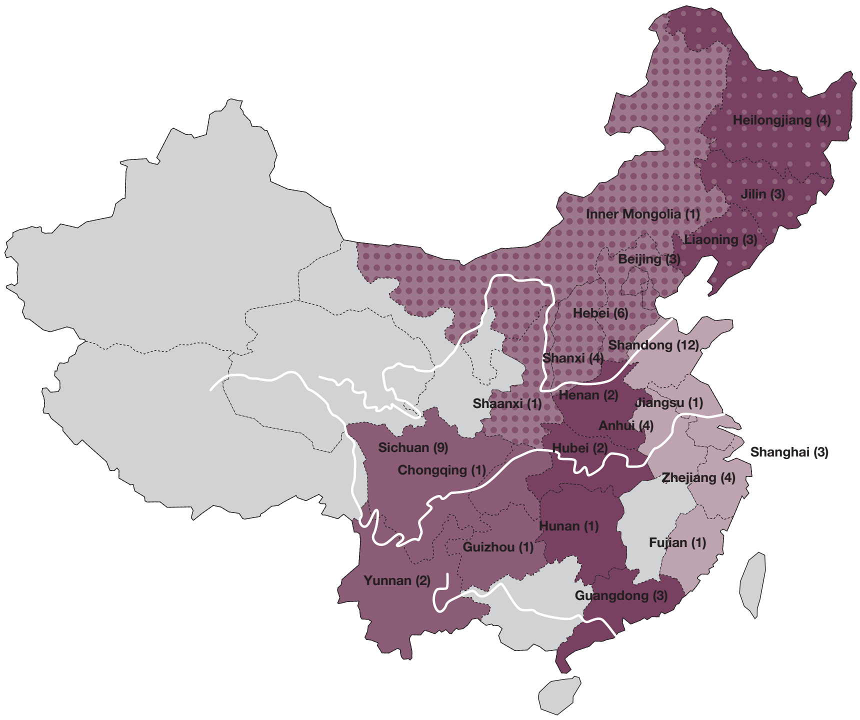
Generally, the Group selects distributors to distribute grape wines products within a designated geographical area and such selections are based on factors such as economic strength, sales network in the Group's target market, product knowledge, mutual goodwill and common objectives, good track record and successful experience in consumer goods distribution, and high moral integrity, credibility and social standing.

The Group constantly reviews the performance of the distributors within its sales and distribution network. During the year under review, two new distributors were appointed, and cooperation with two distributors was terminated by the Group after careful selection and evaluation. As at 31 December 2010, the Group's products were sold through 71 distributors in 19 provinces and 3 municipal cities in the PRC. All distributors are independent third parties and are generally engaged in the business of distributing and selling of grape wine products.

The Group enters 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, the Group will renew such agreements with distributors each year. In order to facilitate and assist the marketing and sale of the Group's products by its distributors, the Group bears the delivery costs and implements advertising strategies primarily through television commercials, billboards and magazines to emphasize the health benefits of moderate consumption of grape wines in order to establish consumer loyalty and strengthen the popularity of our products.

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

The following map illustrates the Group's distribution network in the PRC as at 31 December 2010:




*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.

4. : South-central region of China includes Henan Province, Hubei Province, Hunan Province and Guangdong 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 year:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | ***RMB'000*** | **%** | *RMB'000* | % |
| North-East (Refer to Note 1 above) | **104,220** | **14.8%** | 87,349 | 14.9% |
| Northern (Refer to Note 2 above) | **138,337** | **19.7%** | 112,179 | 19.2% |
| Eastern (Refer to Note 3 above) | **226,809** | **32.2%** | 186,908 | 32.0% |
| South-Central (Refer to Note 4 above) | **90,589** | **12.9%** | 74,624 | 12.8% |
| South-West (Refer to Note 5 above) | **143,559** | **20.4%** | 123,276 | 21.1% |
| Total | **703,514** | **100.0%** | 584,336 | 100.0% |

The geographical distribution of our sales remained relatively stable. Revenue derived from our sales in the eastern region of China made the largest contribution to our total revenue. The eastern region of China is our largest market with the highest number of distributors, as it is a comparatively 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 northern regions of China are also our significant markets, where some of our key distributors are located.

The Group will continue to expand and optimize its distribution network by working closely with the Group's distributors and leveraging their local resources and business networks.

## Supply of grapes

Production of quality grape wine products is highly dependent upon sufficient supply of quality grapes and grape juice. Currently, we source our supply of grapes from 280 local grape farmer suppliers, whose 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. In order to maintain reliable and stable supplies of quality grapes to meet our needs, we have entered into a 20 year long-term contract with each of our grape farmer suppliers and our vineyard management team supervises the planting, nurturing and harvesting of the grapevines.

## Production capacity

The Group's new production facilities in Tonghua County, Jilin Province, were completed and came into operation in the fourth quarter of 2010, thereby increasing Group's annual production capacity to 39,000 tonnes. The enlarged production capacity will enable us to promptly respond to market demand and expand our market position.

## Business outlook

The global economies and industries have continued to recover from the financial crisis. With the benefits of the PRC government's stimulus package, the Chinese economy has moved forward at a fast pace and has recovered from the recession faster than other economies in the world. The economic recovery has also triggered an increase in household income and accelerated urbanisation in China. The Group believes that such development will generate an increase in the customer's demand for grape wine products. The Group is confident that, with the Group's leading position in the sweet wine market in the PRC, the Group should be able to take advantage of opportunities to increase our revenue and our market share. In view of this, the Group is prepared to deal with any uncertainties which may arise from the tightening measures imposed by the PRC government to cool off the property market in China and the volatile economic conditions in the western countries. The business development plans and strategies of the Group as disclosed below are set for the coming years:

### *Develop Tontine wine estate*

The Group plans to develop a wine estate in Ji'An City, Jilin Province, to produce a premium range of our estate bottle wines from high quality grapes. Wines produced by the 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. Our wine estate, with vineyards covering a total area of approximately 2,000 mu*, will be installed with wine production and wine cellaring facilities and is expected to have an annual yield of around 500 tonnes (approximately 600,000 bottles (750 ml)).

### *Develop Tontine wine cellar*

The Group plans to develop wine cellaring capabilities to complement our production facilities in Tonghua County, Jilin Province. 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 winery products. The storage capacity of the wine cellar is designed to accommodate an ample storage for the holding or processing of up to approximately 600,000 bottles (750 ml).

### *Expand and develop distribution network*

The Group plans to enhance our current sales and distribution network throughout the PRC by establishing not less than 20 Tontine retail shops in certain selected markets in the PRC within the next 3 years. As at the date of this report, retail shops were launched in Shanghai and Chengdu. We plan to establish not less than 6 shops (to be located in Beijing, Shenyang, Wuhan, Changsha, Changchun and Luzhou) in 2011. These retail shops will serve as sales and marketing platforms for Tontine brand products, and provide marketing support to our distributors.

* 1 mu equals to approximately 667 square metres.

The grape wine market in the PRC is enormous and the business of the Group is becoming increasingly competitive. As such, the Group has formulated long-term development objectives and strategies to give an impetus to its overall business development. The Group will continue to expand and deepen its sales and distribution system, which involves increasing the number of distributors and selling points and opening up more sales channels in order to expand the Group's business coverage nationwide from first to second- and third-tier cities to towns and villages.

In respect of its product mix expansion and optimisation, the Group will continue to develop more products with huge potential to cater the demand of different customers.

The Group believes that by utilising its strong sales network to distribute diversified products, it will secure a steady growth of the Group's business in long term.

## FINANCIAL REVIEW

### Revenue

Revenue represents proceeds from the sale of grape wine products. Our revenue increased by approximately 20.4% to approximately RMB703.5 million for the year ended 31 December 2010 from approximately RMB584.3 million in 2009. Our customers mainly comprised regional distributors in the PRC and we sold our products to our distributors at prices ranging from approximately RMB5.9 to RMB115.0 per bottle. The growth in revenue was due to a satisfactory increase in sales volume. The following table sets forth a breakdown of the Group's revenue for the year:

| | **2010** | | 2009 | | Growth of Revenues |
|---|---|---|---|---|---|
| | ***RMB'000*** | ***% of total revenues*** | *RMB'000* | *% of total revenues* | *(%)* |
| **Revenue** | | | | | |
| Sweet wines | **498,164** | **70.8%** | 403,830 | 69.1% | 23.4% |
| Dry wines | **205,350** | **29.2%** | 180,506 | 30.9% | 13.8% |
| **Total** | **703,514** | **100.0%** | 584,336 | 100.0% | |

Revenue derived from the sale of our sweet wine products is generally higher than that of our dry wine products primarily because of our business strategy in focusing on the promotion of our sweet wine products which have better profit margins.

The following table sets forth the number of units sold and the average selling prices of the Group's products for the year:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Total units sold** | **Average[1] selling price** | Total units sold | Average[1] selling price |
| | | ***RMB'000*** | | *RMB'000* |
| | ***tonnes*** | ***per tonne*** | *tonnes* | *per tonne* |
| **Revenue** | | | | |
| Sweet wines | **12,997** | **38.3** | 12,046 | 33.5 |
| Dry wines | **7,017** | **29.3** | 6,432 | 28.1 |
| **Total** | **20,014** | **35.2** | 18,478 | 31.6 |

During the year, 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 margin, which are generally products with higher selling prices, as we focused on growing the sales of such products.

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

## Cost of sales

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | ***RMB'000*** | **%** | *RMB'000* | % |
| Raw materials | | | | |
| – Grapes and grape juice | **132,798** | **45.8%** | 112,629 | 45.8% |
| – Yeast and other additives | **8,635** | **3.0%** | 8,553 | 3.5% |
| – Packaging materials | **67,930** | **23.5%** | 59,470 | 24.2% |
| – Others | **682** | **0.2%** | 627 | 0.2% |
| Total raw material cost | **210,045** | **72.5%** | 181,279 | 73.7% |
| Production overheads | **7,619** | **2.6%** | 6,432 | 2.6% |
| Consumption tax | **71,979** | **24.9%** | 58,434 | 23.7% |
| Total cost of sales | **289,643** | **100.0%** | 246,145 | 100.0% |

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, label, corks and packing boxes. In 2010, the cost of grapes and grape juice were the key component of cost of sales and accounted for approximately 45.8% of the Group's total cost of sales. During the year, the total cost of grapes and grape juice to revenue and packaging materials to revenue were relatively stable as compared with last year.

