ANNUAL REPORT

2012

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

KEY EVENTS IN 2012

In July 2012, the Company organised the "Symposium on the Yalu River Valley Grape Production Region" for exploring the "Yalu River Valley Concept" and its potential development value.

In August 2012, the Company reappointed Miss Jessey Meng as the brand ambassador to promote the Group's products and image.

In September 2012, the Company entered into a formal agreement to acquire 60% of Yantai Baiyanghe Winery Co., Inc.

In November 2012, the construction of the main buildings of Tontine wine cellar and Tontine wine estate was completed.

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Financial Highlights

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(Note 12)*
Profitability data					
Revenue	**658,111**	830,084	703,514	584,336	486,708
Gross profit	**331,211**	479,086	413,871	338,191	276,939
Profit and total comprehensive income for the year attributable to owners of the Company	**88,868**	188,835	208,125	174,105	136,788
Earnings per share					
– basic *(RMB cents) (Note 1)*	**4.4**	9.4	11.9	12.7	10.3
– diluted *(RMB cents) (Note 2)*	**4.4**	9.4	11.9	N/A	N/A

	Year ended 31 December				
	2012	2011	2010	2009	2008
Profitability ratios					
Gross profit margin	**50.3%**	57.7%	58.8%	57.9%	56.9%
Profit margin	**13.5%**	22.7%	29.6%	29.8%	28.1%
Effective tax rate	**37.3%**	35%	31%	30%	32%
Return on equity *(Note 3)*	**4.9%**	11.0%	15.9%	26.0%	44.5%
Return on assets *(Note 4)*	**4.6%**	10.2%	14.7%	22.9%	37.5%
Operating ratios (as a percentage of revenue)					
Advertising and marketing expenses	**15.6%**	8.5%	6.1%	5.3%	4.5%
Staff costs	**5.8%**	4.3%	4.4%	3.5%	3.4%
Research and development	**0.8%**	0.3%	0.2%	0.2%	0.2%

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 2011 and 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 2012.

   No diluted earnings per shares for the year ended 31 December 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 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				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Note 12)
Assets and liabilities data					
Non-current assets	**458,318**	320,364	268,208	106,399	109,072
Current assets	**1,448,969**	1,625,852	1,499,305	961,094	341,168
Current liabilities	**41,022**	110,017	93,987	79,515	71,466
Non-current liability	**41,707**	34,707	27,555	17,428	7,572
Shareholders' equity	**1,851,558**	1,801,492	1,645,971	970,550	371,202

	As at 31 December				
	2012	2011	2010	2009	2008
					(Note 12)
Other key financial ratios and information					
Current ratios *(Note 5)*	**35.3**	14.8	16.0	12.1	4.8
Quick ratios *(Note 6)*	**29.1**	13.0	13.9	10.2	2.8
Gearing ratio *(Note 7)*	**–**	–	–	–	–
Net asset value per share *(RMB) (Note 8)*	**0.9**	0.9	0.8	0.6	N/A
Inventory turnover days *(days) (Note 9)*	**330**	282	287	284	302
Trade receivables turnover days *(days) (Note 10)*	**63**	60	58	56	54
Trade payables turnover days *(days) (Note 11)*	**24**	33	30	28	27

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 other taxes) 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 other taxes) and multiplied by 365 days.

12. The financial data of the Company for the year ended 31 December 2008 and information as to its financial position as at 31 December 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

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REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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HEAD OFFICE IN THE PRC

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Jilin Province
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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BRANCH REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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Bank of China Tower Branch
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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 2012: 2,013,018,000 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 2012 (the "Year").

The global economy slowdown caused by the financial instability of the Eurozone, the Europe's sovereign-debt crisis, the slow economic recovery in the United States, the tight monetary policy in Mainland China and regional political conflicts etc. had great impact on the general economic outlook of the world in 2012. In the Mainland, exports and foreign investments slipped continuously, while domestic demand was anaemic because of feeble consumer confidence and tight money supplies. The slowdown of China's economy created pressure on China's consumer market. During 2012, both the Consumer Confidence Index and the growth of Total Retail Sales of Consumer Goods Sales declined. Although the Group's business during the Year was inundated with challenges, our confidence was all the more stronger.

For the year ended 31 December 2012, the Group recorded revenue of approximately RMB658.1 million, representing a decrease of approximately 20.7% as compared with last year, the profit and total comprehensive income for the year declined to approximately RMB88.9 million, or 52.9% decrease as compared to last year. Basic earnings per share for the Year were RMB4.4 cents (2011: RMB9.4 cents).

In response to the adverse operating environment in the Year, the Group had proactively enhanced its high-end product lines and broadened its mid-end product lines, conducted effective sales planning and execution, and strived to establish new sales channels so as to minimize the adverse impact on the market.

On 26 September 2012, the Company entered into a formal agreement with 烟台白洋河釀酒有限责任公司 (Yantai Baiyanghe Winery Co., Inc*) (the "Target") for the acquisition by it of certain equity interest of and investment in the Target (the "Transaction"). Upon completion of the Transaction, the Company will hold 60% of the enlarged registered capital of the Target, which will become a subsidiary of the Company.

The Group is of the view that the Transaction would offer a good opportunity for the Group to expand its sales and distribution network in the People's Republic of China (the "PRC"), enhance its wine products portfolio and strengthen its competitive position in the PRC.

The Group envisages that the implementation of the Transaction would (i) enlarge both the Group's own premium high-end grape wine and imported grape wine portfolios, enrich the Group's wine products portfolio and broaden its fine wine offering to its customers on the one hand and (ii) upgrade the Group's grape wine making technology, enhance the level of product quality, increase production capacity, achieve economies of scale and lower production costs through integration of the production lines of the two enterprises on the other hand. The Group also plans to integrate the sales and distribution channels of the two enterprises so as to expand the sales and distribution network of the Group and effectively reduce marketing and promotion expenses which, in turn, is expected to enhance the Group's profitability in the long-run. All the above factors are expected to offer synergy effects and complementary benefits realization, allow resources-sharing, provide incentive for long-term collaboration and ultimately achieve a win-win situation for the Group and the Target, which are instrumental to the future business development of the Group.

* For identification purpose only

Although the global and domestic economic and market conditions will continue to affect the PRC grape wine market, the Group believes the weak sentiment would not be long-lasting.

Last year, the PRC government has placed maintaining steady growth as the top priority in its economic policies, and this was reaffirmed during the 18th National Congress of China. Numerous statistics released by the National Bureau of Statistics in 2012 signaled China's economic recovery. With the implementation of stimulation of domestic demand, structural tax reduction and other initiatives by the PRC government, the Group believes new growth engines will be formed and the overall economic condition will improve further. With a higher annual disposable income level, consumer's demand for better grape wine brand and higher product quality will continue to grow, which will become the key long-term driver for the development of high-end grape wine market.

Moreover, the Chinese Government has recently introduced policies to encourage domestic wineries to upgrade their product quality while at the same time to set rigid requirements on the industry in terms of capacity and other aspects. The Group believes that small and low-end wineries will suffer or be eliminated under these new policies but the measures adopted, overall, will help to improve the standards of the industry.

Recently, the People's Government of Tonghua City has planned to develop the Yalu River Valley Grape Wine Culture and Production Region ("鴨綠江河谷葡萄酒文化產業園區") (the "Region") in Ji'An City into the best grape production zone in the PRC, by leveraging on the unique natural conditions and quality grape resources in the Region. At the same time, the People's Government of Tonghua City will take the initiative and strive for national and provincial funding, formulate preferential policies, complementing resources and capital etc. with the aim of promoting the rapid development of the grape wine industry, wine culture, local tourism and property development of the grape wine culture zone in the Tonghua City. The Group will collaborate with the People's Government of Tonghua City to develop the Region and the blueprint for development will involve the increase in capital investment in coming years for the building of the grape and grape wine museum, the expansion of wine cellar and wine estate and other supportive facilities. This project is expected to be one of the major growth drivers of the Group in future.

Lastly, on behalf of the Board, I would like to express my sincere gratitude to our management and all our staff for their continuous efforts and whole-hearted devotion. We are also truly grateful to our shareholders, investors, business partners and customers for their enormous support and trust.

Wang Guangyuan
Chairman and Executive Director
20 March 2013

OVERVIEW

The Group recorded a revenue of approximately RMB658.1 million (2011: RMB830.1 million) for the Year, representing a decrease of approximately 20.7% and the Group's profit and total comprehensive income attributable to owners of the Company decreased by approximately 52.9% to approximately RMB88.9 million (2011: RMB188.8 million).

The Company's basic earnings per share reached RMB4.4 cents (2011: RMB9.4 cents) based on the weighted average number of shares in issue during the Year.

The decline in profitability for the Year was mainly attributable to (i) the fierce competition in China's grape wine market; (ii) the decrease in the Group's sales and operating revenue due to China's economic downturn and impact of imported wines; (iii) the increase in the operating costs of the Group; and (iv) the increase in selling and distribution expenses for brand building, sales and marketing in order to ensure sustainable development of the Group and optimize the product mix.

