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 2011

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 22.1% to approximately RMB352.6 million (2010: RMB288.9 million)
- Gross profit increased by approximately 19.3% to approximately RMB201.3 million (2010: RMB168.7 million)
- Profit and total comprehensive income for the period attributable to owners of the Company decreased by approximately 21.7% to approximately RMB70.4 million (2010: RMB89.9 million)
- Basic earnings per share decreased by approximately 32.7% to approximately RMB3.5 cents (2010: RMB5.2 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 2011 (the "Period"), together with the comparative figures for the six months ended 30 June 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**352,579**	288,908
Cost of sales		**(151,268)**	(120,235)
Gross profit		**201,311**	168,673
Other income	*5*	**2,439**	1,830
Selling and distribution expenses		**(42,140)**	(32,791)
Administrative expenses		**(51,111)**	(9,303)
Profit before tax	*6*	**110,499**	128,409
Income tax expense	*7*	**(40,152)**	(38,519)
Profit and total comprehensive income for the period attributable to owners of the Company		**70,347**	89,890
Earnings per share	*8*		
Basic (RMB) cents		**3.5**	5.2
Diluted (RMB) cents		**3.5**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2011

	Notes	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Non-current Assets			
Property, plant and equipment	10	**163,489**	166,387
Prepaid lease payments		**3,712**	3,757
Deposits paid for prepaid lease payments		**54,334**	54,334
Deposits paid for acquisition of property, plant and equipment		**45,730**	43,730
		267,265	268,208
Current Assets			
Inventories		**139,745**	193,253
Trade receivables	11	**155,608**	125,574
Deposits and prepayments		**4,865**	2,653
Prepaid lease payments		**92**	92
Bank balances and cash		**1,203,246**	1,177,733
		1,503,556	1,499,305
Current Liabilities			
Trade payables	12	**12,839**	20,089
Other payables and accruals		**26,063**	39,280
Tax liabilities		**17,635**	34,618
		56,537	93,987
Net Current Assets		**1,447,019**	1,405,318
Total Assets Less Current Liabilities		**1,714,284**	1,673,526
Non-current Liability			
Deferred tax liability		**28,555**	27,555
		1,685,729	1,645,971
Capital and Reserves			
Share capital		**17,668**	17,668
Reserves		**1,668,061**	1,628,303
Total Equity		**1,685,729**	1,645,971

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Share capital *RMB'000*	Share premium *RMB'000*	Special reserve *RMB'000* *(Note a)*	Statutory reserves *RMB'000* *(Note b)*	Share option reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2011	**17,668**	**913,710**	**86,360**	**90,943**	**5,865**	**531,425**	**1,645,971**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**70,347**	**70,347**
Dividends recognised as distributions *(note 9)*	**–**	**–**	**–**	**–**	**–**	**(51,457)**	**(51,457)**
Recognition of equity-settled share based payments	**–**	**–**	**–**	**–**	**20,868**	**–**	**20,868**
At 30 June 2011	**17,668**	**913,710**	**86,360**	**90,943**	**26,733**	**550,315**	**1,685,729**
At 1 January 2010	15,118	411,290	86,360	66,288	–	391,494	970,550
Total comprehensive income for the period	–	–	–	–	–	89,890	89,890
Dividends recognised as distributions *(note 9)*	–	–	–	–	–	(43,539)	(43,539)
At 30 June 2010	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 holding company for which the shares of the Company have been issued in exchange upon a corporate reorganisation to rationalise the Group structure prior to listing of the Company's share on The Stock Exchange of Hong Kong Limited.

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
NET CASH FROM OPERATING ACTIVITIES	**79,370**	49,913
INVESTING ACTIVITIES		
Interest received	**2,439**	1,830
Purchase of property, plant and equipment	**(2,839)**	(15,817)
Deposits paid for prepaid lease payments	**–**	(33,800)
Deposits paid for acquisition of property, plant and equipment	**(2,000)**	(40,235)
NET CASH USED IN INVESTING ACTIVITIES	**(2,400)**	(88,022)
CASH USED IN FINANCING ACTIVITY		
Dividend paid	**(51,457)**	(43,539)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**25,513**	(81,648)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,177,733**	713,331
CASH AND CASH EQUIVALENTS AT 30 JUNE represented by bank balances and cash	**1,203,246**	631,683

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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 The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 (HKAS 34) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2010.

In the current interim period, the Group has applied, for the first time, the following new and revised Hong Kong Accounting Standards and interpretations (“new and revised HKFRSs”) issued by the HKICPA:

HKFRSs (Amendments)	Improvements to HKFRS issued in 2010
HKAS 24 (As revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Right Issues
HK (IFAIC)-Int 14 (Amendments)	Prepayments of Minimum Funding Requirement
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statement.

