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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)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 19.0% to approximately RMB288.9 million (2009: approximately RMB242.7 million)
- Gross profit increased by approximately 22.8% to approximately RMB168.7 million (2009: approximately RMB137.4 million)
- Profit attributable to owners of the Company for the period increased by approximately 19.3% to approximately RMB89.9 million (2009: approximately RMB75.4 million)
- Earnings per share decreased by approximately 8.8% to approximately RMB5.2 cents (2009: approximately RMB5.7 cents)

The board (the “Board”) of directors (the “Directors”) of China Tontine Wines Group Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010 (the “Period”), together with the comparative figures as follows.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		Six months ended	
		30 June	
		2010	2009
	<i>Notes</i>	(Unaudited)	(Audited)
		RMB'000	RMB'000
Revenue	4	288,908	242,715
Cost of sales		(120,235)	(105,328)
Gross profit		168,673	137,387
Other income	6	1,830	476
Selling and distribution expenses		(32,791)	(25,951)
Administrative expenses		(9,303)	(3,777)
Other expenses	7	–	(1,573)
Profit before tax	8	128,409	106,562
Income tax expense	9	(38,519)	(31,207)
Profit and total comprehensive income for the period attributable to owners of the Company		89,890	75,355
Earnings per share	10		
Basic (RMB) cents		5.2	5.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

		30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
	Notes		
Non-current Assets			
Property, plant and equipment	12	115,867	102,550
Prepaid lease payments		3,804	3,849
Deposit paid for acquisition of prepaid lease payments		33,800	—
Deposits paid for acquisition of property, plant and equipment		40,235	—
		<u>193,706</u>	<u>106,399</u>
Current Assets			
Inventories		127,990	148,604
Trade receivables	13	125,722	98,776
Deposits and prepayments		1,683	291
Prepaid lease payments		92	92
Bank balances and cash		631,683	713,331
		<u>887,170</u>	<u>961,094</u>
Current Liabilities			
Trade payables	14	9,318	16,154
Other payables and accruals		18,976	38,813
Tax liabilities		13,229	24,548
		<u>41,523</u>	<u>79,515</u>
Net Current Assets		<u>845,647</u>	<u>881,579</u>
Total Assets Less Current Liabilities		1,039,353	987,978
Non-current Liability			
Deferred tax liability		22,452	17,428
		<u>1,016,901</u>	<u>970,550</u>
Capital and Reserves			
Share capital		15,118	15,118
Reserves		1,001,783	955,432
Total Equity		<u>1,016,901</u>	<u>970,550</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Statutory reserves RMB'000 (Note b)	Retained profits RMB'000	Total RMB'000
At 1 January 2009 (audited)	758	86,767	–	46,182	237,495	371,202
Total comprehensive income for the period	–	–	–	–	75,355	75,355
At 30 June 2009 (audited)	758	86,767	–	46,182	312,850	446,557
Total comprehensive income for the period	–	–	–	–	98,750	98,750
Exchange of shares upon group reorganisation	407	(86,767)	86,360	–	–	–
Issues of shares pursuant to initial public offering	3,462	429,128	–	–	–	432,590
Expenses incurred in connection with issue of new shares	–	(7,347)	–	–	–	(7,347)
Issue of share by capitalisation of share premium account	10,491	(10,491)	–	–	–	–
Transfer to statutory reserves	–	–	–	20,106	(20,106)	–
At 31 December 2009 (audited)	15,118	411,290	86,360	66,288	391,494	970,550
Total comprehensive income for the period	–	–	–	–	89,890	89,890
Dividends (note 11)	–	–	–	–	(43,539)	(43,539)
At 30 June 2010 (unaudited)	15,118	411,290	86,360	66,288	437,845	1,016,901

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 then holding company for which the shares of the Company have been issued in exchange upon the 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.

Details of the Corporate Reorganisation were set out in the section headed “Reorganisation” in Appendix VI to the prospectus of the Company dated 5 November 2009.