The weakness of the global economy in 2012 turns out to be worse than expected. In the wake of the European debt crisis and under the effects of globalisation, the economy of virtually no country would escape unscathed. The slowdown of China's economy pose particular impact on the Group's performance during the Year as China is where the Group's operations and market lie. In response to such challenging conditions, the Group took a cautious approach to maintain stable development of the Group's business.

BUSINESS REVIEW

Sales and distribution network

The Group sells substantially all of its products to distributors, who distribute and sell such grape wine products 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.

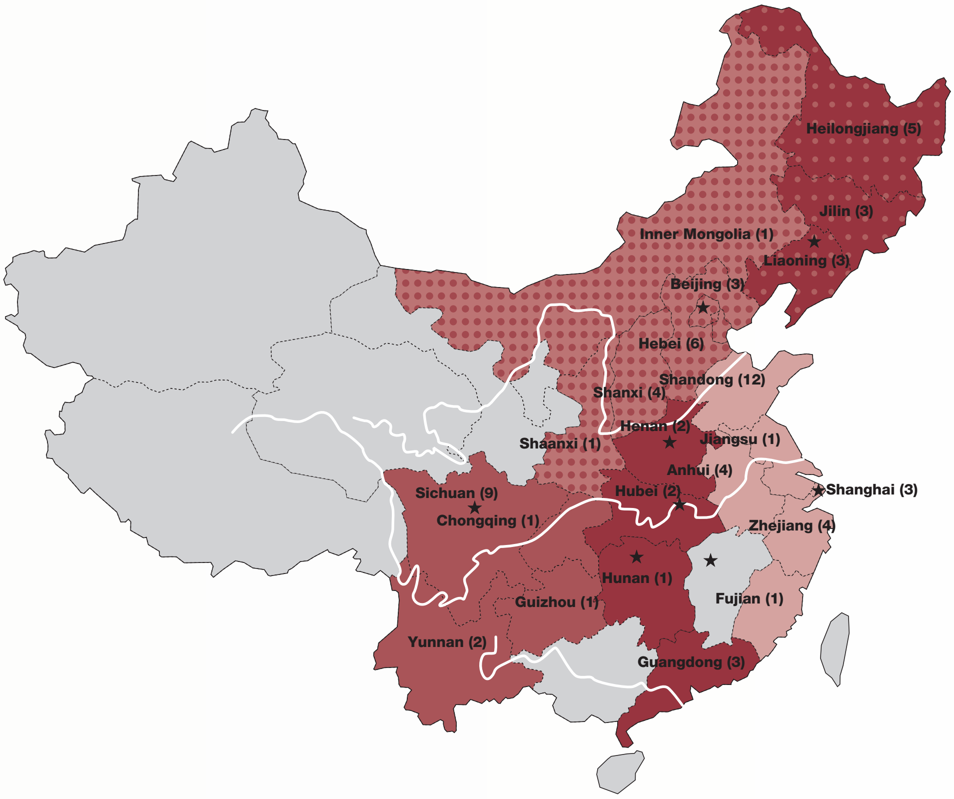
Generally, the Group selects distributors to distribute grape wines products within a designated geographical area and such selections are based on factors such as economic strength, sales network in the Group's target market, product knowledge, mutual goodwill and common objectives, good track record 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, 7 new distributors were appointed, and cooperation with 7 distributors was terminated by the Group after careful selection and evaluation. As at 31 December 2012, the Group's products were sold through 72 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 its 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 and billboards to emphasize the health benefits of moderate consumption of grape wines in order to establish consumer loyalty and strengthen the popularity of its 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 2012:



Notes:

1. ■ : North-East Region includes Provinces of Liaoning, Jilin and Heilongjiang.
2. ■ : Northern Region includes Provinces of Hebei, Shaanxi, Inner Mongolia, Shanxi and city of Beijing.
3. ■ : Eastern Region includes Provinces of Jiangsu, Zhejiang, Anhui, Fujian, Shandong and city of Shanghai.
4. ■ : South-Central Region includes Provinces of Henan, Hubei, Hunan and Guangdong.
5. ■ : South-West Region includes Provinces of Sichuan, Yunnan, Guizhou and city of 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.
7. ★ : Tontine retail shops located in Beijing, Chengdu, Dengfeng, Jian, Shanghai, Shenyang, Wuhan and Xiangtan.

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

	2012		2011	
	RMB'000	**%**	*RMB'000*	%
North-East *(Refer to note 1 above)*	**93,487**	**14.2%**	122,973	14.8%
Northern *(Refer to note 2 above)*	**132,519**	**20.1%**	163,265	19.7%
Eastern *(Refer to note 3 above)*	**213,560**	**32.5%**	269,225	32.4%
South-Central *(Refer to note 4 above)*	**84,846**	**12.9%**	105,360	12.7%
South-West *(Refer to note 5 above)*	**133,699**	**20.3%**	169,261	20.4%
Total	**658,111**	**100.0%**	830,084	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 285 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. To ensure we have reliable and solid supplies of quality grapes and grape juice to meet the production needs of our growing business as well as our expanded production capacity, the Group has kept identifying new grape farmers and grape juice suppliers, who meet our quality requirements and thorough tests are conducted on the grapes and grape juice they produce. These procedures ensure we procure quality grape farmers and grape juice suppliers.

Production capacity

The Group's annual production capacity in Tonghua County, Jilin Province is 39,000 tonnes which enables the Group to promptly respond to market demand, enhance overall cost-effectiveness in terms of unit costs in the long run and provide a better platform for sustainable earnings growth in future.

Business outlook

During the Year, the economic environment, both within and outside China, as well as market conditions were complex and volatile. Consumer sentiment continued to slip during the Year.

However, the Group considers that the weak sentiment was merely temporary. The strategic direction of boosting domestic consumptions by the PRC government remains unchanged. The Group strongly believes that the consumer market of China will improve gradually. With the increase in household income, the demand for grape wine of good brand and quality is expected to rise. In the long run, the rise in the demand for high-end grape wine would be a driver for domestic sales of the Group. As such, the business environment for the Group is expected to improve in future. The Group is positive on the long-term prospects of the high-end grape wine market, and expects the economy and consumption of Mainland China will grow steadily. The consumer spending will be back to an upward trend supporting by economic stimulus policies. The sales of the Group is expected to improve.

In light of the current challenging market condition, the Group will continue to fine-tune its product mix and sales strategies in response to changes in demand, further consolidate the Group's internal resources and enhance cost-effectiveness through systematic management. In addition, the Group will explore innovative sales channels, expand into new markets, channels and increase market awareness of products under growth and promotion stage to enhance sales of grape wines.

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)). During the Year, vineyards in the region that covers a total area of approximately 887 mu has been set up and planted with different types of grapes including Beibinghong (北冰紅) and Vidal (威代爾).

* 1 mu equals to approximately 667 square metres.

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. As at the date of this annual report, 8 retail shops were launched in 8 cities (Beijing, Chengdu, Dengfeng, Jian, Shanghai, Shenyang, Wuhan and Xiangtan). We plan to establish not less than 5 retail shops in 2013. These retail shops will serve as sales and marketing platforms for Tontine brand products, and provide marketing support to our distributors.

Explore opportunities to expand our market share

The Group adopts a proactive but prudent approach in pursuing business opportunities with growth potentials and which the Board believes would bring synergy or be complementary to achieving the Group's long-term goal in taking a leadership role in the grape wine industry in the PRC. The Group's acquisition of and investment in 烟台白洋河酿酒有限责任公司 (Yantai Baiyanghe Winery Co., Inc.*), which is principally engaged in the production and sale of alcoholic beverages with wine portfolio containing approximately 80 types of wine products would be expected to enable the Group to increase its production capacities, benefit from synergies, access new markets, broaden customer base and achieve economies of scale in the long run. All these factors are instrumental to the business growth and development of the Group. The transaction represents an important milestone in the development of the business of the Group.

In the wake of the challenges ahead and the ever-changing business environment, the Group remains conservatively optimistic and will commit itself to strengthening its sales management; optimising its marketing strategy; exercising stringent control on supporting units; and striving to maintain its market position. In addition, the Group will improve its sales network and channels; intensively promote products under growth and incubations; and increase market awareness of each product to drive up sales. The management of the Group will closely monitor the changes in the domestic and global economic environment, tactfully expand its business in the grape wine segment, with the aim of achieving sustainable growth in the Group's core business.

* For identification purpose only

FINANCIAL REVIEW

Revenue

Revenue represents proceeds from the sale of grape wine products. Our revenue decreased by approximately 20.7% to approximately RMB658.1 million for the year ended 31 December 2012 from approximately RMB830.1 million in 2011. 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 RMB100.9 per bottle. The decline in revenue was mainly attributable to the decrease in sales of the Group's products due to poor market condition in the grape wine industry. The following table sets forth a breakdown of the Group's revenue for the Year:

	2012		2011		Decline in
		% of total		*% of total*	revenues
	RMB'000	***revenues***	*RMB'000*	*revenues*	*(%)*
Revenue					
Sweet wines	**443,998**	**67.5%**	573,709	69.1%	22.6%
Dry wines	**214,113**	**32.5%**	256,375	30.9%	16.5%
Total	**658,111**	**100.0%**	830,084	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:

	2012		2011	
	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	**14,143**	**31.4**	14,823	38.7
Dry wines	**7,551**	**28.4**	8,683	29.5
Total	**21,694**	**30.3**	23,506	35.3

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 decreased due to poor market condition in the grape wine industry, and less high gross profit margin products were sold, which are generally products with higher selling prices.