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

HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[3]
HKFRS 9	Financial Instruments[1]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 July 2012
[3] Effective for annual periods beginning on or after 1 July 2011
[4] Effective for annual periods beginning on or after 1 January 2012

The amendments to HKFRS 7 “Disclosures – Transfers of Financial Assets” increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors of the Company do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk is presented in other comprehensive income unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that HKFRS 9 will be adopted in the consolidated financial statements for financial year ending 31 December 2013 and they are in process of assessing the impact from the application of this new standard on the results and financial position of the Group.

HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27, (as revised in 2011) and HKAS 28 (as revised in 2011) on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipated that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013 and the potential impact is described as below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated. The directors are in process of assessing the impact from the application of HKFRS 10 on the results and financial position of the Group.

Other than disclosed above, the directors of the Company anticipate that the application of these new or revised HKFRS, will not have material impact on the results and financial position of the Group.

3. REVENUE

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

4. SEGMENT INFORMATION

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

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

The Group's operating segments under HKFRS 8 are identified based on different geographical zones of goods delivered in China: North-east region, Northern region, Eastern region, South-central region and South-west region.

1. North-east region of China includes Liaoning Province, Jilin Province and Heilongjiang Province.

2. Northern region of China includes Hebei Province, Shaanxi Province, Inner Mongolia, Shanxi Province and Beijing.

3. Eastern region of China includes Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Shandong Province and Shanghai.

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

5. South-west region of China includes Sichuan Province, Yunnan Province, Guizhou Province and Chongqing.

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

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

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 six months ended 30 June 2011 (unaudited)						
Segment revenue from external customers	47,310	73,914	113,280	52,005	66,070	352,579
Segment profit	26,500	40,178	59,864	25,530	35,240	187,312
For the six months ended 30 June 2010 (unaudited)						
Segment revenue from external customers	37,778	59,080	101,368	36,757	53,925	288,908
Segment profit	20,273	31,795	52,828	18,558	27,648	151,102
As at 30 June 2011 (unaudited)						
Segment assets	19,584	29,502	48,380	26,084	32,058	155,608
Segment liabilities	2,167	3,384	5,187	2,381	3,025	16,144
As at 31 December 2010 (audited)						
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

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	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Profit		
Total segment profits	**187,312**	151,102
Unallocated amounts:		
Other corporate income	**2,439**	1,830
Other corporate expenses	**(79,252)**	(24,523)
Consolidated profit before tax	**110,499**	128,409

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

	At 30 June 2011	At 31 December 2010
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Assets		
Total segment assets	**155,608**	125,574
Other unallocated amounts		
Property, plant and equipment	**163,489**	166,387
Prepaid lease payments	**3,804**	3,849
Inventories	**139,745**	193,253
Bank balances and cash	**1,203,246**	1,177,733
Deposits and prepayments	**4,865**	2,653
Deposits paid for prepaid lease payments	**54,334**	54,334
Deposits paid for acquisition of property, plant and equipment	**45,730**	43,730
Consolidated total assets	**1,770,821**	1,767,513

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.

	At 30 June 2011 (Unaudited) *RMB'000*	At 31 December 2010 (Audited) *RMB'000*
Liabilities		
Total segment liabilities	**16,144**	25,459
Other unallocated amounts		
Trade payables	**12,839**	20,089
Tax liabilities	**17,635**	34,618
Deferred tax liability	**28,555**	27,555
Other payables and accruals	**9,919**	13,821
Consolidated total liabilities	**85,092**	121,542

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.

5. OTHER INCOME

Other income represents the interest income from bank deposits.

6. PROFIT BEFORE TAX

	Six months ended 30 June	
	2011 (Unaudited) *RMB'000*	2010 (Unaudited) *RMB'000*
Profit before tax has been arrived at after charging:		
Cost of inventories recognised as an expense	**109,169**	91,344
Depreciation of property, plant and equipment	**5,738**	2,500
Amortisation of prepaid lease payments	**45**	45
Net exchange loss	**14,392**	–

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
The charge comprises:		
Current tax		
PRC Enterprise Income tax	**39,152**	33,495
Deferred tax		
Current period	**1,000**	5,024
	40,152	38,519

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.