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2010*

	Six months ended	
	30 June	
	2010	2009
	(Unaudited)	(Audited)
	RMB'000	RMB'000
NET CASH FROM OPERATING ACTIVITIES	49,913	74,303
INVESTING ACTIVITIES		
Deposits paid for acquisition of property, plant and equipment	(40,235)	–
Deposit paid for acquisition of prepaid lease payments	(33,800)	–
Purchase of property, plant and equipment	(15,817)	(2,000)
Interest received	1,830	476
NET CASH USED IN INVESTING ACTIVITIES	(88,022)	(1,524)
CASH USED IN FINANCING ACTIVITY		
Dividend paid	(43,539)	–
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(81,648)	72,779
CASH AND CASH EQUIVALENTS AT 1 JANUARY	713,331	115,816
CASH AND CASH EQUIVALENTS AT 30 JUNE		
represented by bank balances and cash	631,683	188,595

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on Stock Exchange and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost convention.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

In the current interim period, the Group has applied, for the first time, the following new and revised Hong Kong Accounting Standards (“HKAS(s)”), Hong Kong Financial Reporting Standards (“HKFRS(s)”), amendments and interpretations (“HK(IFRIC) Int”) (hereinafter collectively referred to as the “new and revised HKFRSs”) issued by the HKICPA:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1(Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised 2008)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

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

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

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

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

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ²
HKAS 32 (Amendment)	Classification of Rights Issues ³
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ⁴
HKFRS 9	Financial Instruments ⁵
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ²
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁴

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 January 2011

³ Effective for annual periods beginning on or after 1 February 2010

⁴ Effective for annual periods beginning on or after 1 July 2010

⁵ Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that the application of the new or revised standards, amendments and interpretation will not have material impact on the results and the financial position of the Group.

4. REVENUE

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

5. SEGMENT INFORMATION

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

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

The Group's operating segments under HKFRS 8 are identified based on different geographical zones in the PRC: North-East Region, Northern Region, Eastern Region, South-Central Region and South-West Region.

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

No revenue from transactions with a single external customer amounting to 10 per cent or more of the Group's revenue.

Information about operating segment revenues, profit, assets and liabilities

	North- East Region <i>RMB'000</i>	Northern Region <i>RMB'000</i>	Eastern Region <i>RMB'000</i>	South- Central Region <i>RMB'000</i>	South- West Region <i>RMB'000</i>	Total <i>RMB'000</i>
For the six months ended 30 June 2010 (unaudited)						
Segment revenue from external customers	<u>37,778</u>	<u>59,080</u>	<u>101,368</u>	<u>36,757</u>	<u>53,925</u>	<u>288,908</u>
Segment profit	<u>20,273</u>	<u>31,795</u>	<u>52,828</u>	<u>18,558</u>	<u>27,648</u>	<u>151,102</u>
For the six months ended 30 June 2009 (audited)						
Segment revenue from external customers	<u>33,054</u>	<u>48,251</u>	<u>85,538</u>	<u>29,591</u>	<u>46,281</u>	<u>242,715</u>
Segment profit	<u>17,539</u>	<u>24,632</u>	<u>43,032</u>	<u>14,054</u>	<u>21,755</u>	<u>121,012</u>
As at 30 June 2010 (unaudited)						
Segment assets	<u>15,825</u>	<u>27,130</u>	<u>40,382</u>	<u>17,345</u>	<u>25,040</u>	<u>125,722</u>
Segment liabilities	<u>1,310</u>	<u>2,206</u>	<u>4,102</u>	<u>2,352</u>	<u>1,591</u>	<u>11,561</u>
As at 31 December 2009 (audited)						
Segment assets	<u>13,871</u>	<u>18,902</u>	<u>28,726</u>	<u>14,931</u>	<u>22,346</u>	<u>98,776</u>
Segment liabilities	<u>3,878</u>	<u>4,980</u>	<u>8,297</u>	<u>5,473</u>	<u>3,313</u>	<u>25,941</u>