[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

	2012		2011	
	RMB'000	*%*	*RMB'000*	*%*
Raw materials				
– Grapes and grape juice	**134,661**	**41.2%**	149,880	42.7%
– Yeast and other additives	**11,310**	**3.4%**	9,282	2.7%
– Packaging materials	**90,420**	**27.7%**	81,213	23.1%
– Others	**848**	**0.3%**	829	0.2%
Total raw material cost	**237,239**	**72.6%**	241,204	68.7%
Production overheads	**13,595**	**4.2%**	12,185	3.5%
Consumption tax and other taxes	**76,066**	**23.2%**	97,609	27.8%
Total cost of sales	**326,900**	**100.0%**	350,998	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. During the Year, the cost of grapes and grape juice were the key component of cost of sales and accounted for approximately 41.2% of the Group's total cost of sales. The percentage of the total raw material cost to total cost of sales increased approximately 3.9% from approximately 68.7% to approximately 72.6% primarily due to poor grape wine market during the Year, and more low gross profit margins product were sold, the raw material costs of which typically represent a higher percentage of their respective sale price.

Production overheads primarily consist 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. The percentage of production overheads to total cost of sales remained stable compared with last year.

The consumption tax and other taxes decreased approximately 4.6% from approximately 27.8% to approximately 23.2%, which was mainly attributable to the decline in revenue due to poor market condition in the grape wine industry.

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 decreased approximately 30.9% from approximately RMB479.1 million to approximately RMB331.2 million. This was mainly attributable to the decrease in the sales volume of our grape wine products, particularly in our products with higher profit margins.

Our average gross profit margin decreased approximately 7.4% from approximately 57.7% to approximately 50.3%. This was mainly attributable to the decrease in the sales and increase in our cost of sales for reasons stated above.

Selling and distribution expenses

Selling and distribution expenses mainly comprise 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 22.3% (2011: 14.4%) of the Group's revenue. The increase in selling and distribution expenses was primarily attributable to increase in advertising and promotional charges by 45.5% to approximately RMB102.7 million (2011: RMB70.6 million), as we continue to engage in brand building activities, such as mass media advertising and reappoint Miss Jessey Meng (孟廣美), a famous female artiste, as the brand ambassador to promote the Group's products and image.

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 2012, administrative expenses represented 7.7% of our revenue and decreased from approximately RMB75.7 million for the financial year 2011 to approximately RMB50.8 million for the financial year 2012. The decrease was mainly attributable to the decrease in share option expenses for the Year.

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 2012, the effective tax rate of the Group increased to approximately 37.3% (2011: 34.8%). Our effective tax rates were higher than our PRC enterprise income tax rate because (i) 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) and (ii) more expenses in Hong Kong office (including share option expenses and exchange loss) were not allowed to be deducted under the PRC enterprise income tax law for the Year.

Profit and total comprehensive income for the year attributable to owner of the Company

The profit and total comprehensive income for the year attributable to owner of the Company decreased from approximately RMB188.8 million in 2011 to approximately RMB88.9 million in 2012, representing a decrease of approximately 52.9%, primarily as a result of the factors described above.

Trade receivables analysis

We grant a credit period of 90 days for our distributors except for new customers which payment is made when goods are delivered.

As at 31 December 2012, the trade receivables were approximately RMB78.1 million (2011: RMB149.0 million) and average trade receivables turnover days were approximately 63 days (2011: 60 days). The average trade receivables turnover days slightly increased in 2012 primarily due to our granting of credit periods to new customers who started purchasing our products in 2011.

Trade payables analysis

The credit period on purchase of raw materials ranges from two to three months.

As at 31 December 2012, the trade payables were approximately RMB7.9 million (2011: RMB25.4 million) and average trade payables turnover days were approximately 24 days (2011: 33 days). The average trade payables turnover days decreased mainly as a result of changes in our procurement strategies where we have shortened our settlement periods in exchange for better prices and to build stronger long-term relationship with our suppliers .

Inventories analysis

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

As at 31 December 2012, the inventories were approximately RMB255.4 million (2011: RMB198.1 million) and average inventory turnover days were approximately 330 days (2011: 282 days). The longer inventory turnover period during the Year was primarily the result of the increase of the cost of grapes and grape juice during the Year and stocking up of unprocessed wines for the preparation of the production of "wine cellar wine" in anticipation of the completion of the wine cellar in 2013.

Financial management and treasury policy

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 derived from the fund raising activities of the Company 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 2011 and 2012 and we generally financed our operation with internal cash flows generated from operations for the past years.

As at 31 December 2012, the Group's cash and cash equivalents amounted to approximately RMB1,105 million. It has sufficient financial resources and a strong cash position for satisfying the working capital requirements of business development, operations and capital expenditures.

Use of proceeds

The Company was officially listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 November 2009 by way of placing and public offer (the "IPO") 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 IPO.

On 9 November 2010, the Company entered into a placing and subscription agreement (the "Placing and Subscription") in which an aggregate of 300,000,000 new shares in the Company were placed and subscribed for at HK$2.08 per share. Net proceeds of approximately HK$594.1 million were raised from the Placing and Subscription.

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

	IPO	**Placing and Subscription**	**Utilised**	**Unutilised as at 31 December 2012**
	HK$ million	*HK$ million*	*HK$ million (Note)*	*HK$ million*
Expansion of production facilities	113.6	–	(113.6)	–
Development of wine estate	68.2	–	(68.2)	–
Development of wine cellar	45.5	–	(45.5)	–
Developing and increasing awareness of our brand	105.2	–	(105.2)	–
Expansion of distribution network	52.6	–	(11.4)	41.2
General working capital, future acquisition and other general corporate purposes	53.8	594.1	(376.2)	271.7
Total	438.9	594.1	(720.1)	312.9

As at 31 December 2012, 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.

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 2012, the Group employed a work force of 425 (including Directors) in Hong Kong and in the PRC (2011: 410). The total salaries and related costs (including the Directors' fee) for the year ended 31 December 2012 amounted to approximately RMB38.1 million (2011: RMB35.9 million).

Capital commitments and charges on assets

The Group made capital expenditure commitments including approximately RMB381.3 million that was authorised but not contracted for and approximately RMB47.0 million contracted but not provided for in the consolidated financial statements as at 31 December 2012. 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 IPO as stated in the Prospectus and cash generated from operating activities.

As at 31 December 2012, none of the Group's assets was pledged (2011: nil).

EXECUTIVE DIRECTORS

Mr. Wang Guangyuan (王光遠), aged 51, 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 6th People's Congress (通化市第六屆人民代表大會代表) and Tonghua County 16th People's Congress (通化縣第十六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 (通化市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 33.56% shareholder of the Company, and is also a director of Up Mount.

Mr. Zhang Hebin (張和彬), aged 52, 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. Prior to May 2011, he was primarily responsible for sales, marketing and products promotion of our Group. Since May 2011, he has assumed responsibility for and is in charge of the merger and acquisition activities 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 6.58% shareholder of the Company, and is also a director of Wing Move.

Ms. Wang Lijuan (王麗娟), aged 55, 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 45, 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 1 (dealing in securities) regulated activity. He obtained the Mandatory Provident Fund Intermediary Certificate from the Mandatory Provident Fund Schemes Authority in January 2008. Mr. Sih was also certified in November 2011 as a certified public accountant by the Montana Board of Public Accountants (MBPA), Montana State, USA.

Mr. Lai Chi Keung, Albert (黎志強), aged 51, 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 44, was appointed as our independent non-executive Director on 17 December 2008. He has joined Beijing Qianzhen Law Firm (北京市乾貞律師事務所) as a lawyer since December 2010. Prior to that, he had been a lawyer in Beijing Jun Yong Law Office (北京市君永律師事務所) since 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

Mr. Wang Xiaoming (王曉鳴), aged 44, is the president of our Group in charge of the overall sales and operations for our Group in the PRC. Mr. Wang joined our Group in May 2011. He holds a post-graduate diploma in Chinese Studies from the Hunan City College (湖南城市學院) and was appointed as a MBA (Master and Business Administration) tutor for its MBA program (with an emphasis on sales and marketing) by the Graduate School of the Chinese Academy of Sciences (中國科學院研究生院), the PRC in October 2007. Mr. Wang is a senior economist in economic management. He has over 10 years' extensive and practical experience in sales planning, marketing, as well as corporate and operational management in the winery industry in the PRC. Mr. Wang was awarded with the "Outstanding Contribution Award in Grape and Grape Wine Industry" (葡萄與葡萄酒行業傑出貢獻獎) jointly by the China Winery Industry Association Grape Wine Sub-branch (中國釀酒工業協會葡萄酒分會) and the China Agriculture Association Grape Sub-branch (中國農學會葡萄分會) in June 2006.