According to a joint circular of the Ministry of Finance and State Administration of Taxation. Cai Shui 2008 No. 1 dividend distributed out of the profit generated since 1 January 2008 shall be subject to PRC Enterprise Income Tax which is withheld by the PRC subsidiaries. Deferred tax expense of RMB1,000,000 (2010: RMB5,024,000) on the undistributed earnings of the PRC subsidiaries has been charged to profit or loss for the Period.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Profit for the Period attributable to owners of the Company and earnings for the purposes of basic and diluted earnings per share	**70,347**	89,890

	At 30 June 2011	At 30 June 2010
	(Unaudited)	(Unaudited)
	Number of shares	*Number of shares*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**2,017,934,000**	1,717,934,000

For the six months ended 30 June 2011, the computation of diluted earnings per share does not assume the exercise of the Company's share options as the exercise price of those share options granted during the year ended 31 December 2010 was higher than the average market price per share during the Period.

For six months ended 30 June 2010, no diluted earnings per share has been presented as the Company has no potential ordinary shares outstanding as at 30 June 2010.

9. DIVIDENDS

During the current interim period, a final dividend of HK3.0 cents (equivalent to RMB2.55 cents) per share in respect of the year ended 31 December 2010 (2010: HK2.88 cents (equivalent to RMB2.53 cents) per share in respect of the year ended 31 December 2009) was declared and paid to the owners of the Company.

The directors do not recommend the payment of an interim dividend.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the Group acquired property, plant and equipment at a cost of RMB2,839,000 (2010: RMB15,817,000).

11. 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:

	At 30 June 2011 (Unaudited) *RMB'000*	At 31 December 2010 (Audited) *RMB'000*
0 – 30 days	**73,764**	73,004
31 – 60 days	**56,441**	33,523
61 – 90 days	**25,403**	19,047
	155,608	125,574

12. TRADE PAYABLES

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

	At 30 June 2011 (Unaudited) *RMB'000*	At 31 December 2010 (Audited) *RMB'000*
0 – 30 days	**11,611**	8,366
31 – 60 days	**868**	8,783
61 – 90 days	**360**	2,940
	12,839	20,089

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

The Group's revenue for the six months ended 30 June 2011 amounted to approximately RMB352.6 million (2010: RMB288.9 million), representing an increase of approximately 22.1% as compared with the same period last year and the Group's profit and total comprehensive income for the period attributable to owners of the Company decreased by approximately 21.7% to approximately RMB70.4 million (2010: RMB89.9 million).

The Company's basic earnings per share reached RMB3.5 cents (2010: RMB5.2 cents) based on the weighted average number of shares in issue during the Period.

The decline in profitability for the Period over the same period of last year was mainly attributable to the share option expense for the share options granted during the year ended 31 December 2010 and exchange loss due to Renminbi exchange rate fluctuation.

BUSINESS REVIEW

For the six months ended 30 June 2011, the Group faced an extremely difficult and challenging operating climate. The global economy remained weak, with recovery slow in coming. In Europe, many countries remain troubled by the debt crisis. Although China has experienced fairly healthy economic growth, governmental measures to curb inflation and prevent the economy from over-heating have created temporary shock waves in the market. Moreover, a number of provinces have also experienced large scale natural disasters. These events have all adversely affected the Group's businesses to varying degrees. The adverse impact was to certain extent offset by (i) the measures taken by The Central People's Government to reduce reliance on exports and stimulate domestic demand; and (ii) the ability of the Group to accurately predict and remain abreast of the future market trend by taking well-planned actions such as to construct new plants to expand production capacity, build up a wide and high-quality distribution network and enhance investments in marketing and promote brand recognition. These actions proved to be effective and created the string of encouraging results for the Period with sales revenue growing by 22.1% over the same period last year, and the Board is confident that such actions will serve the Group well going forward.

Profit attributable to owners of the Company for the Period dwindled despite the growth in revenue as it was impacted by (i) the share option expense for the share options granted during the year ended 31 December 2010; (ii) exchange loss due to Renminbi exchange rate fluctuation; (iii) the newly imposed city construction tax and education surcharge to the Group's subsidiaries in mainland China; and (iv) the increase in investments in brand promotion and marketing.

We believe that one of the greatest challenges, and one with the greatest room for improvement, is to maximise overall profit margins. Accordingly, the consensus within the Group is that our task is to (i) reduce costs through better coordination and exploration of opportunities for synergies; (ii) implement effective measures to reduce the impact of raw materials volatilities; (iii) shift our sales mix towards products with higher gross profit margin; and (iv) launch new products with higher profit margin in the second half of 2011.