Reconciliations of operating segment revenue, profit, assets and liabilities

Revenue

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

	Six months ended 30 June	
	2010 (Unaudited) RMB'000	2009 (Audited) RMB'000
Profit		
Total segment profits	151,102	121,012
Unallocated amounts:		
Other corporate income	1,830	476
Other corporate expenses	(24,523)	(14,926)
Consolidated profit before tax	<u>128,409</u>	<u>106,562</u>

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

	At 30 June 2010 (Unaudited) RMB'000	At 31 December 2009 (Audited) RMB'000
Assets		
Total segment assets	125,722	98,776
Other unallocated amounts		
Property, plant and equipment	115,867	102,550
Prepaid lease payments	3,896	3,941
Deposit paid for acquisition of prepaid lease payments	33,800	—
Deposits paid for acquisition of property, plant and equipment	40,235	—
Inventories	127,990	148,604
Deposits and prepayments	1,683	291
Bank balances and cash	631,683	713,331
Consolidated total assets	<u>1,080,876</u>	<u>1,067,493</u>

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

	At 30 June 2010 (Unaudited) RMB'000	At 31 December 2009 (Audited) <i>RMB'000</i>
Liabilities		
Total segment liabilities	11,561	25,941
Other unallocated amounts		
Trade payables	9,318	16,154
Other payables and accruals	7,415	12,872
Tax liabilities	13,229	24,548
Deferred tax liability	22,452	17,428
Consolidated total liabilities	63,975	96,943

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

6. OTHER INCOME

Other income represents the interest income from bank deposits.

7. OTHER EXPENSES

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

8. PROFIT BEFORE TAX

	Six months ended 30 June 2010 (Unaudited) RMB'000	2009 (Audited) <i>RMB'000</i>
Profit before tax has been arrived at after charging:		
Cost of inventories recognised as an expense	91,344	81,057
Depreciation of property, plant and equipment	2,500	2,397
Amortisation of prepaid lease payments	45	46

9. INCOME TAX EXPENSE

Six months ended 30 June	
2010	2009
(Unaudited)	(Audited)
RMB'000	RMB'000

The charge comprises:

Current tax		
PRC Enterprise Income tax	33,495	27,137
Deferred tax		
Current period	5,024	4,070
	<u>38,519</u>	<u>31,207</u>

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 subsidiary operated in the PRC.

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

According to a joint circular of the Ministry of Finance and State Administration of Taxation – Cai Shui 2008 No. 1, dividend distributed out of the profits of PRC entities generated after 1 January 2008 shall be subject to PRC Enterprise Income Tax which is withheld by the PRC entity. Deferred tax expense of RMB5,024,000 (six months ended 30 June 2009: RMB4,070,000) on the undistributed earnings of the PRC subsidiary has been charged to the profit or loss for the period.

10. EARNINGS PER SHARE

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

Six months ended 30 June	
2010	2009
(Unaudited)	(Audited)
RMB'000	RMB'000

Earnings

Profit for the Period attributable to owners of the Company	89,890	75,355
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At 30 June 2010 (Unaudited) Number of shares	At 30 June 2009 (Audited) Number of shares
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Number of shares

Weighted average number of ordinary shares	1,717,934,000	1,324,672,000
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The weighted average number of shares for the purpose of calculating basic earnings per share for the six months ended 30 June 2009 is based on the assumption that the 132,467,200 shares issued and outstanding upon the Corporate Reorganisation had been in issue as at beginning of the period.

No diluted earnings per share has been presented for both periods as the Company has no potential ordinary shares outstanding during both periods.

11. DIVIDENDS

Six months ended 30 June	
2010	2009
(Unaudited)	(Audited)
RMB'000	RMB'000

Final dividend of HK2.88 cents (equivalent to RMB2.53 cents)
for the year ended 31 December 2009 paid during the interim
period (year ended 31 December 2008: nil)

43,539	—
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The Directors do not recommend the payment of interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group acquired property, plant and equipment at a cost of RMB15,817,000 (six months ended 30 June 2009: RMB2,000,000).