Production overheads primarily consists of depreciation, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses for production. Production overheads as a percentage of revenue in 2010 remained stable as compared with that of 2009.

### Gross profit and gross profit margin

Gross profit is calculated based on the Group's revenue less cost of sales. During the year, the gross profit of the Group increased approximately 22.4% from approximately RMB338.2 million to approximately RMB413.9 million. 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 approximately 0.9% from approximately 57.9% to approximately 58.8%. This was mainly attributable to the shift in our sales mix towards higher margin products.

### Selling and distribution expenses

Selling and distribution expenses mainly comprises advertising and promotional expenses, transportation costs, sales commission paid and miscellaneous expenditures related to our sales and marketing personnel.

During the year, the selling and distribution expenses increased and accounted for approximately 12.0% (2009: 11.6%) of the Group's revenue. The slight increase in selling and distribution expenses was primarily attributable to (i) an increase in sales commissions as a result of the higher revenue achieved for the year; (ii) an increase in transportation costs which was broadly in line with increase in sales; and (iii) increases in advertising and promotional charges by 38.7% from approximately RMB31.0 million for the financial year 2009 to approximately RMB43.0 million for the financial year 2010.

### Administrative expenses

Administrative expenses mainly comprise salaries and welfare benefits paid, directors' fees, product development expenses, insurance premium, other tax expenses, depreciation and amortization expenses and other incidental administrative expenses.

In 2010, administrative expenses represented 4.6% of our revenue and increased from approximately RMB13.3 million for the financial year 2009 to approximately RMB32.3 million for the financial year 2010. The increase was mainly attributable to the administrative staff salaries, the expenses related to the Hong Kong office that was set up in 2009 and the share option expense for the share options granted during the year ended 31 December 2010.

### Income tax expenses

Tax represents amounts of PRC enterprise income tax charged at the applicable tax rates in accordance with the relevant law and regulations in the PRC. Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the enterprise income tax rate of the subsidiary of the Company incorporated in the PRC had changed to 25% with effect from 1 January 2008. For the year ended 31 December 2010, the effective tax rate of the Group increased to approximately 31.0% (2009: 30%). Our effective tax rates were higher than our PRC enterprise income tax rate 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 the PRC subsidiary 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).

### Profit and total comprehensive income for the year

The profit and total comprehensive income for the year increased from approximately RMB174.1 million in 2009 to approximately RMB208.1 million in 2010, representing a growth of approximately 19.5%. This was mainly attributed to an increase in gross profit margin and sales volume.

### Trade receivables analysis

We grant a credit period of 90 days for our distributors except for newly accepted customers who are required to settle our invoices upfront in cash for the whole or substantially the whole of our initial shipment.

As at 31 December 2010, the trade receivables were approximately RMB125.6 million (2009: RMB98.8 million) and average trade receivables turnover days were approximately 58 days (2009: 56 days). The average trade receivables turnover days slightly increased in 2010 primarily due to our granting of credit periods to customers who started purchasing our products in 2009.

### Trade payables analysis

We pay grape farmers cash on delivery for the purchase of grapes. The credit period on purchase of our raw materials other than grapes is 90 days.

As at 31 December 2010, the trade payables were approximately RMB20.1 million and average trade payables turnover days were approximately 30 days (2009: 28 days). The average trade payables turnover days increased primarily due to the increased purchase of raw materials toward the year end in preparation for the expected increase in sales in December 2010 and early 2011.

### Inventories analysis

We generally maintain our inventories at certain acceptable levels to meet the seasonal, market and other commercial needs.

As at 31 December 2010, the inventories were approximately RMB193.3 million (2009: RMB148.6 million) and average inventory turnover days were approximately 287 days (2009: 284 days). The inventory turnover days for our business is generally higher 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 for each year which will then be consumed in the course of production until the next harvest of grapes in the following year. The increase in average inventory turnover days during the year was primarily due to our strategy to increase our stock level in order to meet with the keen demand in coming Chinese New Year.

### Financial management and treasury policy

As at 31 December 2010, except for the net proceeds from the placing of existing shares and subscription of new shares ("Placing and Subscription Transaction") of the Company announced in November 2010, the Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). Accordingly, there has been no significant exposure to foreign exchange fluctuation.

The net proceeds from the Placing and Subscription Transaction that were not already used for the intended purposes have been placed on short term deposit in Hong Kong and in the PRC. The Company also pays dividends in Hong Kong dollars when dividends are declared. The Directors consider that the Group has limited foreign currency exposure because our operations are conducted in the PRC. Sales and purchases are mainly denominated in RMB. In view of the minimal foreign currency exchange risk, we would closely monitor the foreign currency movement instead of entering into any foreign exchange hedge arrangement.

The Group will continue to pursue a prudent treasury management policy and is in a strong liquidity position with sufficient cash to cope with daily operations and future development demands for capital.

With the strong cash and bank balances, we are in a net cash position and thus are exposed to minimal financial risk on interest rate fluctuation.

### Liquidity and financial resources

Our working capital was healthy and positive for the financial years 2009 and 2010 and we generally financed our operation with internal cash flows generated from operations for the past years.

Our net working capital continued to improve during the year ended 31 December 2010. As at 31 December 2010, we recorded a net current assets position of approximately RMB1,405 million (2009: RMB881.6 million). The improvement was primarily due to (i) an increase in our bank balances and cash by approximately of RMB18.4 million as a result of the improvement in our business performance in 2010; (ii) approximately RMB505.0 million net proceeds raised from the Placing and Subscription.

### Employment and remuneration policy

Quality and dedicated staff are our most important assets and are indispensable to our success in the competitive market. As part of our corporate culture, we strive to ensure a strong team spirit among our employees for them to contribute towards our corporate objectives. In achieving the goal, we offer competitive remuneration packages commensurate with the industry level and provide various fringe benefits, including trainings, medical, insurance coverage as well as retirement benefits to the employees in Hong Kong and in the PRC. Employees are encouraged to enroll in external professional and technical seminars, and other training programs and courses to update their technical knowledge and skills, enhance their market awareness and improve their business acumen. The Group reviews its human resources and remuneration policies periodically with reference to local legislation, market conditions, industry practice and assessment of the performance of the Group and individual employees.

As at 31 December 2010, the Group employed a work force of 374 (including Directors) in Hong Kong and in the PRC (2009: 365). The total salaries and related costs (including the Directors' fee) for the year ended 31 December 2010 amounted to approximately RMB30.8 million (2009: RMB20.3 million).

### Capital commitments and charges on assets

The Group made capital expenditure commitments including approximately RMB189.2 million that was authorised but not contracted for and approximately RMB102.5 million contracted but not provided for in the financial statements as at 31 December 2010. These commitments were required mainly to support the Group's production capacity expansion. The funding of such capital commitments will be paid out of the net proceeds of the Share Offer as stated in the Prospectus and cash generated from operating activities.

As at 31 December 2010, none of the Group's assets was pledged (2009: nil).

## EXECUTIVE DIRECTORS

**Mr. Wang Guangyuan (王光遠)**, aged 49, 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 Tonghua Tongtian Winery Co., Ltd ("Tonghua Tongtian") 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, and Ms. Wang Lijun, a deputy general manager of our Company.

Mr. Wang is beneficially interested in the entire issued share capital of Up Mount International Limited ("Up Mount"), a 33.48% shareholder of the Company, and is also a director of Up Mount.

**Mr. Zhang Hebin (張和彬)**, aged 50, was appointed as our executive Director on 8 September 2008. He is one of the founding management team members of Tonghua Tongtian 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 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.

Mr. Zhang is beneficially interested in the entire issued share capital of Wing Move Group Limited ("Wing Move"), a 6.56% shareholder of the Company, and is also a director of Wing Move.

**Ms. Wang Lijuan (王麗娟)**, aged 53, was appointed as our executive Director on 17 December 2008, and is one of the founding management team members of Tonghua Tongtian 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 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, and Ms. Wang Lijun, a deputy general manager of our Company.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Sih Wai Kin, Daniel (薛偉健)**, aged 44, was appointed as our independent non-executive Director on 28 October 2009. Mr. Sih has been working with Manulife Asset Management (Hong Kong) Limited ("Manulife") as a senior manager since January 2011 and is primarily responsible for, among others, providing recommendation through financial and market analysis on planning, portfolio selection and management, and advice on various types of investment products. He is also responsible for overseeing strategies on funds' distribution and channel management of Manulife. Prior to joining Manulife and since July 2004, he worked with Convoy Financial Services Limited as a consultant, and was responsible for providing independent financial advice, conducting financial analyses and devising wealth management plans. 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 activity. 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.

**Mr. Lai Chi Keung, Albert (黎志強)**, aged 49, 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 US 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.

**Mr. Li Changgao (李常高)**, aged 42, 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.

## SENIOR MANAGEMENT

**Ms. Ji Chunhua (紀春花)**, aged 49, is the chief winemaker of our Company, and is one of the founding management team members of Tonghua Tongtian 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 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 promoted as the head of the technical department in August 1988. She has been a member of Tonghua City Wine Jury Panel (通化縣葡萄酒、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 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 55, is 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 manger in July 1988 and was responsible for technology. Mr. Yu worked in Ji'an Forestry Winery Factory (集安森林葡萄酒廠) from 1997 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 52, was a deputy general manager of our Company from September 2000 to December 2010 and is one of the founding management team members of Tonghua Tongtian since its establishment in 2001. He is primarily responsible for supervising the overall production and manufacturing processes of the products of our Group. Prior to his appointment as deputy general manager, he had 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 its 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. Kang resigned on 31 December 2010 due to personal health reason.

**Mr. Sun Yankun (孫延坤)**, aged 54, is a deputy general manager of our Company and is one of the founding management team members of Tonghua Tongtian 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 60, is a deputy general manager of our Company and is one of the founding management team members of Tonghua Tongtian since its establishment in 2001. In July 2010, Ms. Pei was promoted to deputy general manager and is responsible for reviewing and supervising the internal control systems of all the Company's subsidiaries in the PRC. 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.