Ms. Ji Chunhua (紀春花), aged 51, 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.

Mr. Yu Dazhou (于大洲), aged 57, 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. Sun Yankun (孫延坤), aged 56, 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. Wang Lijun (王麗君), aged 45, 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.

Ms. Zhao Dan (趙丹), aged 34, 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 32, 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 46, 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 44, 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 (now known as China Zenith Chemical Group Limited), a company whose shares are 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 41, 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 (the "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 2012 (the "Year").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group continue to be the production and sales of grape wine in the mainland China. Revenue and contribution to operating profit are mainly derived from activities carried out in the mainland China. Particulars of the principal activities of the Company's principal subsidiaries are set out in note 34 to the consolidated financial statements.

RESULTS AND DIVIDEND

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 44 to 92.

The Directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2012 (2011: HK2.88 cents (equivalent to RMB2.34 cents) per share).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 3 May 2013 to 7 May 2013 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting (the "AGM") of the Company to be held on 7 May 2013. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited (the "Hong Kong Share Registrar"), at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on 2 May 2013.

PROPERTY, PLANT AND EQUIPMENT

During the Year, the Group spent approximately RMB83.6 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 Year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the Year are set out in note 27 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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Year.

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 incentive for selected participants to work with commitment towards enhancing the value of the Company and the Shares for the benefit of the Company and its shareholders as a whole 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 2012	Granted during the Year	Exercised during the Year	Lapsed during the Year	Outstanding as at 31 December 2012	Vesting period	Exercisable period	Exercise price per share	Market value per share at date of grant of options
									HK$	*HK$*
Executive Directors:										
Mr. Wang Guangyuan	22 November 2010	2,000,000	–	–	–	2,000,000	22 November 2010 to 21 May 2011	22 May 2011 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 2011 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 2011 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 2011 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 2011 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 2011 to 21 November 2013	1.98	1.98
Employees	22 November 2010	10,000,000	–	–	(2,000,000)	8,000,000	22 November 2010 to 21 May 2011	22 May 2011 to 21 November 2013	1.98	1.98
	18 May 2012	–	56,000,000	–	–	56,000,000	–	18 May 2012 to 17 May 2017	0.71	0.70
Other participants	22 November 2010	52,500,000	–	–	(52,500,000)	–	–	22 May 2011 to 21 May 2012	1.98	1.98
Total		70,000,000	56,000,000	–	(54,500,000)	71,500,000				

RESERVES

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results containing information on the Group's assets and liabilities for the last five financial years is set out on pages 2 and 3. The summary does not form part of the consolidated financial statements.

DIRECTORS

The Directors of the Company during the Year and up to the date of the Annual 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 the Annual 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 21 to 25 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors had a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACT

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Year.

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

As at 31 December 2012, the interests and short positions of the Directors and/or 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 *(Note 4)*
Mr. Wang Guangyuan	The Company	Interest of a controlled corporation	675,582,720 Shares (L) *(Note 2)*	33.56%
Mr. Zhang Hebin	The Company	Interest of a controlled corporation	132,467,200 Shares (L) *(Note 3)*	6.58%

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.

(4) The percentage of shareholding is calculated on the basis of 2,013,018,000 shares in the Company in issue as at 31 December 2012.

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 and/or remained outstanding during the year ended 31 December 2012 was shown in the section headed "Share Option Scheme" in the Annual Report.

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

As at 31 December 2012, so far as is known to the Directors, the following parties, other than a Director or chief executive of the Company, were recorded in the register required to be kept by the Company under section 336 of the SFO, or a otherwise notified to the Company, as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

Name	**Capacity/Nature of interest**	**Number of Shares**	**Approximate percentage of issued Shares** *(Note 5)*
Up Mount *(Note 1)*	Beneficial owner	675,582,720	33.56%
Ms. Zhang Min 張敏 *(Note 2)*	Interest of spouse	675,582,720	33.56%
Wing Move *(Note 3)*	Beneficial owner	132,467,200	6.58%
Ms. Luo Cheng Yan 羅成艷 *(Note 4)*	Interest of spouse	132,467,200	6.58%

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.

(5) The percentage of shareholding is calculated on the basis of 2,013,018,000 shares in the Company in issue as at 31 December 2012.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the Share Option Scheme disclosed above, at no time during the Year was the Company or any of its subsidiaries a party to any arrangement 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.

INTERESTS IN CONTRACTS

No contract of significance in relation to the business of the Group to which any controlling shareholder of the Company or any of its subsidiaries was a party, or in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Year and up to the date of the Annual 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, sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for around 9.3% and 58.4% of the total sales and purchases of the Group respectively. The Group's largest customer and supplier accounted for around 2.1% and 18.6% of the total sales and purchases of the Group for the Year respectively. For the year ended 31 December 2012, none of the Directors or any of their associates or any shareholders of the Company which, to the best knowledge of the Directors, owned 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.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of the Annual Report, based on publicly available information and to the best of the Directors' knowledge, the Company has maintained the prescribed public float 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 itself 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
20 March 2013

The Board develops and reviews the Group's policies and practices on corporate governance to keep their effectiveness from time to time in order to meet the rising expectations of shareholders and comply with the increasingly 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.

The principles in the Corporate Governance Code (the "CG Code") (which is the new edition of the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Listing Rules) issued by the Stock Exchange in October 2011 and is applicable to financial reports covering a period after 1 April 2012) have been followed by the Company to shape its corporate governance structure. The CG Code sets out two levels of corporate governance practices namely, "code provisions" that a listed company is to comply with or explain its decision if there is any deviation from the code provisions, and "recommended best practices" that a listed company is encouraged to comply with but need not explain if it does not.

The Company had complied with the code provisions as set out in the Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the CG Code during the period from 1 April 2012 to 31 December 2012, 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 the chief executive officer (the "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 the Group. The Board considers that Mr. Wang, by serving as the chairman of the Board and the 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 and the 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 the shareholders of the Company. The Board is responsible for formulating the Group's overall objectives and strategies, monitoring and evaluating its operating and financial performance and reviewing 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 the Directors as at the date of this report are set out on pages 21 to 22.

The Board is responsible for performing the corporate governance functions of the Company, which are set out in the written terms of reference. The Board has, among others, reviewed this corporate governance report in discharge of its corporate governance functions and to ensure compliance with the Listing Rules.

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. For the year ended 31 December 2012 (the "year under review"), the attendance record of each of the Directors is tabulated as follows:

Name	2012 annual general meeting	Number of board meetings attended/held during the year under review
Number of meeting(s)	1	7
Executive Director		
Mr. Wang Guangyuan *(Chairman and CEO)*	1/1	7/7
Mr. Zhang Hebin	1/1	7/7
Ms. Wang Lijuan	0/1	7/7
Independent Non-executive Director		
Mr. Sih Wai Kin, Daniel	1/1	6/7
Mr. Lai Chi Keung, Albert	1/1	6/7
Mr. Li Changgao	0/1	6/7

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.

Since 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. Each of the Directors will have the opportunity and is encouraged to include matters which he/she deems appropriate in the agenda for Board meetings.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the 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 the independent non-executive Directors has entered into a service contract with the Company for a renewed term of two years commencing from 1 January 2012, 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

The Audit Committee was established on 28 October 2009. During the year under review, the members of the Audit Committee were Mr. Sih Wai Kin, Daniel (Chairman of the Audit Committee), Mr. Lai Chi Keung, Albert and Mr. Li Changgao, all are independent non-executive Directors. The Chairman of the Audit Committee has the appropriate professional qualification as required by the Listing Rules.

The Company has adopted written terms of reference for the Audit Committee in compliance with the CG Code, which clearly define the role, authority and function 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 Company's financial controls, internal control and risk management systems. It is also responsible for making recommendations to the Board on the appointment and removal of external auditor. The Audit Committee had 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 under review.

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.

The attendance record of each Audit Committee member during the year under review is set out below.

Directors	No. of meetings attended/held	Attendance rate
Mr. Sih Wai Kin, Daniel *(Chairman)*	2/2	100%
Mr. Lai Chi Keung, Albert	2/2	100%
Mr. Li Changgao	2/2	100%

Remuneration Committee

The Remuneration Committee was established on 28 October 2009. During the year under review, the members of the Remuneration Committee were Mr. Sih Wai Kin, Daniel (Chairman of the Remuneration Committee), Mr. Lai Chi Keung, Albert and Mr. Li Changgao, all are independent non-executive Directors.

The Company has adopted written terms of reference for the Remuneration Committee in compliance with the CG Code, which clearly define the role, authority and function of the Remuneration Committee.

The primary duties of the Remuneration Committee include, but not limited to, making recommendations to the Board on the overall remuneration policy and structure, as well as the remuneration packages, relating to all Directors and senior management of our Group; reviewing their remuneration packages with reference to corporate goals and objectives of the Company so as to attain such levels as is sufficient to attract, retain and incentivise them to make positive contribution to the long-term development of the Company, and ensuring that none of the Directors determine his/her own remuneration.