13. TRADE RECEIVABLES

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

	At 30 June 2010 (Unaudited) RMB'000	At 31 December 2009 (Audited) RMB'000
0 – 30 days	51,443	84,960
31 – 60 days	49,808	13,816
61 – 90 days	24,471	—
	125,722	98,776

14. TRADE PAYABLES

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

	At 30 June 2010 (Unaudited) RMB'000	At 31 December 2009 (Audited) RMB'000
0 – 30 days	9,318	4,992
31 – 60 days	—	8,779
61 – 90 days	—	2,383
	9,318	16,154

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group's revenue for the six months ended 30 June 2010 amounted to approximately RMB288.9 million (2009: RMB242.7 million), representing an increase of 19.0% as compared with the same period last year and the Group's profit attributable to owners of the Company increased by 19.3% to RMB89.9 million (2009: RMB75.4 million).

The Company's earnings per share reached RMB5.2 cents per share (2009: RMB5.7 cents per share) based on the weighted average number of shares in issue during the Period.

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

BUSINESS REVIEW

For the six months ended 30 June 2010, the Group experienced a growth in sales as compared with last year amidst poor consumption sentiment in the first quarter of 2009 after global financial crisis hit and keen competition in the market.

Being benefited from the vibrant economic development and the policy of encouraging with a view of expanding domestic demand introduced by the Chinese Government, the PRC market maintained strong growth momentum. Leveraging upon the Group's strong customer base in China and flexible marketing strategies, the Group maintained stable average selling prices of its products in the highly competitive red wine market, so as to enhance the steady development of its overall business.

During the Period, we continued to expand and strengthen our nationwide and extensive distribution network through the Group's distributors, which supported sales of the products of the Group in the provinces and municipal cities of the PRC.

Sales and distribution network

The Group sells substantially all of our products to distributors, who distribute and sell our grape wine products to third-party retailers, including supermarkets, and specialty stores selling tobacco and alcohol, food and beverage outlets such as restaurants, and hotel restaurants, as well as through their own direct sales distribution to end-consumers and other sub-distributors.

As at 30 June 2010, the Group's products are sold through over 70 distributors in 19 provinces and 3 municipal cities in the PRC.

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

The Group enters into a standard distribution agreement with each of our selected distributors for an initial period of one year. Following successful negotiation between 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 sales and marketing of distributors, the Group bears the delivery costs and implements advertising strategies primarily through television commercial, billboards and magazines and emphasize the health benefits of moderate consumption of grape wines in order to establish consumer loyalty and strengthen the popularity of our products.

The Group does not have any ownership or management control over the 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 on the 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 Group will continue to expand and optimize the Group's network by working closely with the Group's distributors and leveraging their local resources and business networks.

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

	Six months ended 30 June			
	2010		2009	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
North-East (<i>Refer to Note 5 above</i>)	37,778	13.1	33,054	13.6%
Northern (<i>Refer to Note 5 above</i>)	59,080	20.4	48,251	19.9%
Eastern (<i>Refer to Note 5 above</i>)	101,368	35.1	85,538	35.2%
South-Central (<i>Refer to Note 5 above</i>)	36,757	12.7	29,591	12.2%
South-West (<i>Refer to Note 5 above</i>)	53,925	18.7	46,281	19.1%
Total	<u>288,908</u>	<u>100.0</u>	<u>242,715</u>	<u>100.0%</u>

The geographical distribution of our sales remained relatively stable. Revenue derived from our sales in the eastern region of China continued to be the largest contributing region 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 grape from 191 local grape farmer suppliers, whose vineyards are located in the regions around Ji'An City, Jilin Province, the PRC at the foothills of Changbai mountain range on the banks of the Yalu river. In order to maintain reliable and solid supplies of quality grapes to meet our needs, we have entered into a 20 years long-term contract with each of our grape farmer suppliers and our vineyard management team supervises the planting, nurturing and harvesting of the grapevines.

Business outlook

Whilst the western countries are still trying to recover from the effects of the financial tsunami, Europe is facing another problem of crisis proportion on the issue of sovereign debts. Against this backdrop, it is expected that the global economy will still be facing considerable uncertainties in the coming year. However, the Group is determined to continue to seize the opportunity to forge ahead and grow at a fast pace. Having faced the financial tsunami, the Group has reason to believe that the next five to ten years will be the golden years for growth in China, and it should also offer opportunities for the Group to grow even faster and stronger.