**Ms. Wang Lijun (王麗君)**, aged 43, is a deputy general manager of our Company. She joined our Group in January 2010 as executive manager. In December 2010, she was promoted to deputy general manager and is responsible for administration and human resources matters of all the Company's subsidiaries in the PRC. Prior to joining our Company, from August 2006 to September 2009, she worked in Dubon Property and Casualty Insurance Company Limited Jilin branch (都邦財產保險股份有限公司吉林分公司) as business general manager and was responsible for business management. From July 1994 to August 2006, she was the deputy general manager in China Pacific Life Insurance Company Limited Tonghua branch (中國太平洋人壽保險股份有限公司通化中心支公司) and responsible for administration matters. Ms. Wang graduated from Jilin Industry University (吉林工業大學) with a bachelor's degree in accounting in July 1998. Ms. Wang is the sister of Mr. Wang, the chairman of our Board and chief executive officer and an executive Director of our Company, and Ms. Wang Lijuan, an executive Director of our Company.

**Mr. Li Jia (李恝)**, aged 33, is a 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 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.

**Ms. Zhao Dan (趙丹),** aged 32, is the chief accountant of our Company. She joined our Group in September 2001 and is responsible for accounting matters of all the Company's subsidiaries in the PRC. In July 2010, Ms. Zhao was promoted from financial controller to her current position. Ms. Zhao graduated from Jilin University (吉林大學) with a higher diploma in finance and accounting in July 2000. She was conferred her qualification of mid-level accountant in May 2005.

**Mr. Zhang Xuexin (張學鑫),** aged 30, is a deputy general manager of our Company. He joined our Group in December 2001 and is responsible for project management of the Group. In December 2010, Mr. Zhang was promoted from project manager to his current position. Mr. Zhang graduated from Jilin University (吉林大學) with a higher diploma in economic in July 2002.

**Ms. Feng Fu Qin (封福琴)**, aged 45, is the production manager of our Company. She joined our Group in September 2001 and was promoted from production supervisor to her current position in January 2011. Ms. Feng is responsible for supervising the overall production and manufacturing processes of the products of our Group. Prior to joining our Group, Ms. Feng had over 7 years' experience in production management. Ms. Feng graduated from Tianjin Light Industry College (天津輕工業學院) with a college diploma in chemistry in July 1992.

**Mr. Kwok Yuen Ying, Riki (郭元英)**, aged 42, 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 39, is the company secretary and the vice president 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.

The Directors are pleased to present their annual report and the audited financial statements of China Tontine Wines Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2010.

## CORPORATE REORGANISATION

The Company was incorporated in the Bermuda on 21 August 2008 as an exempted company with limited liability under the Bermuda Companies Act. Pursuant to a group reorganisation (the "Corporate Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares (the "Shares") on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 28 October 2009.

Details of the Corporate Reorganisation are set out in the paragraph headed "Reorganisation" on Appendix VI to the prospectus of the Company dated 5 November 2009. The Company's shares were listed on the Main Board of the Stock Exchange on 19 November 2009 (the "Listing Date").

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Particulars of the principal activities of the Company's principal subsidiaries are set out in note 33 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the financial year.

## RESULTS AND DIVIDEND

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 42 to 80.

The Directors recommend, subject to shareholders' approval at the forthcoming annual general meeting (the "AGM") to be held on 6 May 2011, the payment of a final dividend of HK3.0 cents (equivalent to RMB2.55 cents) (2009: HK2.88 cents (equivalent to RMB2.53 cents)) per share for the year ended 31 December 2010 to those shareholders whose names appear on the register of members of the Company on 6 May 2011. The final dividend is expected to be paid on or no later than 23 May 2011.

## CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlement to, among others, the final dividend for the year ended 31 December 2010, the register of members of the Company will be closed from 4 May 2011 to 6 May 2011 (both dates inclusive) during which period no transfer of Shares will be effected. In order to qualify for the proposed final dividend and to attend and vote at the AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investors Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 p.m. on 3 May 2011.

## PROPERTY, PLANT AND EQUIPMENT

During the financial year, the Group spent approximately RMB69.7 million on additions of property, plant and equipment mainly for the expansion and enhancement of its production capability. Details of movements in property, plant and equipment of the Group during the financial year are set out in note 17 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the Company's share capital during the financial year are set out in note 25 to the consolidated financial statements and in the consolidated statement of changes in equity respectively.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the financial year ended 31 December 2010.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

## SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was adopted by the shareholders of the Company on 19 November 2009. The principal terms of the Share Option Scheme are summarized below:

(i) The purpose of the Share Option Scheme is to provide an incentive for selected participants to work with commitment towards enhancing the value of the Company and the Shares for the benefit of the shareholders and to retain and attract persons whose contributions are or may be beneficial to the growth and development of the Group.

(ii) Eligible participants of the Share Option Scheme include any employee, non-executive Directors (including independent non-executive Directors), customer or supplier of goods or services to any member of the Group, shareholders of any member of the Group, consultant, adviser, contractor, business partner or service provider.

(iii) 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 option scheme of the Group shall not in aggregate exceed 10% of the Shares in issue on 19 November 2009.

(iv) 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 schemes of the Group, must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

(v) Unless approved by shareholders in general meeting, the total number of Shares issued and which may fall to be issued upon exercise of all options granted to any eligible participant under the Share Option Scheme and any other share option scheme of the Group in the 12 month period up to and including such further grant must not exceed 1% of the issued share capital of the Company for the time being.

(vi) Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). In addition, any grant to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates, in excess of 0.1% of the Shares in issue or with an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval of the Company in a general meeting.

(vii) The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption of the Share Option Scheme, after which period no further option shall be granted.

(viii) An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the offer of grant of an option.

(ix) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period (which may not expire later than 10 years from the date of the grant) to be determined and notified by the Directors to each grantee.

(x) The subscription price per Share under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of (1) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant; (2) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (3) the nominal value of a Share.

(xi) 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.

The movements in the Company's share options granted under the Share Option Scheme are as follows:

| | | Number of share options | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Grantee | Date of grant | Outstanding as at 1 January 2010 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding as at 31 December 2010 | Vesting period | Exercise period | Exercise price per share HK$ | Market value per share at date of grant of options HK$ |
| *Executive Directors:* | | | | | | | | | | |
| Mr. Wang Guangyuan | 22 November 2010 | – | 2,000,000 | – | – | 2,000,000 | 22 November 2010 to 21 May 2011 | 22 May 2010 to 21 November 2013 | 1.98 | 1.98 |
| Mr. Zhang Hebin | 22 November 2010 | – | 2,000,000 | – | – | 2,000,000 | 22 November 2010 to 21 May 2011 | 22 May 2010 to 21 November 2013 | 1.98 | 1.98 |
| Ms. Wang Lijuan | 22 November 2010 | – | 2,000,000 | – | – | 2,000,000 | 22 November 2010 to 21 May 2011 | 22 May 2010 to 21 November 2013 | 1.98 | 1.98 |
| *Non-executive Directors:* | | | | | | | | | | |
| Mr. Sih Wai Kin, Daniel | 22 November 2010 | – | 500,000 | – | – | 500,000 | 22 November 2010 to 21 May 2011 | 22 May 2010 to 21 November 2013 | 1.98 | 1.98 |
| Mr. Lai Chi Keung, Albert | 22 November 2010 | – | 500,000 | – | – | 500,000 | 22 November 2010 to 21 May 2011 | 22 May 2010 to 21 November 2013 | 1.98 | 1.98 |
| Mr. Li Changgao | 22 November 2010 | – | 500,000 | – | – | 500,000 | 22 November 2010 to 21 May 2011 | 22 May 2010 to 21 November 2013 | 1.98 | 1.98 |
| Employees | 22 November 2010 | – | 10,000,000 | – | – | 10,000,000 | 22 November 2010 to 21 May 2011 | 22 May 2010 to 21 November 2013 | 1.98 | 1.98 |
| Other participants | 22 November 2010 | – | 52,500,000 | – | – | 52,500,000 | 22 November 2010 to 21 May 2011 | 22 May 2010 to 21 May 2012 | 1.98 | 1.98 |
| Total | | – | 70,000,000 | – | – | 70,000,000 | | | | |

## RESERVES

Details of movements in the reserves of the Group during the financial year are set out in the consolidated statement of changes in equity.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last four financial years is set out on page 2. The summary does not form part of the audited financial statements.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

### Executive Directors:

Mr. Wang Guangyuan *(Appointed on 8 October 2009) (Chairman and chief executive officer)*
Mr. Zhang Hebin *(Appointed on 8 October 2009)*
Ms. Wang Lijuan *(Appointed on 8 October 2009)*

### Independent Non-Executive Directors:

Mr. Sih Wai Kin, Daniel *(Appointed on 28 October 2009)*
Mr. Lai Chi Keung, Albert *(Appointed on 28 October 2009)*
Mr. Li Changgao *(Appointed on 8 October 2009)*

The Company's bye-laws provide that, 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 to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he/she retires. Every Director will therefore retire either by rotation under the Company's bye-laws or voluntarily and will subject himself/herself to the absolute and free choice of the shareholders for re-election at the annual general meetings.

In compliance with Rule 3.10(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Board currently comprises three independent non-executive Directors, representing more than one-third of the Board. The Company has received annual confirmations of independence from Mr. Sih Wai Kin, Daniel, Mr. Lai Chi Keung, Albert and Mr. Li Changgao pursuant to Rule 3.13 of the Listing Rules. As at the date of this report, the Company still considers them to be independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 20 to 24 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has a service contract with the Company for an initial fixed term of three years commencing on 1 November 2009 and is renewable automatically thereafter for successive terms of one year until terminated by not less than three months' prior notice in writing served by each party on the other.

Each of our independent non-executive Directors has been appointed by the Company for an initial fixed term of two years commencing on the Listing Date.

None of the Directors proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2010, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

### I. Long positions in shares of the Company

| 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 Guangyuan | The Company | Interest of a controlled corporation | 675,582,720 Shares (L) *(Note 2)* | 33.48% |
| Mr. Zhang Hebin | The Company | Interest of a controlled corporation | 132,467,200 Shares (L) *(Note 3)* | 6.56% |

*Notes:*

(1) The Letter "L" denotes the Director's long position in the Shares.

(2) These Shares are registered in the name of and beneficially owned by Up Mount International Limited ("Up Mount"), a company incorporated in the British Virgin Islands (the "BVI") and whose entire issued share capital is owned by Mr. Wang Guangyuan.

(3) These Shares are registered in the name of and beneficially owned by Wing Move Group Limited ("Wing Move"), a company incorporated in the BVI and whose entire issued share capital is owned by Mr. Zhang Hebin.