The Remuneration Committee held one meeting 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.

The attendance record of each Remuneration Committee member during the year under review is set out below.

Directors	No. of Meetings Attended/Held	Attendance Rate
Mr. Sih Wai Kin, Daniel *(Chairman)*	1/1	100%
Mr. Lai Chi Keung, Albert	1/1	100%
Mr. Li Changgao	1/1	100%

Nomination Committee

The Nomination Committee was established on 28 October 2009. During the year under review, the members of the Nomination Committee were Mr. Lai Chi Keung, Albert (Chairman of the Nomination Committee and an independent non-executive Director), Mr. Wang Guangyuan (an executive Director) and Mr. Li Changgao (an independent non-executive Director).

The Company has adopted written terms of reference for the Nomination Committee in compliance with the CG Code, which clearly define the role, authority and function of the Nomination Committee.

The primary functions of the Nomination Committee include, but not limited to, making recommendations to the Board regarding candidates for directorship, either to fill vacancies on or appoint additional directors to the Board, the structure, size and composition of the Board and succession planning for Directors. 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 one meeting 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.

The attendance record of each Nomination Committee member during the year under review is set out below.

Directors	No. of Meetings Attended/Held	Attendance Rate
Mr. Lai Chi Keung, Albert *(Chairman)*	1/1	100%
Mr. Wang Guangyuan	1/1	100%
Mr. Li Changgao	1/1	100%

COMPANY SECRETARY

The Company Secretary, Mr. Sum Chi Kan, is one of the chief administrative officers of the Company responsible for, among other duties, organizing directors' and shareholders' meetings of the Company and ensuring all procedures for the convening and conduct of such meetings are in accordance with the Company's constitution and the laws, rules and regulations applicable to the Company. During the year under review, the Company secretary undertook 15 hours of professional training to refresh and develop his knowledge and skills.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining good and effective internal controls of the Group. During the year under review, 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 year under review. 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 any actions and measures taken to improve internal controls on 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 year under review, 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 Tohmatsu, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 42 to 43.

AUDITOR'S REMUNERATION

During the 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	1,431

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code conduct for directors' securities transactions. 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 throughout the Year.

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 posted on the websites of the Stock Exchange and the Company, and general meetings. Shareholders are encouraged to attend the Company's general meetings where the Chairman of the Board and the chairman each of the Board Committees (as appropriate) is invited to attend 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 clear 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 are 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.

The above communication policy is reviewed by the Board from time to time to ensure its effectiveness.

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 44 to 92, which comprise the consolidated statement of financial position as at 31 December 2012, 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 2012 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
20 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Revenue	7	**658,111**	830,084
Cost of sales		**(326,900)**	(350,998)
Gross profit		**331,211**	479,086
Other income	9	**7,746**	6,213
Selling and distribution expenses		**(146,493)**	(119,854)
Administrative expenses		**(50,791)**	(75,742)
Profit before tax		**141,673**	289,703
Income tax expense	10	**(52,805)**	(100,868)
Profit and total comprehensive income for the year attributable to owners of the Company	11	**88,868**	188,835
Earnings per share	15		
Basic *(RMB cents)*		**4.4**	9.4
Diluted *(RMB cents)*		**4.4**	9.4

Consolidated Statement of Financial Position

At 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Non-current Assets			
Property, plant and equipment	16	**287,213**	211,614
Prepaid lease payments	17	**80,542**	12,292
Deposits paid for prepaid lease payments		**–**	54,334
Deposits paid for acquisition of property, plant and equipment		**17,780**	20,580
Deposits paid for a potential acquisition	18	**94,618**	20,000
Biological assets	19	**5,165**	1,544
		485,318	320,364
Current Assets			
Inventories	20	**255,374**	198,146
Trade receivables	21	**78,072**	148,975
Deposits and other receivables	22	**7,655**	3,343
Prepaid lease payments	17	**2,965**	677
Bank balances and cash	23	**1,104,903**	1,274,711
		1,448,969	1,625,852
Current Liabilities			
Trade payables	24	**7,928**	25,429
Other payables and accruals	25	**23,494**	46,871
Tax liabilities		**9,600**	37,717
		41,022	110,017
Net Current Assets		**1,407,947**	1,515,835
Total Assets Less Current Liabilities		**1,893,265**	1,836,199
Non-current Liability			
Deferred tax liability	26	**41,707**	34,707
		1,851,558	1,801,492
Capital and Reserves			
Share capital	27	**17,624**	17,624
Reserves		**1,833,934**	1,783,868
Total Equity		**1,851,558**	1,801,492

The consolidated financial statements on pages 44 to 92 were approved and authorised for issue by the Board of Directors on 20 March 2013 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 2012

	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 2011	17,668	913,710	86,360	90,943	5,865	531,425	1,645,971
Profit and total comprehensive income for the year	–	–	–	–	–	188,835	188,835
Share repurchased and cancelled *(note 26b)*	(44)	(3,169)	–	–	–	–	(3,213)
Recognition of equity-settled share-based payments	–	–	–	–	21,356	–	21,356
Dividends recognised as distribution *(note 14)*	–	–	–	–	–	(51,457)	(51,457)
Transfer to statutory reserves	–	–	–	26,830	–	(26,830)	–
At 31 December 2011	17,624	910,541	86,360	117,773	27,221	641,973	1,801,492
Profit and total comprehensive income for the year	–	–	–	–	–	88,868	88,868
Recognition of equity-settled share-based payments	–	–	–	–	8,259	–	8,259
Share option lapsed/forfeited	–	–	–	–	(20,502)	20,502	–
Dividends recognised as distribution *(note 14)*	–	–	–	–	–	(47,061)	(47,061)
Transfer to statutory reserves	–	–	–	12,861	–	(12,861)	–
At 31 December 2012	17,624	910,541	86,360	130,634	14,978	691,421	1,851,558

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 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 2012

	2012	2011
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit before tax	**141,673**	289,703
Adjustments for:		
Interest income	**(7,573)**	(5,846)
Depreciation of property, plant and equipment	**14,086**	12,250
Loss on disposal of property, plant and equipment	**–**	450
Amortisation of prepaid lease payments	**92**	92
Share-based payments	**8,259**	21,356
Write off of inventories	**10,849**	202
Write off of biological assets	**1,062**	–
Operating cash flows before movements in working capital	**168,448**	318,207
Increase in biological assets	**(3,822)**	(1,394)
Increase in inventories	**(68,077)**	(5,095)
Decrease (increase) in trade receivables	**70,903**	(23,401)
Increase in deposits and other receivables	**(4,312)**	(690)
(Decrease) increase in trade payables	**(17,501)**	5,340
(Decrease) increase in other payables and accruals	**(26,690)**	7,591
Cash generated from operations	**118,949**	300,558
Income tax paid	**(73,922)**	(90,617)
NET CASH FROM OPERATING ACTIVITIES	**45,027**	209,941
INVESTING ACTIVITIES		
Interest received	**7,573**	5,846
Proceeds on disposal of property, plant and equipment	**–**	83
Purchase of property, plant and equipment	**(83,572)**	(34,860)
Addition of prepaid lease payments	**(17,157)**	(9,362)
Deposits paid for a potential acquisition	**(110,618)**	(20,000)
Refund of deposits paid for a potential acquisition	**36,000**	–
NET CASH USED IN INVESTING ACTIVITIES	**(167,774)**	(58,293)
FINANCING ACTIVITIES		
Dividends paid	**(47,061)**	(51,457)
Shares repurchased	**–**	(3,213)
NET CASH USED IN FINANCING ACTIVITIES	**(47,061)**	(54,670)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(169,808)**	96,978
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,274,711**	1,177,733
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash	**1,104,903**	1,274,711

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 "Stock Exchange"). 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.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 34.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

The application of these amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[2]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements Disclosures of Interests in Other Entities: Transition Guidance[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2011 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The directors anticipate that the adoption of HKFRS 9 in the future may not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation – Special Purpose Entities. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

New and revised Standards on consolidation, joint arrangements, associates and disclosures – continued

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time. These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that the adoption of HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011) in the future may not have significant impact on the consolidated financial statements.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements. The directors of the Company are in the process of assessing the potential impact of the application of HKFRS 13 on the consolidated financial statements.

The directors of the Company anticipate that the application of the other new or revised HKFRSs issued but not yet effective will not have material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared 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 on the historical cost basis, except for the biological assets that are measured at fair value less costs to sell, as explained in the accounting policies set out below. 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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

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 time 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 of income can be measured reliably. Interest income 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 to that asset's net carrying amount on initial recognition.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 in the consolidated statement of financial position 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 less their residual values over their estimated useful lives, 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.

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.

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, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Leasing – continued

Leasehold land and building

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.

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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Biological assets

Biological assets comprise vines in the PRC which are measured on initial recognition and at the end of reporting period at the fair value less costs to sell, with any resultant gain or loss recognised in profit or loss for the period in which it arises. Fair value is based on the present value of expected net cash flow from the vines. Costs to sell are the incremental costs directly attributable to the disposals of an asset, mainly transportation cost and excluding income taxes.