To meet the anticipated increase in market demand for grape wine products, the Group commenced second phase capacity expansion from approximately 19,000 tonnes to approximately 39,000 tonnes in 2007. Related construction in Tonghua has been in steady progress and is expected to be completed in the fourth quarter of 2010. With an increased capacity to boost production, the Group will be able to expand its business, achieve better market penetration and attract a broader customer base.

To meet increasing sophisticated consumer tastes, the Group launched a new product “Tontine Premium Blueberry Wine” in January 2010. The new product, which adds to the diverse product portfolio of the Company, was well received by our customers. We will continue to increase our investment in product R&D.

The Group plans to develop a wine estate in Ji'An City, Jilin Province, the PRC, to produce 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.

The Group is developing wine cellaring capabilities to complement our production facilities in Tonghua County, Jilin Province, the PRC. A wine cellar is a place where a stock of wine is properly stored under a controlled environment to undergo an ageing for a capacity that process to produce a range of winery products. The storage capacity of the wine cellar is designed up to approximately 600,000 bottles (750 ml) could be processed.

* 1 mu equals to approximately 667 square metres.

The Group plans to enhance our current sales and distribution network throughout the PRC by establishing not less than 20 Tontine retail outlets in certain selected markets in the PRC within the next 4 years. As at the date of this announcement, the setting up of our branded retail outlets was yet to be launched. We plan to establish 5 outlets (Beijing, Chengda, Shanghai, Shenyang and Wuhan) in 2010. These retail outlets will serve as direct sales and marketing platform for our brands, and provide marketing support to the distributors.

Looking ahead, the Group remains optimistic about the prospects of the PRC economy and is confident that there are ample opportunities in the PRC grape wine market. The Group will continue to improve the revenue and profitability by expanding sales networks, especially in second and third-tier PRC cities through stronger channel management and by stepping up our investments in advertising, marketing and promotion; implement tight cost control measure, stringent quality management and competitive pricing strategy. The management believes that the Group is able to remain competitive in the market and explore the market potential further.

FINANCIAL REVIEW

Revenue

Revenue represents proceeds from sale of grape wine products. Our revenue increased by 19.0% to approximately RMB288.9 million for the six months ended 30 June 2010 from approximately RMB242.7 million in 2009. The following table sets forth a breakdown of the Group's revenue for the Period:

	Six months ended 30 June				Growth of Revenues (%)
	2010 RMB'000	% of total revenues	2009 RMB'000	% of total revenues	
Sweet wines	198,826	68.8	165,515	68.2%	20.1%
Dry wines	90,082	31.2	77,200	31.8%	16.7%
Total	288,908	100.0	242,715	100.0%	

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

	Six months ended 30 June			
	2010		2009	
	Total	Average	Total	Average
	units sold	selling price	units sold	selling price
		RMB'000		RMB'000
	tonnes	per tonne	tonnes	per tonne
Sweet wines	5,694	34.9	5,654	29.3
Dry wines	3,154	28.6	2,774	27.8
Total	8,848	32.7	8,428	28.8

The growth in revenue was due to a satisfactory increase in sales volume and increase in the average selling price of sweet wines and dry wines. The increase in sales volume was mainly attributable to the general increase in consumer demand for our grape wine products and the introduction of our new Tontine Premium Blueberry Wine (通天特級藍莓酒). The increase in the average selling price of our sweet wine products was due to our targeted efforts in continuing to promote the sale of products with greater potential for growth, which were generally products with higher selling prices.