### II. Long positions in underlying shares of the Company

Share options to subscribe for ordinary shares of HK$0.01 each in the Company were granted to the Directors pursuant to the Share Option Scheme. Information in relation to these options granted during the year ended 31 December 2010 was shown in the section headed "Share Option Scheme" in this report.

## INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2010, so far as is known to the Directors, the following persons, other than a Director or chief executive of the Company, have an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

| Name | Capacity/Nature of interest | Number of Shares | Approximate percentage of issued Shares |
|---|---|---|---|
| Up Mount *(Note 1)* | Beneficial owner | 675,582,720 | 33.48% |
| Ms. Zhang Min 張敏 *(Note 2)* | Interest of spouse | 675,582,720 | 33.48% |
| Wing Move *(Note 3)* | Beneficial owner | 132,467,200 | 6.56% |
| Ms. Luo Cheng Yan 羅成艷 *(Note 4)* | Interest of spouse | 132,467,200 | 6.56% |

*Notes:*

(1) Up Mount is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Wang Guangyuan, the chairman of the Company and an executive Director.

(2) Ms. Zhang Min is the spouse of Mr. Wang Guangyuan and is therefore deemed to be interested in all the Shares held by Mr. Wang Guangyuan (through Up Mount) by virtue of the SFO.

(3) Wing Move is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Zhang Hebin, an executive Director.

(4) Ms. Luo Cheng Yan is the spouse of Mr. Zhang Hebin, an executive Director, and is therefore deemed to be interested in all the Shares held by Mr. Zhang Hebin (through Wing Move) by virtue of the SFO.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its subsidiaries was a party, and in which a Director has a material interest, subsisted at the end of the financial year or at any time during the financial year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the Share Option Scheme disclosed above, at no time during the financial year was the Company or its subsidiaries a party to any arrangements whose objects are, or one of whose objects is, to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## RETIREMENT BENEFITS SCHEMES

Other than participating in the People's Republic of China state-managed retirement benefits scheme, the Group has not operated any other retirement benefits schemes for the Group's employees. Details of the Group's retirement benefits schemes during the financial year are set out in note 30 to the financial statements.

## DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACT OF SIGNIFICANCE

Save as disclosed, no contracts of significance in which a Director had a material interest, whether directly or indirectly, subsisted at the end of financial year or at any time during the financial year.

Save as disclosed, no contracts of significance in relation to the business of the Group, to which the Company or any of its subsidiaries was a party and in which a controlling shareholder of the Company or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year. Save as disclosed, no contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries subsisted at the end of the financial year or at any time during the financial year.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, no Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers and purchases from the five largest suppliers accounted for around 12.9% and 62.5% of the total sales and purchases of the Group for the financial year, respectively. The Group's largest customer and supplier accounted for around 2.9% and 21.7% of the total sales and purchases of the Group for the financial year, respectively. For the year ended 31 December 2010, none of the Directors or any of their associates or any shareholders of the Company which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers and suppliers.

## AUDIT COMMITTEE

The Company established its audit committee (the "Audit Committee") pursuant to a resolution of the Directors passed on 28 October 2009. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Sih Wai Kin, Daniel, Mr. Lai Chi Keung, Albert and Mr. Li Changgao.

The Audit Committee has reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the internal controls, as well as reviewed the Group's audited annual results for the year ended 31 December 2010.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this report, the Company has maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules since the listing of the Shares on the Stock Exchange.

## AUDITOR

Deloitte Touche Tohmatsu, the auditor of the Company, will retire at the AGM and, being eligible, offer themselves for re-appointment at the AGM. A resolution for re-appointment of auditor of the Company will be proposed at the AGM.

ON BEHALF OF THE BOARD

**Wang Guangyuan**
*Chairman and Executive Director*
Hong Kong
21 March 2011

# Corporate Governance Report

The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and comply with the increasing stringent regulatory requirements, and to fulfill its commitment to excel in corporate governance. The Board is committed to maintaining a good standard of corporate governance practices and business ethics in the firm belief that they are essential for maintaining and promoting investors' confidence and maximizing shareholders' returns.

As set out in Appendix 14 of the Listing Rules, "The Code on Corporate Governance Practices" (the "CG Code"), the CG Code sets out two levels of corporate governance practices namely, mandatory code provisions that a listed company must comply with or explain its non-compliance, and recommended best practices that a listed company is encouraged to comply with but need not disclose in the case of non-compliance.

The Company adopted the code provisions set out in the CG Code on 28 October 2009. Since the date of adoption of the CG Code up to 31 December 2010, the Company considered that it had complied with the mandatory code provisions of the CG Code save for the following:

## CODE PROVISION A.2.1

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and chief executive officer ("CEO") should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and CEO and Mr. Wang Guangyuan currently performs these two roles. Mr. Wang is responsible for the overall business strategy and development and management of our Group. The Board considers that Mr. Wang, the chairman of the Board and CEO of the Company, is able to lead the Board in major business decision making for the Group and enables the Board's decision to be effectively made, which is beneficial to the management and the development of the Group's business. Therefore, Mr. Wang assumes the dual roles of being the Chairman of the Board & CEO of the Company notwithstanding the aforementioned deviation.

## BOARD OF DIRECTORS

The Board is responsible for providing effective and responsible leadership for the Group. The Directors, both individually and collectively, must act in good faith in the best interests of the Group and its shareholders. The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on matters such as annual and interim results, major transactions, appointment or re-appointment of directors, and dividend and accounting policies. The profiles of Directors as at the date of this report are set out on pages 19 to 23.

The Board has delegated various responsibilities to certain Board committees including the Audit Committee, the Remuneration Committee and the Nomination Committee (collectively, the "Board Committees").

Our Board comprises 3 executive Directors and 3 independent non-executive Directors. Throughout the year ended 31 December 2010 ("period under review"), the Board met ten times. The attendance record of each of the Directors during the period under review is tabulated as follows:

| Name | Number of meetings attended/held during the period under review | Attendance rate |
|---|---|---|
| **Executive Director** | | |
| Mr. Wang Guangyuan *(Chairman and CEO)* | 10/10 | 100% |
| Mr. Zhang Hebin | 10/10 | 100% |
| Ms. Wang Lijuan | 10/10 | 100% |
| **Independent Non-executive Director** | | |
| Mr. Sih Wai Kin, Daniel | 6/10 | 60% |
| Mr. Lai Chi Keung, Albert | 6/10 | 60% |
| Mr. Li Changgao | 10/10 | 100% |

Save for the sibling relationship between Mr. Wang Guangyuan and Ms. Wang Lijuan, the Board members have no financial, business, family or other relationships with each other. Each of the independent non-executive Directors has confirmed in writing his independence with regard to the independence criteria set out in Rule 3.13 of the Listing Rules.

After the listing of its shares on the Main Board of the Stock Exchange on 19 November 2009, the Company has adopted the practice of holding board meetings regularly for at least four times a year at approximately quarterly intervals. Ad-hoc meetings will also be convened if necessary to discuss the overall strategy as well as financial performance of the Group. Notice of board meeting will be sent to all Directors at least 14 days prior to a regular board meeting. Reasonable notice will be given to the Directors for ad-hoc board meetings. Directors may participate either in person or through electronic means of communication.

The Company has adopted the practice to provide relevant materials to all Directors relating to the matters brought before the meetings. All the Directors will be provided with sufficient resources to discharge their duties, and, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors will have the opportunity to include matters in the agenda for Board meetings.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 1 November 2009, and is renewable automatically thereafter for successive terms of one year subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than three months' prior written notice.

Each of independent non-executive Directors has entered into a service contract with the Company for an initial term of two years commencing from the Listing Date, subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than one month's prior written notice.

In accordance with the Company's bye-laws, each year, one-third of the Directors (including executive Directors and independent non-executive Directors) for the time being will retire from office by rotation provided that every Directors shall be subject to retirement by rotation at least once every three years at the general meeting of the Company.

## BOARD COMMITTEES

As an integral part of good corporate governance practices, the Board established the Board Committees to oversee particular aspects of the Group's affairs. The Board Committees are governed by the respective written terms of reference approved by the Board.

### Audit Committee

Pursuant to a resolution of the Directors passed on 28 October 2009, the Audit Committee was established with written terms of reference in compliance with the CG Code. The Audit Committee comprises three members, all are independent non-executive Directors, 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 Audit Committee.

The Audit Committee is primarily responsible for the review and supervision of the financial reporting process and assessing the adequacy and effectiveness of the internal control system. It is also responsible for making recommendation to the Board on the appointment and removal of external auditor. It has reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the internal controls, as well as reviewed the Group's audited annual results for the year ended 31 December 2010.

The terms of reference of the Audit Committee are in compliance with the guidelines set out by Hong Kong Institute of Certified Public Accountants and have been updated on terms no less exacting than that set out in the CG Code.

The Audit Committee held two meetings during the year under review. The Audit Committee will adopt the practice of holding committee meetings regularly after the year under review. Ad-hoc meetings will also be convened if necessary.

### Remuneration Committee

Pursuant to a resolution of the Directors passed on 28 October 2009, the Remuneration Committee was established with written terms of reference in compliance with the CG Code. The Remuneration Committee comprises three members, all are independent non-executive Directors, 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.

The primary duties of the remuneration committee are 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 held two meetings during the year under review. The Remuneration Committee will adopt the practice of holding committee meetings regularly after the year under review. Ad-hoc meetings will also be convened if necessary.

### Nomination Committee

Pursuant to a resolution of the Directors passed on 28 October 2009, the Nomination Committee was established with written terms of reference in compliance with the CG Code. The Nomination Committee comprises 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. In considering the nomination of new Directors, the Nomination Committee will take into account the qualification, ability, work experience, leadership and professional ethics of the candidates.

The Nomination Committee held two meetings during the year under review. The Nomination Committee will adopt the practice of holding committee meetings regularly after the year under review. Ad-hoc meetings will also be convened if necessary.

## INTERNAL CONTROL

The Board has overall responsibilities for maintaining good and effective internal controls of the Group. During the financial year, the Board has conducted a review of the effectiveness of the Group's system of internal control, covering financial, operational, compliance control and risk management functions. The Group's system of internal control includes the setting up of a management structure with limits of authority, and is designed to help the Group achieve its business objectives, protects its assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate all risks of failure in the Group's operational systems and in the achievement of the Group's business objectives. After reviewing the Group's internal control system, the Board considers that the internal control system is effective and adequate for the Group as a whole. The Board further considers that (i) there was no material issue relating to the internal controls, including financial, operational and compliance controls and risk management functions of the Group; and (ii) that there were adequate staff with appropriate and adequate qualifications and experience, resources for accounting and financial reporting function, and adequate training programmes have been provided during the financial year. The control and compliance department of the Company plays a major role in monitoring the internal controls of the Group and reports directly to the Audit Committee. It has full access to review all aspects of the Group's activities and internal controls. All types of audited reports are circulated to the Audit Committee and key management which will follow up the corrective actions to the recommendations by the control and compliance department.

## ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the financial year, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate accounting standards which are pertinent to its operations and relevant to the financial statements, made judgments and estimates that are prudent and reasonable, and have prepared the accounts on a going concern basis. The statement of the auditor of the Company, Messrs. Deloitte Touche Tohamstu, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 38 to 39.

## AUDITOR'S REMUNERATION

During the financial year, the fees paid/payable to the auditor in respect of audit service provided by the auditor of the Group were as follows:

| | *RMB'000* |
|---|---|
| Audit Service | 1,478.4 |

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code for directors' securities transactions (the "Model Code"). The Company has made specific enquiry of all Directors and that all the Directors have confirmed their compliance with the required standards set out in the Model Code regarding directors' securities transactions throughout the financial year ended 31 December 2010.

## INVESTOR RELATIONS AND SHAREHOLDERS' COMMUNICATIONS

The Company endeavours to maintain a high level of transparency in communication with shareholders and investors in general. The various channels via which the Company communicates with its shareholders include interim and annual reports, circulars, notices, financial reports, information on the Stock Exchange's and the Company's website, and general meetings.

Shareholders are encouraged to attend the Company's general meetings where the Chairman and the executive Directors of the Board are available to answer questions. Notice of the annual general meeting of the Company and related papers are sent to shareholders of the Company at least 20 business days before the meeting and such notice is also made available on the Stock Exchange's website. Separate resolutions are proposed at the general meetings on each substantially separate issue. Poll results of the meeting will be posted on the website of the Stock Exchange on the day of the meeting. The financial and other information relating to the Group is disclosed on the Company's website, http://www.tontine-wines.com.hk.

In order to facilitate the communication with shareholders of the Company, the Group has maintained the Company's website as a channel to provide the latest information and to strengthen communication with its shareholder and the investing public. The Group's corporate correspondence and information will also be published on the website in a timely manner.

**Deloitte.**
**德勤**

**TO THE MEMBERS OF CHINA TONTINE WINES GROUP LIMITED**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of China Tontine Wines Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 42 to 80, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
21 March 2011

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

| | Notes | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|---|
| Revenue | 7 | **703,514** | 584,336 |
| Cost of sales | | **(289,643)** | (246,145) |
| Gross profit | | **413,871** | 338,191 |
| Other income | 9 | **3,340** | 1,681 |
| Selling and distribution expenses | | **(84,338)** | (67,912) |
| Administrative expenses | | **(32,288)** | (13,267) |
| Other expenses | 10 | **–** | (9,028) |
| Profit before tax | | **300,585** | 249,665 |
| Income tax expense | 11 | **(92,460)** | (75,560) |
| Profit and total comprehensive income for the year attributable to owners of the Company | 12 | **208,125** | 174,105 |
| Earnings per share | 16 | | |
| Basic (RMB cents) | | **11.9** | 12.7 |
| Diluted (RMB cents) | | **11.9** | N/A |

# Consolidated Statement of Financial Position

At 31 December 2010

| | Notes | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | 17 | **166,387** | 102,550 |
| Prepaid lease payments | 18 | **3,757** | 3,849 |
| Deposits paid for prepaid lease payments | | **54,334** | – |
| Deposits paid for acquisition of property, plant and equipment | | **43,730** | – |
| | | **268,208** | 106,399 |
| **Current Assets** | | | |
| Inventories | 19 | **193,253** | 148,604 |
| Trade receivables | 20 | **125,574** | 98,776 |
| Deposits and prepayments | | **2,653** | 291 |
| Prepaid lease payments | 18 | **92** | 92 |
| Bank balances and cash | 21 | **1,177,733** | 713,331 |
| | | **1,499,305** | 961,094 |
| **Current Liabilities** | | | |
| Trade payables | 22 | **20,089** | 16,154 |
| Other payables and accruals | 23 | **39,280** | 38,813 |
| Tax liabilities | | **34,618** | 24,548 |
| | | **93,987** | 79,515 |
| **Net Current Assets** | | **1,405,318** | 881,579 |
| **Total Assets Less Current Liabilities** | | **1,673,526** | 987,978 |
| **Non-current Liability** | | | |
| Deferred tax liability | 24 | **27,555** | 17,428 |
| | | **1,645,971** | 970,550 |
| **Capital and Reserves** | | | |
| Share capital | 25 | **17,668** | 15,118 |
| Reserves | | **1,628,303** | 955,432 |
| **Total Equity** | | **1,645,971** | 970,550 |

The consolidated financial statements on pages 42 to 80 were approved and authorised for issue by the Board of Directors on 21 March 2011 and are signed on its behalf by:

**Wang Guangyuan**
*Chairman and Executive Director*

**Zhang Hebin**
*Executive Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

| | Share capital RMB'000 | Share premium RMB'000 | Special reserve RMB'000 (Note a) | Statutory reserves RMB'000 (Note b) | Share option reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2009 | 758 | 86,767 | – | 46,182 | – | 237,495 | 371,202 |
| Total comprehensive income for the year | – | – | – | – | – | 174,105 | 174,105 |
| Exchange of shares upon group reorganisation | 407 | (86,767) | 86,360 | – | – | – | – |
| Issue of shares pursuant to initial public offering | 3,462 | 429,128 | – | – | – | – | 432,590 |
| Expenses incurred in connection with issue of new shares | – | (7,347) | – | – | – | – | (7,347) |
| Issue of share by capitalisation of share premium account | 10,491 | (10,491) | – | – | – | – | – |
| Transfer to statutory reserves | – | – | – | 20,106 | – | (20,106) | – |
| At 31 December 2009 | 15,118 | 411,290 | 86,360 | 66,288 | – | 391,494 | 970,550 |
| Total comprehensive income for the year | – | – | – | – | – | 208,125 | 208,125 |
| Placement of new shares | 2,550 | 527,850 | – | – | – | – | 530,400 |
| Expenses incurred in connection with issue of new shares | – | (25,430) | – | – | – | – | (25,430) |
| Recognition of equity-settled share-based payments | – | – | – | – | 5,865 | – | 5,865 |
| Dividends recognised as distribution *(note 15)* | – | – | – | – | – | (43,539) | (43,539) |
| Transfer to statutory reserves | – | – | – | 24,655 | – | (24,655) | – |
| At 31 December 2010 | **17,668** | **913,710** | **86,360** | **90,943** | **5,865** | **531,425** | **1,645,971** |

*Notes:*

(a) Special reserve represents the difference between the nominal value of the shares of the Company issued and the aggregate of the nominal value of the issued shares and the share premium of the holding company for which the shares of the Company have been issued in exchange upon a corporate reorganisation (the "Corporate Reorganisation") to rationalise the Group structure prior to listing of the Company's share on The Stock Exchange of Hong Kong Limited.

(b) In accordance with the relevant laws and regulations of the People's Republic of China ("PRC"), the PRC subsidiaries are required to provide for PRC statutory reserves, including enterprise expansion fund and general reserve fund, by way of appropriations from its statutory net profit (based on the PRC statutory financial statements of the subsidiaries) but before dividend distributions.

All appropriations to the funds are made at the discretion of the board of directors of the subsidiaries. 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 of the PRC subsidiaries 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 subsidiaries subject to approval from the relevant PRC authorities.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2010

| | 2010<br>*RMB'000* | 2009<br>*RMB'000* |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before tax | **300,585** | 249,665 |
| Adjustments for: | | |
| Interest income | **(3,340)** | (1,313) |
| Depreciation of property, plant and equipment | **5,906** | 4,892 |
| Amortisation of prepaid lease payments | **92** | 92 |
| Share-based payments | **5,865** | – |
| Operating cash flows before movements in working capital | **309,108** | 253,336 |
| Increase in inventories | **(44,649)** | (5,611) |
| Increase in trade receivables | **(26,798)** | (17,484) |
| (Increase) decrease in deposits and prepayments | **(2,362)** | 684 |
| Increase in trade payables | **3,935** | 3,221 |
| Increase in other payables and accruals | **467** | 3,455 |
| Cash generated from operations | **239,701** | 237,601 |
| Income tax paid | **(72,263)** | (64,331) |
| **NET CASH FROM OPERATING ACTIVITIES** | **167,438** | 173,270 |
| **INVESTING ACTIVITIES** | | |
| Interest received | **3,340** | 1,313 |
| Purchase of property, plant and equipment | **(69,743)** | (2,311) |
| Deposits paid for prepaid lease payments | **(54,334)** | – |
| Deposits paid for acquisition of property, plant and equipment | **(43,730)** | – |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(164,467)** | (998) |
| **FINANCING ACTIVITIES** | | |
| Dividends paid | **(43,539)** | – |
| Proceeds from issue of new shares | **530,400** | 432,590 |
| Expenses paid in connection with the issue of new shares | **(25,430)** | (7,347) |
| **NET CASH FROM FINANCING ACTIVITIES** | **461,431** | 425,243 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **464,402** | 597,515 |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | **713,331** | 115,816 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** represented by bank balances and cash | **1,177,733** | 713,331 |

## 1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

The consolidated financial statements are presented in Renminbi, which is also the functional currency of the Company.

Pursuant to the corporate reorganisation, which was completed by establishing the Company, Fullest Power Investments Limited ("Fullest Power") and Rich Treasure Link Limited ("Rich Treasure") as the parent of Tonghua Tongtian Winery Co., Ltd, ("Tonghua Tongtian") the Company became the ultimate holding company of the companies now comprising the Group on 28 October 2009.

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. Wang Guangyuan ("Mr. Wang"), a director of the Company and the founding member of Tonghua Tongtian, prior to and after the Corporate Reorganisation.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 33.

