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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 20.4% to approximately RMB703.5 million (2009: approximately RMB584.3 million)
- Gross profit increased by approximately 22.4% to approximately RMB413.9 million (2009: approximately RMB338.2 million)
- Profit and total comprehensive income for the year increased by approximately 19.5% to approximately RMB208.1 million (2009: approximately RMB174.1 million)
- Basic earnings per share decreased by approximately 6.3% to approximately RMB11.9 cents (2009: approximately RMB12.7 cents)
- Proposed final dividend HK3.0 cents (equivalent to RMB2.55 cents) (2009: HK2.88 cents (equivalent to RMB2.53 cents)) per share

The board of directors (the "Board") of China Tontine Wines Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2010, prepared on the basis set out in Note 2.1, together with the comparative figures for the year ended 31 December 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

	Notes	**2010** **RMB'000**	2009 *RMB'000*
Revenue	*4*	**703,514**	584,336
Cost of sales		**(289,643)**	(246,145)
Gross profit		**413,871**	338,191
Other income		**3,340**	1,681
Selling and distribution expenses		**(84,338)**	(67,912)
Administrative expenses		**(32,288)**	(13,267)
Other expenses	*5*	**–**	(9,028)
Profit before tax		**300,585**	249,665
Income tax expense	*6*	**(92,460)**	(75,560)
Profit and total comprehensive income for the year attributable to owners of the Company	*7*	**208,125**	174,105
Earnings per share	*9*		
Basic (RMB cents)		**11.9**	12.7
Diluted (RMB cents)		**11.9**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current Assets			
Property, plant and equipment		**166,387**	102,550
Prepaid lease payments		**3,757**	3,849
Deposits paid for prepaid lease payments		**54,334**	–
Deposits paid for acquisition of property, plant and equipment		**43,730**	–
		268,208	106,399
Current Assets			
Inventories		**193,253**	148,604
Trade receivables	*10*	**125,574**	98,776
Deposits and prepayments		**2,653**	291
Prepaid lease payments		**92**	92
Bank balances and cash		**1,177,733**	713,331
		1,499,305	961,094
Current Liabilities			
Trade payables	*11*	**20,089**	16,154
Other payables and accruals		**39,280**	38,813
Tax liabilities		**34,618**	24,548
		93,987	79,515
Net Current Assets		**1,405,318**	881,579
Total Assets Less Current Liabilities		**1,673,526**	987,978
Non-current Liability			
Deferred tax liability		**27,555**	17,428
		1,645,971	970,550
Capital and Reserves			
Share capital		**17,668**	15,118
Reserves		**1,628,303**	955,432
Total Equity		**1,645,971**	970,550

1. GENERAL INFORMATION

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"). Its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda, whilst its principal place of business in Hong Kong is Unit No. 3612, 36th Floor, West Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacturing and sale of grape wine products.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis and in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared in the historical basis. Historical cost is generally based on the fair value of consideration given in exchange for goods.

2.2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

In the current year, the Company together with its subsidiaries (the "Group") has applied the following revised Hong Kong Accounting Standards ("HKAS(s)"), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretations ("HK(IFRIC) Int") (hereinafter collectively referred to as the "new and revised HKFRSs") issued by the HKICPA:

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

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

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

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

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

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

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

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

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

3. SEGMENT INFORMATION

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

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

The Group's operating segments under HKFRS 8 are identified based on different geographical zones of goods delivered in the People's Republic of China ("PRC"): North-East Region, Northern Region, Eastern Region, South-Central Region and South-West Region.

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

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

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

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

Information about operating segment revenues, profit, assets and liabilities

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

Reconciliations of operating segment revenue, profit, assets and liabilities

Revenue

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

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

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

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

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

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

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

4. REVENUE

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

5. OTHER EXPENSES

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

6. INCOME TAX EXPENSE

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

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

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

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

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

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

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

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

8. DIVIDENDS

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

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

9. EARNINGS PER SHARE

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

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

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

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

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

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

10. TRADE RECEIVABLES

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

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

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

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

11. TRADE PAYABLES

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

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

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

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

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

BUSINESS REVIEW

Sales and distribution network

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

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

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

The Group enters into a standard distribution agreement with each of our selected distributors for a period of one year and following successful negotiation between the parties upon the expiry of the existing distribution agreements, the Group will renew such agreements with distributors each year. In order to facilitate and assist the marketing and sale of the Group's products by its distributors, the Group bears the delivery costs and implements advertising strategies primarily through television commercials, billboards and magazines to emphasize the health benefits of moderate consumption of grape wines in order to establish consumer loyalty and strengthen the popularity of our products.