Cost of sales

	Six months ended 30 June			
	2010		2009	
	RMB'000	%	RMB'000	%
Raw materials				
– Grapes and grape juice	55,657	46.3	47,970	45.5%
– Yeast and other additives	4,335	3.6	3,994	3.8%
– Packaging materials	27,711	23.0	25,808	24.5%
– Others	285	0.3	287	0.3%
Total raw material cost	87,988	73.2	78,059	74.1%
Production overheads	3,356	2.8	2,998	2.8%
Consumption tax	28,891	24.0	24,271	23.0%
Total cost of sales	120,235	100.0	105,328	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 Period, the cost of grapes and grape juices were the key component of cost of sales and accounted for approximately 46.3% of the Group's total cost of sales, representing an increase of 0.8% from approximately 45.5% in 2009, contributed by the increase in average cost of grapes and grape juice. During the Period, the total cost of packaging materials to revenue was relatively stable as compared with last Period.

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. Production overheads as a percentage of revenue in 2010 remained stable as compared with 2009.

Gross profit and gross profit margin

	Six months ended 30 June			
	2010		2009	
	Gross profit <i>RMB'000</i>	Margin %	Gross profit <i>RMB'000</i>	Margin %
Sweet Wines	110,640	55.6	87,678	53.0
Dry Wines	58,033	64.4	49,709	64.4
	168,673	58.4	137,387	56.6

Gross profit is calculated based on the Group's revenue less cost of sales. During the Period, the gross profit of the Group increased approximately 22.8% from approximately RMB137.4 million to approximately RMB168.7 million. This was mainly attributable to the increase in the sales volume of our grape wine products, particularly our products with higher profit margins.

Our average gross profit margin increased approximately 1.8% from approximately 56.6% to approximately 58.4%. This was mainly attributable to the shift in our sales mix towards higher margin products.

Selling and distribution expenses

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

During the Period, the selling and distribution expenses increased by 26.2% from RMB26.0 million for the six months ended 30 June 2009 to RMB32.8 million for the six months ended 30 June 2010. The increase in selling and distribution expenses was primarily attributable to (i) increase in sales commissions for the six months ended 30 June 2010, as a result of the higher revenue achieved for the six months ended 30 June 2010; (ii) increase in transportation costs for the six months ended 30 June 2010, which was broadly in line with the increase in sales; and (iii) increase in advertising and promotional charges (representing approximately 5.3% of the Group's revenue) for the six months ended 30 June 2010, as we continue to engage in brand building activities, such as mass media advertising.

Administrative expenses

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

During the Period, administrative expenses represented 3.2% of our revenue. It was increased by approximately 144.7% from RMB3.8 million for the six months ended 30 June 2010 to RMB9.3 million for the six months ended 30 June 2009, which was mainly attributable to the administrative staff salaries and the expenses related to the Hong Kong office that was set up in the second half of 2009.

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 six months ended 30 June 2010, the effective tax rate of the Group increased to approximately 30.0% (2009: 29.3%), principally due to the tax non-deductible administrative expenses related to the Hong Kong office. Our effective tax rates were higher than our PRC enterprise income tax rate because commencing from 1 January 2008, the amount of our taxation also included deferred tax calculated at the applicable withholding tax rate of the undistributed earnings of the PRC subsidiary derived on or after 1 January 2008 pursuant to the joint circular of the Ministry of Finance and State Administration of Taxation (Cai Shui 2008 No. 1).

Profit attributable to owners of the Company for the Period

The profit attributable to owners of the Company for the Period increased from approximately RMB75.4 million to RMB89.9 million, representing a growth of approximately 19.3%. This was mainly attributed to increase in gross profit margin and sales volume.

Financial management and treasury policy

As at 30 June 2010, except for the net proceeds from the placing and public offer, the Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). Accordingly, there is no significant exposure to foreign exchange fluctuation.

The proceeds from the placing and public offer that were not already used for the intended purposes have been placed on short term deposits in Hong Kong and in the PRC. The Company also pays dividends in Hong Kong dollars when dividends are declared. Although the Group's operation currently would not generate any significant foreign currency exposure, we will continue to closely monitor the foreign currency movement.

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 during the Period and we generally financed our operation with internal cash flows generated from operations for the past years. As at 30 June 2010, we recorded a net current assets position of approximately RMB845.6 million (31 December 2009 : RMB881.6 million). 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 demands for capital for future development.