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

In the current year, the Company and its subsidiaries (the "Group") has applied the following 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 and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

| | |
|---|---|
| HKFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (Revised 2008) | Business Combinations |
| HKAS 27 (Revised 2008) | Consolidated and Separate Financial Statements |
| HKAS 39 (Amendments) | Eligible Hedged Items |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 |
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners |
| HK – Int 5 | Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause |

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

The Group applies HKFRS 3 (Revised 2008) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised 2008) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the year in which HKFRS 3 (Revised 2008) and HKAS 27 (Revised 2008) are applicable, the application of HKFRS 3 (Revised 2008), HKAS 27 (Revised 2008) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The adoption of the other new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[1] |
| HKFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets[5] |
| HKFRS 9 | Financial Instruments[6] |
| HKAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets[7] |
| HKAS 24 (Revised) | Related Party Disclosures[4] |
| HKAS 32 (Amendments) | Classification of Rights Issues[2] |
| HK(IFRIC) – Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement[4] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[3] |

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2013
7 Effective for annual periods beginning on or after 1 January 2012

The directors of the Company anticipate that the application of the new or revised HKFRS, will not have material impact on the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include 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. The consolidated financial statements have been prepared in the historical basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits form its activities.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### 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, net of discounts.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which point all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount can be measured reliably. 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 on initial recognition.

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production of goods or for administrative purposes (other than construction in progress as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as 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 values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are classified as construction in progress and carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### 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.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

### Impairment losses for tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. 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 immediately.

Where an impairment loss subsequently reverses, the carrying amount of the tangible 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 immediately.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### 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 the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

### Retirement benefit costs

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The PRC subsidiaries are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension scheme.

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated 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 period. 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 to the net carrying amount on initial recognition.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

***Financial assets – continued***

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables and bank balances) 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).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of the reporting 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 affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial liabilities.

For financial assets, such as trade receivables, assets that are assessed not to be impaired individually 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 credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

***Financial assets – continued***

*Impairment of financial assets – continued*

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.

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 period. 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.

*Financial liabilities*

Financial liabilities (including trade payables and other payables) are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Financial instruments – continued

***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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity 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.

### 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 expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. 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.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### 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. Taxable profit differs from the profit as reported in the consolidated 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 period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences 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.

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 assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

## 3. SIGNIFICANT ACCOUNTING POLICIES – continued

### Share-based payment transactions

***Equity-settled share-based payment transactions***

*Share options granted to employees (including directors)*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

*Share options granted to other participants (including customer, supplier of goods or services to any member of the Group, shareholders of any members of the Group, consultant, adviser, contractor, business partner or service providers)*

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND 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.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at end of the reporting 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. The carrying amount of property, plant and equipment is RMB166,387,000 (2009: RMB102,550,000).

### Estimated 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 end of the reporting 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. The carrying amount of inventories is RMB193,253,000 (2009: RMB148,604,000).

### 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. The carrying amount of trade receivables is RMB125,574,000 (2009: RMB98,776,000).

## 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 Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists the equity attributable to owners of the Company, comprising share capital, reserves and retained 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, issuance of new shares as well as the raising of new debts, if required.

## 6. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalent) | **1,303,307** | 811,956 |
| **Financial liabilities** | | |
| Amortised cost | **28,626** | 26,699 |

### b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, bank balances and cash, trade payables and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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.

***Market risk***

*(i) Currency risk*

Certain transactions and monetary assets and liabilities of the Group are denominated in Hong Kong Dollar ("HKD") which is different from the functional currency of the Group entities, i.e. RMB, and therefore the Group is exposed to currency risk. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its foreign currency risk by monitoring the movement of the foreign currency rate and will consider hedging significant foreign currency exposure should the need arise. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2010 RMB'000 | 2009 RMB'000 | 2010 RMB'000 | 2009 RMB'000 |
| HKD | **566,751** | 297,674 | **3,227** | 4,889 |

## 6. FINANCIAL INSTRUMENTS – continued

### b. Financial risk management objectives and policies – continued

***Market risk – continued***

*(i) Currency risk – continued*

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase in RMB against HKD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A negative number below indicates a decrease in profit where RMB strengthen 5% against HKD. For a 5% weakening of RMB against HKD, there would be an equal and opposite impact on the profit for the year.

| | **Profit or loss** | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| HKD | **(28,176)** | (14,639) |

In management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as the year end exposure does not reflect the exposure during the year.

*(ii) Interest rate risk*

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits. The Group considered interest rate risk on deposits is insignificant.

***Credit risk***

As at 31 December 2010, 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 consolidated statement of financial position.

The management considers the credit risk exposure of the Group is low as the sales are normally settled within credit period of 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.

## 6. FINANCIAL INSTRUMENTS – continued

### b. Financial risk management objectives and policies – continued

*Credit risk – continued*

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.

***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 tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have 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<br>*RMB'000* | 3 months or less<br>*RMB'000* | Total undiscounted cash flows and carrying amounts<br>*RMB'000* |
|---|---|---|---|
| **2010** | | | |
| Trade payables | – | 20,089 | 20,089 |
| Other payables | 8,537 | – | 8,537 |
| | 8,537 | 20,089 | 28,626 |
| **2009** | | | |
| Trade payables | – | 16,154 | 16,154 |
| Other payables | 10,545 | – | 10,545 |
| | 10,545 | 16,154 | 26,699 |

### 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 consolidated financial statements 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 determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the board of directors) of the Company in order to allocate the resources to the segment and to assess its performance.

The Group is principally engaged in the business of manufacturing and sales of grape wine products. The Group is organised on the region of goods delivered.

The Group's operating segments under HKFRS 8 are identified based on different geographical zones of goods delivered 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 revenue from transactions with a single external customer amounted to 10 per cent or more of the Group's total revenue.

The Group's operations are located in the PRC and all revenue from external customers and non-current assets are attributed to and located in the PRC.

## 8. SEGMENT INFORMATION – continued

### Information about operating segment revenue, profit, assets and liabilities

| | North-East Region RMB'000 | Northern Region RMB'000 | Eastern Region RMB'000 | South-Central Region RMB'000 | South-West Region RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2010** | | | | | | |
| Segment revenue from external customers | 104,220 | 138,337 | 226,809 | 90,589 | 143,559 | 703,514 |
| Segment profit | 57,547 | 75,078 | 118,027 | 47,097 | 74,784 | 372,533 |
| **For the year ended 31 December 2009** | | | | | | |
| Segment revenue from external customers | 87,349 | 112,179 | 186,908 | 74,624 | 123,276 | 584,336 |
| Segment profit | 47,482 | 58,806 | 95,651 | 37,811 | 61,604 | 301,354 |
| **As at 31 December 2010** | | | | | | |
| Segment assets | 20,525 | 27,226 | 42,300 | 12,579 | 22,944 | 125,574 |
| Segment liabilities | 3,772 | 5,006 | 8,208 | 5,195 | 3,278 | 25,459 |
| **As at 31 December 2009** | | | | | | |
| Segment assets | 13,871 | 18,902 | 28,726 | 14,931 | 22,346 | 98,776 |
| Segment liabilities | 3,878 | 4,980 | 8,297 | 5,473 | 3,313 | 25,941 |

### Reconciliations of operating segment revenue, profit, assets and liabilities

***Revenue***

No reconciliation of operating segment revenue is provided as the total revenue for operating segments is the same as Group's revenue.

| | **2010** ***RMB'000*** | 2009 *RMB'000* |
|---|---|---|
| **Profit** | | |
| Total segment profit | **372,533** | 301,354 |
| Unallocated amounts: | | |
| Other corporate income | **3,340** | 1,681 |
| Other corporate expenses | **(75,288)** | (53,370) |
| Consolidated profit before tax | **300,585** | 249,665 |

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

## 8. SEGMENT INFORMATION – continued

### Reconciliations of operating segment revenue, profit, assets and liabilities – continued

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Assets** | | |
| Total segment assets | **125,574** | 98,776 |
| Other unallocated amounts | | |
| Property, plant and equipment | **166,387** | 102,550 |
| Prepaid lease payments | **3,849** | 3,941 |
| Inventories | **193,253** | 148,604 |
| Bank balances and cash | **1,177,733** | 713,331 |
| Deposits and prepayments | **2,653** | 291 |
| Deposits paid for prepaid lease payments | **54,334** | – |
| Deposits paid for acquisition of property, plant and equipment | **43,730** | – |
| Consolidated total assets | **1,767,513** | 1,067,493 |

Operating segment assets exclude property, plant and equipment, prepaid lease payments, inventories, bank balances and cash, deposits and prepayments, deposits paid for prepaid lease payments and deposits paid for acquisition of property, plant and equipment which are commonly used for all segments.

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Liabilities** | | |
| Total segment liabilities | **25,459** | 25,941 |
| Other unallocated amounts | | |
| Trade payables | **20,089** | 16,154 |
| Tax liabilities | **34,618** | 24,548 |
| Deferred tax liability | **27,555** | 17,428 |
| Other payables and accruals | **13,821** | 12,872 |
| Consolidated total liabilities | **121,542** | 96,943 |

Operating segment liabilities exclude trade payables, tax liabilities, deferred tax liability and other payables and accruals which cannot be allocated to the segments on a reasonable basis.

## 9. OTHER INCOME

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest income from bank deposits | **3,340** | 1,313 |
| Sponsorship income from legal and professional parties related to the listing of shares | **–** | 368 |
| | **3,340** | 1,681 |

## 10. OTHER EXPENSES

The amount represented professional fees and other expenses related to the listing of shares of the Company. The transaction costs of an equity transaction were accounted for as a deduction from equity to the extent they were directly attributable to the issuing of new shares. The remaining costs incurred in relation to the concurrent offering of new shares and listing of other shares were recognised as an expense when incurred.