Sales and distribution network

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

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 consumption 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. As at 30 June 2011, 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 its selected distributors for a period of one year and following successful negotiation between the parties upon the expiry of the existing distribution agreements, the Group will renew such agreements with distributors each year. In order to facilitate and assist the marketing and sale of the Group's products by its distributors, the Group bears the delivery costs and implements advertising strategies primarily through television commercials, billboards and magazines to emphasize the health benefits of moderate consumption of grape wines and the quality of its grape wine products in order to establish consumer loyalty and strengthen brand-building and popularity for its grape wine products.

The Group does not have any ownership or management control over its distribution network. In order to supervise these distributors, the Group assigns sales managers to work closely with the distributors in order to monitor their performance and obtain market feedback on the Group's products. In addition, the Group conducts annual appraisals of the performance of its 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 Period:

	Six months ended 30 June			
	2011		2010	
	RMB'000	***%***	*RMB'000*	*%*
North-east *(Note 1)*	**47,310**	**13.4**	37,778	13.1
Northern *(Note 2)*	**73,914**	**21.0**	59,080	20.4
Eastern *(Note 3)*	**113,280**	**32.1**	101,368	35.1
South-central *(Note 4)*	**52,005**	**14.8**	36,757	12.7
South-west *(Note 5)*	**66,070**	**18.7**	53,925	18.7
Total	**352,579**	**100.0**	288,908	100.0

Notes:

1. North-east region of China includes Liaoning Province, Jilin Province and Heilongjiang Province.

2. Northern region of China includes Hebei Province, Shaanxi Province, Inner Mongolia, Shanxi Province and Beijing.

3. Eastern region of China includes Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Shandong Province and Shanghai.

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

5. South-west region of China includes Sichuan Province, Yunnan Province, Guizhou Province and Chongqing.

The geographical distribution of our sales remained relatively stable. Revenue derived from our sales in the eastern region of China remain 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 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 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

The growth of the Group's business has been closely linked with the sustained high growth of the China's economy and the development of the market for domestic demand. The Group is highly confident that these trends will continue. The Group is determined to ride on the continued development in China's economy and plans to develop a wine estate in Ji'An City, Jilin Province, the PRC, to produce premium range of its 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 the Group's self-operated vineyards within the wine estate. The Group's 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 its 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 wine cellar is designed with a storage capacity of up to approximately 600,000 bottles (750 ml).

* 1 mu equals to approximately 667 square metres.

The Group plans to enhance its 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 Beijing, Chengdu, Shanghai, Shenyang and Wuhan. We plan to establish 3 retail shops in the second half of 2011. These retail shops serve or will serve as direct sales and marketing platform for Tontine brands products, and provide marketing support to our distributors.

To meet increasing sophisticated consumer tastes, the Group plans to launch 3 new products (2 sweet wine products and 1 dry wine product) in the second half of 2011. The new products, which add to the diverse product portfolio of the Group, are expected to cater for a wider range of customers. We will continue to increase our investment in the research and development of our products.

Looking ahead, the Group remains optimistic about the prospects of the PRC's economy and is confident that there are ample opportunities in the PRC grape wine market. The Group will continue to improve its revenue and profitability by expanding sales networks, especially in second and third-tier PRC cities through stronger channel management and by stepping up its investments in advertising, marketing and promotion; and implementing tighter cost control measure, more 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 the sale of grape wine products. Our revenue increased by approximately 22.1% to approximately RMB352.6 million for the six months ended 30 June 2011 from approximately RMB288.9 million over the same period last year. Our customers were mainly regional distributors in the PRC and we sold our products to our distributors at prices ranging from approximately RMB5.9 to RMB115.0 per bottle. The growth in revenue was due to a satisfactory increase in sales volume. The following table sets forth a breakdown of the Group's revenue for the Period:

	Six months ended 30 June				
	2011		2010		Growth of
	RMB'000	**% of total revenues**	*RMB'000*	% of total revenues	Revenues *(%)*
Sweet wines	**242,536**	**68.8**	198,826	68.8	22.0%
Dry wines	**110,043**	**31.2**	90,082	31.2	22.2%
Total	**352,579**	**100.0**	288,908	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 Period:

	Six months ended 30 June			
	2011		2010	
	Total units sold	**Average selling price**	Total units sold	Average selling price
		RMB'000		*RMB'000*
	tonnes	***per tonne***	*tonnes*	*per tonne*
Sweet wines	**5,702**	**42.5**	5,694	34.9
Dry wines	**3,840**	**28.7**	3,154	28.6
Total	**9,542**	**37.0**	8,848	32.7