The Group does not have any ownership or management control over its distribution network. In order to supervise these distributors, the Group assigns sales managers to work closely with the distributors in order to monitor their performance and obtain market feedback on the Group's products. In addition, the Group conducts annual appraisals 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 following table sets forth a breakdown of our revenue by sales region for the year:

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

The geographical distribution of our sales remained relatively stable. Revenue derived from our sales in the eastern region of China made the largest contribution to our total revenue. The eastern region of China is our largest market with the highest number of distributors, as it is a comparatively more affluent region in the PRC with relatively high levels of per capita income, where consumers have a general preference towards wine products over other alcoholic beverages. The south-west and northern regions of China are also our significant markets, where some of our key distributors are located.

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

Supply of grapes

Production of quality grape wine products is highly dependent upon sufficient supply of quality grapes and grape juice. Currently, we source our supply of grapes from 280 local grape farmer suppliers, whose vineyards are located in the regions around Ji' An City, Jilin Province, the PRC at the foothills of Changbai mountain range on the banks of the Yalu river. In order to maintain reliable and stable supplies of quality grapes to meet our needs, we have entered into a 20 year long-term contract with each of our grape farmer suppliers and our vineyard management team supervises the planting, nurturing and harvesting of the grapevines.

Production capacity

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

Business outlook

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

Develop Tontine wine estate

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

Develop Tontine wine cellar

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

Expand and develop distribution network

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

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

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

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

* 1 mu equals to approximately 667 square metres.

FINANCIAL REVIEW

Revenue

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

The growth in revenue was due to a satisfactory increase in sales volume.

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

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

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

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

During the year, we did not adjust the individual selling prices of our products. However, the overall average selling prices of our sweet and dry wine products have increased as a result of a shift in our sales mix towards products with higher gross profit margin, which are generally products with higher selling prices, as we focused on growing the sales of such products.

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

Cost of sales

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

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

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

Gross profit and gross profit margin

Gross profit is calculated based on the Group's revenue less cost of sales. During the year, the gross profit of the Group increased approximately 22.4% from approximately RMB338.2 million to approximately RMB413.9 million. This was mainly attributable to the increase in the sales volume of our grape wine products, particularly in our products with higher profit margins.

Our average gross profit margin increased approximately 0.9% from approximately 57.9% to approximately 58.8%. This was mainly attributable to the shift in our sales mix towards higher margin products.

Selling and distribution expenses

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

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

Administrative expenses

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

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

Income tax expenses

Tax represents amounts of PRC enterprise income tax charged at the applicable tax rates in accordance with the relevant law and regulations in the PRC. Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the enterprise income tax rate of the subsidiary of the Company incorporated in the PRC had changed to 25% with effect from 1 January 2008. For the year ended 31 December 2010, the effective tax rate of the Group increased to approximately 31.0% (2009: 30%). Our effective tax rates were higher than our PRC enterprise income tax rate because commencing from 1 January 2008, the amount of our taxation also included deferred tax calculated at the applicable withholding tax rate of the undistributed earnings of the PRC subsidiary derived on or after 1 January 2008 pursuant to the joint circular of the Ministry of Finance and State Administration of Taxation (Cai Shui 2008 No. 1).

Profit and total comprehensive income for the year

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

Trade receivables analysis

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

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

Trade payables analysis

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

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

Inventories analysis

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

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

Financial management and treasury policy

As at 31 December 2010, except for the net proceeds from the placing of existing shares and subscription of new shares ("Placing and Subscription Transaction") in the Company announced in November 2010, 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 net proceeds from the Placing and Subscription Transaction 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. 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.

HUMAN RESOURCES MANAGEMENT

Employment and remuneration policy

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

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

PLACING OF EXISTING SHARES AND SUBSCRIPTION OF NEW SHARES

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

USE OF PROCEEDS

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

CAPITAL COMMITMENTS AND CHARGES ON ASSETS

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

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

DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

Throughout the year, the Company has 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. However, the Company does not have a separate chairman and CEO and Mr. Wang Guangyuan currently perform these two roles. Mr. Wang is responsible for the overall business strategy and development and management of our Group. The Board consider that Mr. Wang, the chairman of the Board and CEO of the Company, is able to lead the Board in major business decision making for the Group and enables the Board's decisions to be effectively made, which is beneficial to the management and the development of the Group's business. Therefore, Mr. Wang assumes the dual roles of being the Chairman of the Board & CEO of the Company notwithstanding the aforementioned deviation.

AUDIT COMMITTEE

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

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

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

This annual 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 annual report for the year ended 31 December 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 in the past few years.

By order of the Board
Wang Guangyuan
Chairman and Executive Director

Hong Kong, 21 March 2011

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.