## 11. INCOME TAX EXPENSE

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| The charge comprises: | | |
| Current tax | | |
| PRC Enterprise Income tax | **82,333** | 65,704 |
| Deferred tax *(note 24)* | | |
| Current year | **10,127** | 9,856 |
| | **92,460** | 75,560 |

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

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The tax charge for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before tax | **300,585** | 249,665 |
| Tax charge at income tax rate of 25% | **75,146** | 62,416 |
| Tax effect of income not taxable for tax purpose | **(5)** | (91) |
| Tax effect of expenses not deductible for tax purpose | **5,501** | 3,379 |
| Deferred tax on undistributed earnings of PRC subsidiaries | **11,818** | 9,856 |
| Tax charge for the year | **92,460** | 75,560 |

## 12. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Profit and total comprehensive income for the year has been arrived at after charging: | | |
| Auditor's remuneration | **1,478** | 1,408 |
| Directors' remuneration | **2,843** | 414 |
| Cost of inventories recognised as an expense | **217,664** | 187,711 |
| Depreciation of property, plant and equipment | **5,906** | 4,892 |
| Amortisation of prepaid lease payments | **92** | 92 |
| Research and development costs recognised as an expense | **1,250** | 1,250 |
| Foreign exchange loss, net | **2,306** | – |
| Staff costs, including directors' remuneration | | |
| – salaries and other benefits costs | **10,812** | 6,120 |
| – share based payments | **1,634** | – |
| – sales commission | **16,241** | 13,509 |
| – retirement benefits scheme contribution | **2,073** | 702 |

## 13. DIRECTORS' EMOLUMENTS

Details of the emoluments paid or payable to the six (2009: six) directors of the Company was as follows:

| | **Salary**<br>RMB'000 | **Retirement benefits scheme contributions**<br>RMB'000 | **Share-based payments**<br>RMB'000 | **Total**<br>RMB'000 |
|---|---|---|---|---|
| **For the year ended 31 December 2010** | | | | |
| Mr. Wang | 559 | 13 | 193 | 765 |
| Mr. Zhang Hebin | 554 | 11 | 193 | 758 |
| Ms. Wang Lijuan | 551 | 9 | 193 | 753 |
| Mr. Sih Wai Kin, Daniel | 141 | – | 48 | 189 |
| Mr. Lai Chi Keung, Albert | 141 | – | 48 | 189 |
| Mr. Li Changgao | 141 | – | 48 | 189 |
| | 2,087 | 33 | 723 | 2,843 |
| **For the year ended 31 December 2009** | | | | |
| Mr. Wang | 120 | 7 | – | 127 |
| Mr. Zhang Hebin | 116 | 6 | – | 122 |
| Ms. Wang Lijuan | 111 | 6 | – | 117 |
| Mr. Sih Wai Kin, Daniel | 16 | – | – | 16 |
| Mr. Lai Chi Keung, Albert | 16 | – | – | 16 |
| Mr. Li Changgao | 16 | – | – | 16 |
| | 395 | 19 | – | 414 |

None of the directors waived any emoluments for both years.

## 14. EMPLOYEES' EMOLUMENTS

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

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries and other benefits | **1,478** | – |
| Performance related incentive payments | **7,052** | 6,056 |
| Retirement benefits scheme contribution | **61** | 100 |
| Share based payments | **387** | – |
| | **8,978** | 6,156 |

No compensation for loss of office is being paid for both years.

Their emoluments were within the following bands:

| | **2010** | 2009 |
|---|---|---|
| | **No. of employees** | No. of employees |
| RMB880,001 to RMB1,320,000 (equivalent to HK$1,000,001 to HK$1,500,000) | **1** | 2 |
| RMB1,320,001 to RMB1,760,000 (equivalent to HK$1,500,001 to HK$2,000,000) | **2** | 3 |
| RMB1,760,001 to RMB2,200,000 (equivalent to HK$2,000,001 to HK$2,500,000) | **1** | – |
| RMB2,640,001 to RMB3,080,000 (equivalent to HK$3,000,001 to HK$3,500,000) | **1** | – |
| | **5** | 5 |

## 15. DIVIDENDS

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dividend recognised as distribution during the year: | | |
| 2009 Final – HK2.88 cents (equivalent to RMB2.53 cents) per share | **43,539** | – |

The final dividend of HK3.0 cents (equivalent to RMB2.55 cents) (2009: HK2.88 cents (equivalent to RMB2.53 cents)) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 16. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share attributable to the owners of the Company are based on the following data:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Profit for the year attributable to owners of the Company and earnings for the purposes of basic and diluted earnings per share | **208,125** | 174,105 |

| | **2010** | 2009 |
|---|---|---|
| | ***Number of shares*** | *Number of shares* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | **1,754,098,384** | 1,367,939,326 |

The weighted average number of shares for the purpose of calculating basic earnings per share for the year ended 31 December 2009 was based on the assumption that the 132,467,200 shares issued upon the corporate reorganisation implemented to rationalise the structure of the Group in preparation for the listing of the Company's shares on the main board of the Stock Exchange had been in issue as at the beginning of that year and also has been adjusted for the 1,192,204,800 shares issued pursuant to the capitalisation issue.

The computation of diluted earnings per share for the year ended 31 December 2010 does not assume the exercise of the Company's share options as the exercise price of those share options granted during the year ended 31 December 2010 was higher than the average market price per shares from the date of grant to 31 December 2010.

No diluted earnings per share has been presented for the year ended 31 December 2009 as there is no potential dilutive ordinary share outstanding during the year ended 31 December 2009.

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Construction in progress | Buildings | Leasehold improvements | Plant and machinery | Office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| COST | | | | | | | |
| At 1 January 2009 | 26,700 | 22,998 | – | 77,584 | 107 | 1,172 | 128,561 |
| Additions | 2,000 | – | 140 | – | 171 | – | 2,311 |
| At 31 December 2009 | 28,700 | 22,998 | 140 | 77,584 | 278 | 1,172 | 130,872 |
| Additions | 21,000 | 5,221 | 541 | 42,167 | 16 | 798 | 69,743 |
| Reclassification | (49,700) | 49,700 | – | – | – | – | – |
| At 31 December 2010 | – | 77,919 | 681 | 119,751 | 294 | 1,970 | 200,615 |
| DEPRECIATION | | | | | | | |
| At 1 January 2009 | – | 4,528 | – | 17,689 | 95 | 1,118 | 23,430 |
| Provided for the year | – | 874 | 70 | 3,909 | 39 | – | 4,892 |
| At 31 December 2009 | – | 5,402 | 70 | 21,598 | 134 | 1,118 | 28,322 |
| Provided for the year | – | 1,077 | 121 | 4,541 | 41 | 126 | 5,906 |
| At 31 December 2010 | – | 6,479 | 191 | 26,139 | 175 | 1,244 | 34,228 |
| CARRYING VALUES | | | | | | | |
| At 31 December 2010 | – | 71,440 | 490 | 93,612 | 119 | 726 | 166,387 |
| At 31 December 2009 | 28,700 | 17,596 | 70 | 55,986 | 144 | 54 | 102,550 |

## 17. PROPERTY, PLANT AND EQUIPMENT – continued

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 values at the following rates per annum:

| | |
|---|---|
| Buildings | 4% |
| Leasehold improvements | 50% |
| Plant and machinery | 5% – 10% |
| Office equipment | 20% |
| Motor vehicles | 20% |

The buildings are situated on land in the PRC and are held under long lease.

## 18. PREPAID LEASE PAYMENTS

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Analysed for reporting purposes as: | | |
| Non-current asset | **3,757** | 3,849 |
| Current asset | **92** | 92 |
| | **3,849** | 3,941 |

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

## 19. INVENTORIES

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **32,753** | 3,858 |
| Work in progress | **146,495** | 133,532 |
| Finished goods | **14,005** | 11,214 |
| | **193,253** | 148,604 |

## 20. TRADE RECEIVABLES

The Group allows a credit period of 90 days to its trade customers except for such newly accepted customers which payment is made when goods are delivered. The following is an ageing analysis of trade receivables presented based on the invoice date at the end of the reporting period.

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 – 30 days | **73,004** | 84,960 |
| 31 – 60 days | **33,523** | 13,816 |
| 61 – 90 days | **19,047** | – |
| | **125,574** | 98,776 |

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

No trade receivable balance was overdue at the end of the reporting period.

## 21. BANK BALANCES AND CASH

Bank balances carry interest at average market rates of 0.59% (2009: 0.64%) per annum.

## 22. TRADE PAYABLES

The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting period.

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 – 30 days | **8,366** | 4,992 |
| 31 – 60 days | **8,783** | 8,779 |
| 61 – 90 days | **2,940** | 2,383 |
| | **20,089** | 16,154 |

The average credit period on purchase of material other than grapes is 90 days and payment is made upon receipt of grapes.

## 23. OTHER PAYABLES AND ACCRUALS

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Other tax payable | **23,062** | 22,455 |
| Accrued expenses | **7,681** | 5,813 |
| Other creditors | **8,537** | 10,545 |
| | **39,280** | 38,813 |

## 24. DEFERRED TAX LIABILITY

| | **Undistributed earnings of PRC subsidiaries** |
|---|---|
| | *RMB'000* |
| At 1 January 2009 | 7,572 |
| Charge for the year | 9,856 |
| At 31 December 2009 | 17,428 |
| Charge for the year | 11,818 |
| Credit for the year *(note)* | (1,691) |
| At 31 December 2010 | 27,555 |

*Note:* 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 profit generated since 1 January 2008 shall be subject to PRC Enterprise Income Tax which is withheld by the PRC subsidiaries. The deferred tax credit of RMB1,691,000 represents withhold tax to be paid for the dividend declared by a subsidiary of the Group established at PRC during the year ended 31 December 2010 by the distributable earnings generated after 1 January 2008.

## 25. SHARE CAPITAL

| | Notes | Number of ordinary shares '000 at S$0.10 per share | Number of ordinary shares '000 at HK$0.01 per share | Amount S$'000 | Amount HK$'000 |
|---|---|---|---|---|---|
| Authorised: | | | | | |
| At 1 January 2009 | | 200 | – | 20 | – |
| Change of denomination of par value of share from Singapore dollar ("S$") 0.10 to HK$0.01 and share split | *(a)* | (200) | 10,720 | (20) | 107 |
| Increase in authorised share capital | *(b)* | – | 9,989,280 | – | 99,893 |
| At 31 December 2009 and 2010 | | – | 10,000,000 | – | 100,000 |
| Issued: | | | | | |
| At 1 January 2009 | | 100 | – | 10 | – |
| Change of denomination of par value of share from S$0.10 to HK$0.01 | *(a)* | (100) | 5,360 | (10) | 54 |
| Issue of shares upon the Corporate Reorganisation | *(c)* | – | 127,107 | – | 1,271 |
| Issue of shares by capitalisation of the share premium account | *(d)* | – | 1,192,205 | – | 11,922 |
| Issue of shares pursuant to initial public offering | *(e)* | – | 393,262 | – | 3,933 |
| At 31 December 2009 | | – | 1,717,934 | – | 17,180 |
| Placement of new shares | *(f)* | – | 300,000 | – | 3,000 |
| At 31 December 2010 | | – | 2,017,934 | – | 20,180 |
| Shown in the consolidated financial statements | | | | | |
| At 31 December 2010 | | | | RMB equivalent | 17,668 |

## 25. SHARE CAPITAL – continued

The following changes in the share capital of the Company took place during the period from 1 January 2009 to 31 December 2010.