Where fair value cannot be measured reliably due to unavailability of market-determined prices and no reliable alternate estimates exist to determine fair value, in which case, the assets are held at cost less impairment losses.

The plantation costs and other related costs including the amortisation charge, utilities cost, direct labour cost, consumables cost incurred for plantation of grapes are capitalised, until such time the vines begin to produce grapes.

Agricultural produce represents the grapes harvested from the vines. Grapes are recognised at the point of harvest and transferred to inventories at their deemed costs which is the fair values less costs to sell. The fair values of grapes are determined based on market prices in the local area.

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 entitling them to the contributions are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit or loss when employees have rendered services as they become payable in accordance with the rules of the central pension scheme.

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 before tax' 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 associated with 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.

Current and deferred tax are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Internally-generated intangible assets – 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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. The classification depends on the nature and purpose of the financial assets which is determined at the time of initial recognition.

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 on financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, 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.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

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.

For certain financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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.

The amount of impairment loss recognised is 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified either as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

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

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 (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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

Derecognition – continued

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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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 or recognised as an expense in full at the grant date when the share options vested immediately, with a corresponding increase in equity (share option 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 original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When the share options are exercised, the amount previously recognised in share option 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 option reserve will be transferred to retained profits.

Share options granted to other participants (including supplier of goods and services, consultant, adviser, contractors, business partner of service provider)

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 option 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 application of the Group's accounting policies, which are described in note 3, the management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience, expectations of the future and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at 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 RMB287,213,000 (2011: RMB211,614,000).

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

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 of RMB10,849,000 (2011: RMB202,000) 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 RMB255,374,000 (2011: RMB198,146,000).

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 RMB78,072,000 (2011: RMB148,975,000).

Fair values of biological assets

The management estimates the fair values of biological assets less costs to sell at the end of the reporting period with reference to the present value of expected net cash flows from the grapevines and professional valuations. Unexpected volatility in market prices of the underlying agricultural produce could significantly affect the fair values of these biological assets and result in fair value changes in future accounting periods. The carrying amount of biological assets is RMB5,165,000 (2011: RMB1, 544,000).

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 balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The management of the Group reviews the capital structure periodically. The Group considers the cost of capital and the risks associated with the capital, and will balance its overall capital structure through payment of dividends, issuance of new shares and share buy-backs as well as the raising of new debts, if required.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2012 RMB'000	2011 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalent)	**1,182,975**	1,423,686
Financial liabilities		
Amortised cost	**16,323**	34,622

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 the 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, which expose the Group 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 end of the reporting period are as follows:

	Assets		Liabilities	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
HKD	**21,796**	26,483	**3,732**	2,025

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 and decrease 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 reasonably 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 post-tax 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 and the balances below would be positive.

	Decrease in profit	
	2012	2011
	RMB'000	*RMB'000*
HKD	**(903)**	(1,223)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange 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.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Credit risk

As at 31 December 2012, 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 trade receivables 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.

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

The credit risk on deposits paid for prepaid lease payments and liquid funds is limited because the counterparties are government related authorities and banks with high credit ratings assigned by international credit-rating agencies, respectively. The deposits paid are fully refundable.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

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 deemed 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 drawn 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	3 months or less	Total undiscounted cash flows and carrying amounts
	RMB'000	*RMB'000*	*RMB'000*
2012			
Trade payables	**–**	**7,928**	**7,928**
Other payables	**8,395**	**–**	**8,395**
	8,395	**7,928**	**16,323**
2011			
Trade payables	–	25,429	25,429
Other payables	9,193	–	9,193
	9,193	25,429	34,622

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.

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 reportable and operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the Executive Directors) of the Company in order to allocate the resources to the segment and to assess its performance. No operating segments identified by chief operating decision maker have been aggregated in arising at the reportable segments of Group.

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

The Group's reportable and 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 includes the provinces of Liaoning, Jilin, and Heilongjiang.
- Northern Region includes provinces of Hebei, Shaanxi, Inner Mongolia, Shanxi and city of Beijing.
- Eastern Region includes provinces of Jiangsu, Zhejiang, Anhui, Fujian, Shandong and city of Shanghai.
- South-Central Region includes provinces of Henan, Hubei, Hunan and Guangdong.
- South-West Region includes provinces of Sichuan, Yunnan, Guizhou and city of Chongqing.

The accounting policies of the reportable and 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 reportable and 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 2012						
Segment revenue from external customers	**93,487**	**132,519**	**213,560**	**84,846**	**133,699**	**658,111**
Segment profit	**43,874**	**59,782**	**93,112**	**35,566**	**55,115**	**287,449**
For the year ended 31 December 2011						
Segment revenue from external customers	122,973	163,265	269,225	105,360	169,261	830,084
Segment profit	67,569	87,327	136,479	53,966	84,449	429,790
As at 31 December 2012						
Segment assets	**11,132**	**8,119**	**25,022**	**7,442**	**31,827**	**83,542**
Segment liabilities	**1,020**	**1,446**	**2,330**	**926**	**1,459**	**7,181**
As at 31 December 2011						
Segment assets	19,141	34,936	51,033	11,905	31,960	148,975
Segment liabilities	4,830	6,412	10,574	4,138	6,648	32,602

8. SEGMENT INFORMATION – continued

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

Revenue

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

	2012	2011
	RMB'000	*RMB'000*
Profit		
Total segment profit	**287,449**	429,790
Unallocated amounts:		
Other corporate income	**7,746**	6,213
Other corporate expenses	**(153,522)**	(146,300)
Consolidated profit before tax	**141,673**	289,703

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

	2012	2011
	RMB'000	*RMB'000*
Assets		
Total segment assets	**83,542**	148,975
Other unallocated amounts		
Property, plant and equipment	**287,213**	211,614
Prepaid lease payments	**83,507**	12,969
Deposits paid for prepaid lease payments	**–**	54,334
Deposits paid for acquisition of property, plant and equipment	**17,780**	20,580
Deposits paid for a potential acquisition	**94,618**	20,000
Biological assets	**5,165**	1,544
Inventories	**255,374**	198,146
Deposits and other receivables	**2,185**	3,343
Bank balances and cash	**1,104,903**	1,274,711
Consolidated total assets	**1,934,287**	1,946,216

Reportable and operating segment assets comprise trade receivables and other tax receivables.

8. SEGMENT INFORMATION – continued

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

	2012	2011
	RMB'000	*RMB'000*
Liabilities		
Total segment liabilities	**7,181**	32,602
Other unallocated amounts		
Trade payables	**7,928**	25,429
Other payables and accruals	**16,313**	14,269
Tax liabilities	**9,600**	37,717
Deferred tax liability	**41,707**	34,707
Consolidated total liabilities	**82,729**	144,724

Reportable and operating segment liabilities comprise certain other payables and accruals.

9. OTHER INCOME

	2012	2011
	RMB'000	*RMB'000*
Interest income from bank deposits	**7,573**	5,846
Rental income	**173**	367
	7,746	6,213

10. INCOME TAX EXPENSE

	2012	2011
	RMB'000	*RMB'000*
The charge comprises:		
Current tax		
PRC Enterprise Income tax	**45,805**	87,716
Withholding tax on distributed profits	**–**	6,000
	45,805	93,716
Deferred tax *(note 26)*		
Current year	**7,000**	7,152
	52,805	100,868

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%.

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.

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

	2012	2011
	RMB'000	*RMB'000*
Profit before tax	**141,673**	289,703
Tax charge at income tax rate of 25%	**35,418**	72,426
Tax effect of income not taxable for tax purpose	**(184)**	(139)
Tax effect of expenses not deductible for tax purpose	**7,739**	15,429
Deferred tax on undistributed earnings of PRC subsidiaries	**7,000**	13,152
Others	**2,832**	–
Income tax expense for the year	**52,805**	100,868

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

	2012	2011
	RMB'000	*RMB'000*
Profit and total comprehensive income for the year has been arrived at after charging:		
Auditor's remuneration	**1,431**	1,364
Cost of inventories recognised as an expense	**250,834**	253,389
Depreciation of property, plant and equipment	**14,086**	12,250
Amortisation of prepaid lease payments	**953**	242
Less: amounts included in biological assets	**(861)**	(150)
	92	92
Research and development costs recognised as an expense (included in administrative expenses)	**5,000**	2,250
Net foreign exchange loss	**1,662**	20,431
Staff costs, including directors' remuneration		
– salaries and other benefits costs	**12,797**	9,217
– share-based payments	**8,259**	5,952
– sales commission	**15,229**	19,161
– retirement benefits scheme contribution	**1,858**	1,535
Loss on disposal of property, plant and equipment	**–**	450
Write off of inventories	**10,849**	202

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of the emoluments paid or payable to the six (2011: six) directors of the Company was as follows:

	Salary *RMB'000*	Retirement benefits scheme contributions *RMB'000*	Share-based payments *RMB'000*	Total *RMB'000*
For the year ended 31 December 2012				
Mr. Wang Guangyuan	**1,489**	**18**	**–**	**1,507**
Mr. Zhang Hebin	**519**	**15**	**–**	**534**
Ms. Wang Lijuan	**513**	**13**	**–**	**526**
Mr. Li Changgao	**145**	**–**	**–**	**145**
Mr. Lai Chi Keung, Albert	**145**	**–**	**–**	**145**
Mr. Sih Wai Kin, Daniel	**145**	**–**	**–**	**145**
	2,956	**46**	**–**	**3,002**
For the year ended 31 December 2011				
Mr. Wang Guangyuan	517	13	680	1,210
Mr. Zhang Hebin	513	11	680	1,204
Ms. Wang Lijuan	509	9	680	1,198
Mr. Li Changgao	130	–	170	300
Mr. Lai Chi Keung, Albert	130	–	170	300
Mr. Sih Wai Kin, Daniel	130	–	170	300
	1,929	33	2,550	4,512

Mr. Wang Guangyuan is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as Chief Executive.