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 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 legislations, market conditions, industry practice and assessment of the performance of the Group and individual employees.

As at 30 June 2010, the Group employed a work force of 370 (including Directors) in Hong Kong and in the PRC. The total salaries and related costs (including the Directors' fee) for the Period amounted to approximately RMB11.8 million (30 June 2009: RMB8.1 million).

Share option scheme

The Company adopted a share option scheme on 28 October 2009 (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the growth of the Group. Eligible participants of the Scheme include, without limitation, employees, Directors and any other eligible participants under the Scheme. Up to 30 June 2010, no share option was granted or agreed to be granted to any person under the Scheme.

Capital commitments and charges on assets

The Group made capital expenditure commitments including approximately RMB38.1 million that were authorized but not contracted for and approximately RMB48.1 million contracted but not provided for in the financial statements as at 30 June 2010. These commitments were required mainly to support the Group's production capacity expansion. The funding of such capital commitments will be paid out of the net proceeds from placing and public offer as stated in the prospectus of the Company dated 5 November 2009 and cash generated from operating activities.

As at 30 June 2010, none of the Group's assets was pledged (2009: nil).

USE OF PROCEEDS

The Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 19 November 2009. The net proceeds from the placing and public offer amounted to approximately HK\$438.9 million (equivalent to approximately RMB386.2 million). The planned usage and actual amounts spent are as follows:

	Usage as announced <i>HK\$ million</i>	Utilised (as at 30 June 2010) <i>HK\$ million</i>	Unutilised (as at 30 June 2010) <i>HK\$ million</i>
Expansion of production facilities	113.6	(59.3)	54.3
Development of wine estate	68.2	–	68.2
Development of wine cellar	45.5	(38.4)	7.1
Developing and increasing awareness of our brand	105.2	(17.3)	87.9
Expansion of distribution network	52.6	–	52.6
Working capital and other general corporate purposes	53.8	(49.4)	4.4
Total	<u>438.9</u>	<u>(164.4)</u>	<u>274.5</u>

As at 30 June 2010, the unutilised net proceeds have been placed as short term bank deposits in Hong Kong and in the PRC.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010 (2009: nil).

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 Period.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code for directors’ securities transactions (the “Model Code”). The Company has made specific enquiry of all Directors and that all the Directors have confirmed their compliance with the required standards set out in the Model Code regarding directors’ securities transactions throughout the Period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

Throughout the Period, the Company had applied the principles of the Code on Corporate Governance Practices (the “Code”) and complied with the code provisions (“Code Provisions”) and certain recommended best practices set out in the Code contained in Appendix 14 to the Listing Rules, save for the deviation from Code Provision A.2.1, which states that the roles of chairman and chief executive officer (“CEO”) should be separated and should not be performed by the same individual. Mr. Wang Guangyuan (“Mr. Wang”) is responsible for the overall business strategy and development and management of our Group. The Board considers Mr. Wang, the chairman of the Board & CEO of the Company, is able to lead the Board in major business decision making for the Group. Therefore, Mr. Wang assumes the dual roles of being the chairman of the Board & CEO of the Company notwithstanding the deviation.

AUDIT COMMITTEE REVIEW

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 chairman of the Audit Committee is Mr. Sih Wai Kin, Daniel.

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 unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITES OF THE COMPANY AND OF THE STOCK EXCHANGE

This interim results announcement is published on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.tontine-wines.com.hk>). The interim report for the six months ended 30 June 2010 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

ACKNOWLEDGEMENT

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

By order of the Board
Wang Guangyuan
Chairman and Executive Director

Hong Kong, 27 August 2010

As at the date of this announcement, the Executive Directors are Mr. Wang Guangyuan, Mr. Zhang Hebin and Ms. Wang Lijuan and the Independent Non-executive Directors are Mr. Sih Wai Kin, Daniel, Mr. Lai Chi Keung, Albert and Mr. Li Changgao.

This document is prepared in both English and Chinese. In the event of inconsistency, the English text of this document shall prevail over the Chinese text.