(a) On 5 June 2009, the then sole shareholder approved the change in the denomination of the par value of the ordinary shares in the Company from S$0.10 each to HK$0.01 each. Each of the authorised and issued shares with a par value of S$0.1 each in the share capital of the Company was sub-divided into 54 shares with a par value of HK$0.01 each in the share capital of the Company. Accordingly, the authorised share capital of the Company became HK$107,200 comprising 10,720,000 ordinary shares of HK$0.01 each, and the issued share capital of the Company became HK$53,600 divided into 5,360,000 shares.

(b) On 28 October 2009, the authorised share capital of the Company was increased from HK$107,200 to HK$100,000,000 by the creation of the additional 9,989,280,000 shares of HK$0.01 each. These new shares rank pari passu in all respects with the existing shares.

(c) On 28 October 2009, the Company and the shareholders of Fullest Power entered into a share swap agreement (the "Share Swap Agreement"). Pursuant to the Share Swap Agreement, the Company (i) allotted and issued an aggregate of 127,107,200 ordinary shares in exchange for the entire issued share capital of Fullest Power, the then holding company of the Group credited as fully paid at par and (ii) the nil paid 5,360,000 credit as fully paid at par.

(d) On 28 October 2008, 1,192,204,800 shares of HK$0.01 each in the Company were allotted and issued, credited as fully paid, to the shareholders of the Company whose names appeared on the register of members at the close of business on 28 October 2009 in proportion to their respective shareholdings by the capitalisation of an amount of HK$11,922,000 standing to the credit of the share premium of the Company.

(e) On 19 November 2009 and 7 December 2009, an aggregate of 393,262,000 new ordinary shares of HK$0.01 each in the Company were issued at HK$1.25 per share for cash pursuant to initial public offering.

(f) On 18 November 2010, the Company issued and allotted 300,000,000 ordinary shares of HK$0.01 each for consideration of HK$2.08 per share in relation to a share placement. The issue price of HK$2.08 represents a discount of approximately 8.77% to the closing market price of HK$2.28 per Company's share on 8 November 2010. These new shares were allotted and issued under the general mandate granted to the Directors by a resolution of the shareholders passed at the annual general meeting of the Company held on 3 June 2010 and rank pari passu with other shares in issue in all aspects to finance the Group's working capital.

The share capital at 1 January 2009 as shown in the consolidated statement of financial position represents the issued share capital of Fullest Power comprising 100,000 shares of US$1 each (equivalent to RMB758,000), the then holding company of the Group.

## 26. SHARE-BASED PAYMENT TRANSACTIONS

### Equity-settled share option scheme of the Company:

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 28 November 2009 for the primary purpose of providing incentives to eligible participants including any employee, non-executive Directors (including independent non-executive Directors), customer or supplier of goods or services to any member of the Group, shareholders of any member of the Group, consultant, adviser, contractor, business partner or service provider will expire on 27 November 2019. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

At 31 December 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 70,000,000 (2009: nil), representing 3.46% (2009: nil) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the directors of the Company but in any event not exceeding 10 years. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options are as follows:

| Date of grant | Number of options | Vesting period | Exercise period | Exercise Price |
|---|---|---|---|---|
| 22 November 2010 | 17,500,000 | 22 November 2010 to 21 May 2011 | 22 May 2011 to 21 November 2013 | HK$1.98 |
| 22 November 2010 | 52,500,000 | 22 November 2010 to 21 May 2011 | 22 May 2011 to 21 May 2012 | HK$1.98 |

## 26. SHARE-BASED PAYMENT TRANSACTIONS – continued

The following table discloses movements of the Company's share options granted under the Scheme during the year:

| Category of participant | Outstanding at 1.1.2010 | Granted during the year | Exercised during the year | Outstanding at 31.12.2010 | Date of grant | Exercise period of share options | Exercise price of share option |
|---|---|---|---|---|---|---|---|
| Directors | – | 7,500,000 | – | 7,500,000 | 22 November 2010 | 22 May 2011 to 21 November 2013 | HK$1.98 |
| Other employees | – | 10,000,000 | – | 10,000,000 | 22 November 2010 | 22 May 2011 to 21 November 2013 | HK$1.98 |
| Other participants | – | 52,500,000 | – | 52,500,000 | 22 November 2010 | 22 May 2011 to 21 May 2012 | HK$1.98 |
| | – | 70,000,000 | – | 70,000,000 | | | |
| Exercisable at the end of the year | | | | 70,000,000 | | | |

During the year ended 31 December 2010, 70,000,000 share options were granted under the Scheme on 22 November 2010. The estimated fair values of the options granted on this date are HK$0.51 per option and HK$0.44 per option respectively for the share options with exercise period of 22 May 2011 to 21 November 2013 and 22 May 2011 to 21 May 2012.

The fair values were calculated using the Binomial model. The inputs into the model were as follows:

| | |
|---|---|
| Share price as at grant date | HK$1.98 |
| Exercise price | HK$1.98 |
| Expected volatility | 51% |
| Risk-free rate | 0.45% to 0.80% |
| Expected dividend yield | 1.5% |

The Group recognised the total expense of RMB5,865,000 (2009: nil) for the year ended 31 December 2010 in relation to share options granted by the Company.

The binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

## 27. CONTINGENT LIABILITIES

Prior to October 2008, Cabernet Sauvignon wine products were produced by Tonghua Tongtian, the Company's wholly owned subsidiary established at the PRC 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. 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.

The Group 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 the Group 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 the subsidiary established in PRC through the sale of "解百納" labelled wine products, or the losses suffered by the Changyu Group as a result of Group s infringement during the Period of Alleged Infringement (including any reasonable costs incurred by the Yantai Changyu group to stop such infringement).

The management is of the opinion that the profit earned or losses incurred cannot be determined as at 31 December 2010 and hence the amount of damages shall be not more than RMB500,000 at the end of reporting period.

On 18 January 2011, the Trademark Appeal Board of the SAIC drew the conclusive judicial decision that, six wine producers in the PRC are allowed to use "解百納" in their product label. The management expects that the possibility of an outflow of resources embedding economic benefits for the Group is remote since then.

## 28. OPERATING LEASES

### The Group as lessee

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Minimum lease payments paid under operating leases during the year: | | |
| Plant and machinery | **2,210** | 2,010 |
| Premises for office and warehouse | **1,356** | 745 |
| | **3,566** | 2,755 |

At 31 December 2010, the Group had commitment for minimum lease payment under non-cancellable operating leases which fall due as follows:

| | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|
| Plant and machinery | | |
| Within one year | **2,165** | 45 |
| In the second to fifth year inclusive | **3,416** | 113 |
| | **5,581** | 158 |
| Rented premises for office and warehouse | | |
| Within one year | **1,186** | 889 |
| In the second to fifth year inclusive | **1,847** | 695 |
| | **3,033** | 1,584 |

Operating lease payments represent rentals paid or payable by the Group for certain of its office premises and plant and machinery. Leases are negotiated for an average term of 2 to 3 years.

## 29. CAPITAL COMMITMENTS

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Capital expenditure in respect of acquisition of property, plant and equipment, development of wine estate and wine cellar contracted for but not provided in the consolidated financial statements | **102,510** | 21,355 |
| Capital expenditure in respect of acquisition of property, plant and equipment, development of wine estate and wine cellar authorised but not contracted for | **189,168** | 178,601 |

## 30. RETIREMENT BENEFITS PLANS

The employees of the Company's subsidiaries established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. These subsidiaries are 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 RMB2,073,000 (2009: RMB702,000).

## 31. RELATED PARTIES TRANSACTIONS

### Compensation of key management personnel

The remuneration of directors and other members of senior management during the year was as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Short-term benefits | **5,974** | 2,652 |
| Post-employment benefits | **33** | 33 |
| Share based payments | **1,112** | – |
| | **7,119** | 2,685 |

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

## 32. FINANCIAL INFORMATION OF THE COMPANY

| | 2010 | 2009 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Non-current Asset** | | |
| Investment in a subsidiary | **1,166** | 1,166 |
| **Current Assets** | | |
| Amounts due from subsidiaries | **432,013** | 184,649 |
| Bank balances | **558,679** | 297,523 |
| | **990,692** | 482,172 |
| **Current Liabilities** | | |
| Other payable and accruals | **(1,718)** | (2,477) |
| Total Assets Less Current Liabilities | **990,140** | 480,861 |
| **Capital and Reserves** | | |
| Share capital | **17,668** | 15,118 |
| Reserves | **972,472** | 465,743 |
| **Total Equity** | **990,140** | 480,861 |

## 33. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

| Name of subsidiaries | Place and date of incorporation/ establishment | Issued and fully paid share/ registered capital | Attributable equity interest held by the Company 2010 | 2009 | Principal activity |
|---|---|---|---|---|---|
| Fullest Power | The British Virgin Islands 19 May 2006 | Ordinary shares US$100,000 | **100%** | 100% | Investment holding |
| Rich Treasure | Hong Kong 18 July 2009 | Ordinary shares HK$10,000 | **100%** | 100% | Investment holding |
| 通化通天酒業有限公司 Tonghua Tongtian *(note)* | PRC 9 January 2001 | Registered capital RMB87,110,000 | **100%** | 100% | Manufacturing and sale of winery and beverage products and processing of grape juice |
| 通化通天葡萄酒庄園有限公司 Tonghua Tontine Wine Estate Co., Ltd *(note)* | PRC 26 February 2010 | Registered capital HK$40,000,000 | **100%** | – | Manufacturing and sale of winery and beverage products and processing of grape juice |
| 通化通天綠色農業產業發展有限公司 Tonghua Tontine Green Agriculture Development Co., Ltd. *(note)* | PRC 26 February 2010 | Registered capital HK$28,000,000 | **100%** | – | Inactive |
| 通化通天商貿有限公司 Tonghua Tontine Trading Co., Ltd. *(note)* | PRC 9 April 2010 | Registered capital HK$40,000,000 | **100%** | – | Wholesales and retail of winery and beverage products |

*Note:* These companies are wholly-foreign owned enterprises established in the PRC.

Except for Fullest Power, all subsidiaries are indirectly held by the Company.