None of the directors waived any emoluments for both years. No incentives were paid by the Group to the Directors as inducement to join, or upon joining the Group, or as compensation for loss of office.

13. EMPLOYEES' EMOLUMENTS

For the year ended 31 December 2012, of the five individuals with the highest emoluments in the Group, none was director of the Company (2011: one was director of the Company whose emoluments were disclosed in note 12 above). The emoluments of the five (2011: remaining four) highest paid individuals were as follows:

	2012	2011
	RMB'000	*RMB'000*
Salaries and other benefits	**3,809**	1,477
Performance related incentive payments	**241**	2,695
Retirement benefits scheme contribution	**54**	47
Share-based payments	**8,111**	1,360
	12,215	5,579

Their emoluments were within the following bands:

	2012	2011
	No. of employees	*No. of employees*
RMB1,205,934 to RMB1,607,910 (equivalent to HK$1,500,001 to HK$2,000,000)	**–**	4
RMB1,607,911 to RMB2,009,888 (equivalent to HK$2,000,001 to HK$2,500,000)	**1**	–
RMB2,009,889 to RMB2,411,865 (equivalent to HK$2,500,001 to HK$3,000,000)	**2**	–
RMB2,411,866 to RMB2,813,843 (equivalent to HK$3,000,001 to HK$3,500,000)	**1**	–
RMB3,215,821 to RMB3,617,821 (equivalent to HK$4,000,001 to HK$4,500,000)	**1**	–
	5	4

No incentive was paid by the Group to the above individuals as inducements to join, or upon joining the Group.

14. DIVIDENDS

	2012	2011
	RMB'000	*RMB'000*
Dividend recognised as distribution during the year:		
2011 Final – HK2.88 cents (equivalent to RMB2.34 cents) (2011: 2010 Final – HK3.00 cents (equivalent to RMB2.55 cents)) per share	**47,061**	51,457

No dividend was proposed during 2012, nor has any dividend been proposed since the end of the reporting period (2011: final dividend of HK2.88 cents in respect of the year ended 31 December 2011 (equivalent to RMB2.34 cents) per share).

15. EARNINGS PER SHARE

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

	2012	2011
	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	**88,868**	188,835

	2012	2011
	Number of shares	*Number of shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,013,018,000**	2,016,527,436
Effect of dilutive potential ordinary shares – share options	**502,935**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,013,520,935**	2,016,527,436

For the year ended 31 December 2011, the computation of diluted earnings per share does not assume the exercise of the Company's share options as the exercise price of share options was higher than the average market price per share for that year.

16. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings	Leasehold improvements	Plant and machinery	Fixtures and office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST							
At 1 January 2011	–	77,919	681	119,751	294	1,970	200,615
Additions	29,447	24,741	961	991	17	1,853	58,010
Disposal/write-off	–	–	(146)	(842)	–	(781)	(1,769)
At 31 December 2011	29,447	102,660	1,496	119,900	311	3,042	256,856
Additions	51,093	–	528	26,925	11,027	112	89,685
Transfers	(80,540)	80,540	–	–	–	–	–
At 31 December 2012	–	183,200	2,024	146,825	11,338	3,154	346,541
DEPRECIATION							
At 1 January 2011	–	6,479	191	26,139	175	1,244	34,228
Provided for the year	–	3,249	1,062	7,516	39	384	12,250
Eliminated on disposal/ write-off	–	–	(146)	(348)	–	(742)	(1,236)
At 31 December 2011	–	9,728	1,107	33,307	214	886	45,242
Provided for the year	–	4,411	874	7,695	595	511	14,086
At 31 December 2012	–	14,139	1,981	41,002	809	1,397	59,328
CARRYING VALUES							
At 31 December 2012	–	169,061	43	105,823	10,529	1,757	287,213
At 31 December 2011	29,447	92,932	389	86,593	97	2,156	211,614

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% or over the terms of lease, whichever is shorter
Leasehold improvements	50%
Plant and machinery	5% – 10%
Fixtures and office equipment	20%
Motor vehicles	20%

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

17. PREPAID LEASE PAYMENTS

	2012	2011
	RMB'000	*RMB'000*
Analysed for reporting purposes as:		
Non-current asset	**80,542**	12,292
Current asset	**2,965**	677
	83,507	12,969

18. DEPOSITS PAID FOR A POTENTIAL ACQUISITION

The amount at 31 December 2011 represented a deposit of RMB20,000,000 paid to 烟台白洋河酿酒有限责任公司 Yantai Baiyanghe Winery Co., Ltd. (the "Target"), a limited liability company established in the Shandong province of the PRC which principally engages in production and sale of alcoholic beverages, for the possible acquisition of certain equity interest in the Target. During the year ended 31 December 2012, an additional deposit of RMB16,000,000 is paid to the Target.

Pursuant to the memorandum of understanding and subsequent supplementary agreements entered into during the year ended 31 December 2011, the parties can negotiate the detailed terms and conditions of the transaction up to 31 December 2012 and if the Group does not wish to proceed with the negotiation to the transaction, the deposits paid will be refunded in full to the Group.

As detailed in the announcement of the Company dated 26 September 2012 (the "Announcement"), a wholly owned subsidiary of the Company has entered into a formal agreement (the "Formal Agreement") with the shareholders of the Target and the Target in relation to the acquisition of certain equity interest and capital injection in the Target (the "Transaction"). Upon completion of the Transaction contemplated under the Formal Agreement, the Group will hold 60% of the enlarged registered capital for the Target, which will become a subsidiary of the Group. Up to 31 December 2012, additional deposits of RMB94,618,000 are paid for the Transaction. Subsequent to entering into the Formal Agreement for the potential acquisition, deposits of RMB36,000,000 previously paid were fully refunded to the Group during the year.

The completion of the Transaction is subject to various conditions, which are already set out in the Announcement, to be fulfilled according to the Formal Agreement, which are not yet fully satisfied up to 31 December 2012. If the Group does not wish to proceed the Transaction or the conditions cannot be fulfilled at the pre-determined date, the deposits paid will be refunded in full to the Group. Pursuant to the Formal Agreement, total consideration of the Transaction is RMB225,120,000.

19. BIOLOGICAL ASSETS

The Group is primarily engaged in manufacturing and sale of grape wine products. The biological assets represent grapevines located in PRC which can produce grapes and grape juice is then produced from grapes after further processing. Movements of biological asset, representing grapevines before harvest, are summarised as follows:

	Total
	RMB'000
At 1 January 2011	–
Increase due to cultivation (planting and other capitalised cost)	1,544
At 31 December 2011	–
Increase due to cultivation (planting and other capitalised costs)	4,683
Write off	(1,062)
At 31 December 2012	5,165

All grapes are harvested annually from August to November of each calendar year. The directors consider that that there is no active market for the immature grapes as at 31 December 2011 as the Group just commenced the plantation work in August 2011. The present value of expected cash flows is not considered a reliable measure of the fair value due to the need for, and use of, subjective assumptions including weather conditions, natural disaster and effectiveness of pesticide protection. As such, the directors consider the fair value of biological assets as 31 December 2011 cannot be measured reliably and no reliable alternative estimates exist to determine fair value. Therefore, biological assets as at 31 December 2011 was stated at cost.

During the year ended 31 December 2012, due to unsatisfied grape quality, some grapes with the carrying amount of RMB1,062,000 are removed and written off. The immature grapevines have transformed to infant grapevines during the year ended 31 December 2012, the Group has engaged an independent valuer (Savills Valuation and Professional Services Limited) to determine the fair value of infant grapevines as at 31 December 2012.

The fair value of grapevines is calculated using a discounted cash flow technique by discounting the future cash flows of grapevines into their present values. In estimating the fair value of the grapevines, the key assumptions relate to a) the estimated selling prices of grapes which are assumed to be increased by 3% per annum, and b) the direct production costs, which have taken into account the projected long term inflation rate and production quantities. The calculation uses cash flow projection at discount rate of 18%.

No significant agricultural produce was harvested during the years ended 31 December 2012 and 2011.

20. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials and consumables	**18,439**	19,579
Work in progress	**216,852**	150,420
Finished goods	**20,083**	28,147
	255,374	198,146

21. TRADE RECEIVABLES

The Group allows a credit period of 90 days to its trade customers except for the new customers which payment is made when goods are delivered. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2012 RMB'000	2011 RMB'000
0 – 30 days	**41,768**	79,057
31 – 60 days	**32,669**	10,306
61 – 90 days	**3,635**	59,612
	78,072	148,975

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

No trade receivable balance is past due at the end of the reporting period.

22. DEPOSITS AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Other tax recoverable	**5,470**	1,569
Deposits and prepayments	**2,185**	1,774
	7,655	3,343

23. BANK BALANCES AND CASH

Bank balances carry interest at average market rates of 0.67% (2011: 0.70%) per annum.

24. TRADE PAYABLES

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

	2012	2011
	RMB'000	*RMB'000*
0 – 30 days	**481**	11,906
31 – 60 days	**2,507**	10,543
61 – 90 days	**4,940**	2,980
	7,928	25,429

The average credit period on purchase of raw materials ranges from two to three months.

The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

25. OTHER PAYABLES AND ACCRUALS

	2012	2011
	RMB'000	*RMB'000*
Payable for acquisition of property, plant and equipment	**3,313**	–
Other tax payable	**4,687**	29,631
Accrued expenses	**10,412**	8,047
Other creditors	**5,082**	9,193
	23,494	46,871

26. DEFERRED TAX LIABILITY

	Undistributed profits of PRC subsidiaries *RMB'000*
At 1 January 2011	27,555
Charge to profit or loss	13,152
Credit to profit or loss	(6,000)
At 31 December 2011	34,707
Charge to profit or loss	7,000
At 31 December 2012	**41,707**

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. During the year ended 31 December 2011, the deferred tax credit of RMB6,000,000 represents withholding tax to be paid for the dividend declared by a subsidiary of the Group established in the PRC during the year out of the distributable profits generated after 1 January 2008.

27. SHARE CAPITAL OF THE COMPANY

	Number of ordinary shares '000 at HK$0.01 per share	Amount *HK$'000*
Authorised:		
At 1 January 2011, 31 December 2011 and 31 December 2012	10,000,000	100,000
Issued:		
At 31 January 2011	2,017,934	20,180
Shares repurchased and cancelled	(4,916)	(49)
At 31 December 2011 and 31 December 2012	2,013,018	20,131
Shown in the consolidated financial statements At 31 December 2011 and 2012	RMB equivalent	17,624

27. SHARE CAPITAL OF THE COMPANY – continued

(a) During the year ended 31 December 2011, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares at HK$0.01 per share	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
August	1,200,000	0.93	0.86	1,062
September	2,200,000	0.96	0.60	1,744
October	1,516,000	0.81	0.64	1,126
	4,916,000			3,932

The above shares were cancelled subsequently on 22 September 2011 and 20 October 2011 and the aggregate consideration is approximate to RMB3,213,000.

None of the Company's subsidiaries sold or redeemed any of the Company's listed securities during the year ended 31 December 2012 and 2011.

28. 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 directors, employees, supplier of goods and services, consultant, adviser, contractor, business partner or service partner which 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.

28. SHARE-BASED PAYMENT TRANSACTIONS – continued

Equity-settled share option scheme of the Company: – continued

At 31 December 2012, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 71,500,000 (2011: 70,000,000), representing 3.55% (2011: 3.48%) 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.

During the year ended 31 December 2012, the Company granted 56,000,000 share options to the eligible employees and 52,500,000 share options and 2,000,000 share options granted to other participants and employees respectively on 22 November 2010 were lapsed or forfeited. Details of specific categories of outstanding options as at 31 December 2012 are as follows:

Date of grant	Number of options	Vesting period	Exercisable period	Exercise price
22 November 2010	15,500,000	22 November 2010 to 21 May 2011	22 May 2011 to 21 November 2013	HK$1.98
18 May 2012	56,000,000	N/A	18 May 2012 to 17 May 2017	HK$0.71

28. SHARE-BASED PAYMENT TRANSACTIONS – continued

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

Category of participant	Outstanding at 1.1.2011 and 31.12.2011	Granted during the year	Lapsed/ forfeited during the year	Exercise during the year	Outstanding at 31.12.2012	Date of grant	Exercisable 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	–	(2,000,000)	–	8,000,000	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
Other employees	–	56,000,000	–	–	56,000,000	18 May 2012	18 May 2012 to 17 May 2017	HK$0.71
	70,000,000	56,000,000	(54,500,000)	–	71,500,000			
Exercisable at the end of the year	70,000,000				71,500,000			

The Group recognised the total expense of RMB8,259,000 (2011: RMB21,356,000) for the year ended 31 December 2012 in relation to share options granted by the Company.

During the year ended 31 December 2012, 56,000,000 share options were granted under the Scheme on 18 May 2012. Their estimate fair values of the options granted on the date is HK$0.18 per option.

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

Date of grant	18 May 2012
Share price as at grant date	HK$0.70
Exercise price	HK$0.71
Expected volatility	51%
Risk-free rate	0.46%
Expected dividend yield	4.0%

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.

Expected volatility was determined by the historical volatility of the Company's share price.

29. OPERATING LEASES

The Group as lessee

	2012 *RMB'000*	2011 *RMB'000*
Minimum lease payments paid under operating leases during the year:		
Plant and machinery	**1,600**	2,210
Premises for office and warehouse	**3,786**	2,922
	5,386	5,132

At 31 December 2012, the Group had commitments for minimum lease payment under non-cancellable operating leases which fall due as follows:

	2012 *RMB'000*	2011 *RMB'000*
Plant and machinery		
Within one year	**1,067**	2,050
In the second to fifth year inclusive	**–**	1,367
	1,067	3,417
Rented premises for office and warehouse		
Within one year	**633**	1,224
In the second to fifth year inclusive	**–**	639
	633	1,863

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

30. CAPITAL COMMITMENTS

Save as disclosed elsewhere in the consolidated financial statements, the significant capital commitments are as follows:

	2012	2011
	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	**47,025**	95,713
Capital expenditure in respect of acquisition of property, plant and equipment, development of wine estate and wine cellar authorised but not contracted for	**381,295**	100,373

31. 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 RMB1,858,000 (2011: RMB1,535,000).

32. RELATED PARTIES TRANSACTIONS

Compensation of key management personnel

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

	2012	2011
	RMB'000	*RMB'000*
Short-term benefits	**5,971**	4,137
Post-employment benefits	**46**	33
Share-based payments	**3,834**	3,911
	9,851	8,081

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

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2012	2011
	RMB'000	*RMB'000*
Non-current Asset		
Investment in a subsidiary	**1,166**	1,166
Current Assets		
Prepayments	**82**	81
Amounts due from subsidiaries	**952,508**	800,804
Bank balances	**14,524**	222,172
	967,114	1,023,057
Current Liability		
Other payable and accruals	**(2,920)**	(1,486)
Net current assets	**964,194**	1,021,571
Total Assets Less Current Liability	**965,360**	1,022,737
Capital and Reserves		
Share capital	**17,624**	17,624
Reserves	**947,736**	1,005,113
Total Equity	**965,360**	1,022,737

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – continued

Movement in reserves

	Share premium	Share option reserve	Retained profit	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	913,710	5,865	57,723	977,298
Profit and total comprehensive income for the year	–	–	61,085	61,085
Share repurchased and cancelled *(note 26)*	(3,169)	–	–	(3,169)
Recognition of equity-settled share-band payments	–	21,356	–	21,356
Dividends recognised as distribution *(note 14)*	–	–	(51,457)	(51,457)
At 31 December 2011	910,541	27,221	67,351	1,005,113
Profit and total comprehensive income for the year	–	–	(18,575)	(18,575)
Recognition of equity-settled share-based payments	–	8,259	–	8,259
Share option lapsed/forfeited	–	(20,502)	20,502	–
Dividends recognised as distribution *(note 14)*	–	–	(47,061)	(47,061)
At 31 December 2012	910,541	14,978	22,217	947,736

34. PARTICULARS OF PRINCIPAL 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 2012 and 2011	Principal activity
Fullest Power Investments Limited ("Fullest Power")	The British Virgin Islands 19 May 2006	Ordinary shares US$100,000	100%	Investment holding
Rich Treasure Link Limited	Hong Kong 18 July 2009	Ordinary shares HK$10,000	100%	Investment holding and provision of administrative services
通化通天酒業有限公司 Tonghua Tongtian Winery Co., Ltd. *(note)*	PRC 9 January 2001	Registered capital RMB87,110,000	100%	Manufacturing and sale of winery and beverage products and processing of grape juice
通化通天葡萄酒莊園有限公司 Tonghua Tontine Wine Estate Co., Ltd *(note)*	PRC 26 February 2011	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 2011	Registered capital HK$28,000,000	100%	Grapes plantation
通化通天商貿有限公司 Tonghua Tontine Trading Co., Ltd. *(note)*	PRC 9 April 2011	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.