The growth in revenue was due to satisfactory increase in sales volume and increase in the average selling price of sweet wines and dry wines. The increase in the average selling price of our grape 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			
	2011		2010	
	RMB'000	***%***	*RMB'000*	*%*
Raw materials				
– Grapes and grape juice	**66,085**	**43.7**	55,657	46.3
– Yeast and other additives	**3,569**	**2.4**	4,335	3.6
– Packaging materials	**33,315**	**22.0**	27,711	23.0
– Others	**303**	**0.2**	285	0.3
Total raw material cost	**103,272**	**68.3**	87,988	73.2
Production overheads	**5,897**	**3.9**	3,356	2.8
Consumption tax and other taxes	**42,099**	**27.8**	28,891	24.0
Total cost of sales	**151,268**	**100.0**	120,235	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 68.3% of the Group's total cost of sales. The percentage of the total raw material cost to total cost of sales decreased approximately 4.9% from approximately 73.2% to approximately 68.3% primarily as a result of our target effect in promoting the sale of our products with high gross profit margins, the raw material costs of which typically represent a lower percentage of their respective sale price.

Production overheads primarily consist of depreciation, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses for production. The percentage of production overheads to total cost of sales increased approximately 1.1% from approximately 2.8% to approximately 3.9% mainly due to the increase of depreciation for the 20,000 tonnes production facilities that was completed in the fourth quarter of 2010.

The consumption tax and other taxes increased approximately 3.8% from approximately 24.0% to approximately 27.8% mainly due to the newly imposed city construction tax and education surcharge to the Group's subsidiaries in mainland China.

Gross profit and gross profit margin

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 19.3% from approximately RMB168.7 million to approximately RMB201.3 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 slightly decreased approximately 1.3% from approximately 58.4% to approximately 57.1%. This was mainly due to a shift in the focus of our product mix towards high gross profit margin products and an increase in our cost of sales for reasons stated above.

Selling and distribution expenses

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

During the Period, the selling and distribution expenses increased and accounted for approximately 12.0% (2010: 11.4%) of the Group's revenue. The increase in selling and distribution expenses was primarily attributable to (i) an increase in sales commissions as a result of the higher revenue achieved for the Period; (ii) a corresponding increase in transportation costs as a result of the increase in sales; and (iii) an increase in advertising and promotional charges of approximately 40.1% to approximately RMB21.3 million (2010: RMB15.2 million), as we continue to engage in brand building activities, such as mass media advertising.

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, exchange loss, and other incidental administrative expenses.

During the Period, administrative expenses represented 14.5% of our revenue and increased by approximately RMB41.8 million to approximately RMB51.1 million (2010: RMB9.3 million) for the Period. The increase was mainly attributable to: (i) the share option expense of approximately RMB20.9 million for the share options granted during the year ended 31 December 2010; (ii) exchange loss of approximately 14.4 million due to Renminbi exchange rate fluctuation; and (iii) the administrative staff salaries, the expenses related to the Hong Kong office.

Income tax expenses

Tax represents the amount 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 subsidiaries of the Company incorporated in the PRC had changed to 25% with effect from 1 January 2008. For the six months ended 30 June 2011, the effective tax rate of the Group increased to approximately 36.3% (2010: 30.0%). The effective tax rates applicable to the Group were higher than our PRC enterprise income tax rate because (i) commencing from 1 January 2008, the amount of our taxation also included deferred tax calculated at the applicable withholding tax rate of the undistributed earnings of the PRC subsidiaries derived on or after 1 January 2008 pursuant to the joint circular of the Ministry of Finance and State Administration of Taxation (Cai Shui 2008 No. 1) and (ii) more expenses were not allowed to be deducted for the Period.

Profit and total comprehensive income for the period attributable to owners of the Company

The profit and total comprehensive income for the period attributable to owners of the Company decreased from approximately RMB89.9 million to approximately RMB70.4 million, representing a decrease of approximately 21.7%, primarily as a result of the factors described above.

Financial management and treasury policy

As at 30 June 2011, the Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB").

The net proceeds derived by the Company from its fund raising activities and were not already used for the intended purposes have been placed on short term deposit in Hong Kong and in the PRC. The Company also pays dividends in Hong Kong dollars when dividends are declared. During the Period, the Group did not hedge any foreign exchange exposure against foreign currency risk. Any substantial exchange rate fluctuation against Renminbi may have financial impacts on the Group. The Company has not used any derivatives and other instruments for currency exchange hedging purposes but the Board would 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. The Group will continue to pursue a prudent treasury management policy.

The Company is in a strong liquidity position. The Board will continue to be good stewards of our shareholders' investments in the Company and utilize its capital for the future development of the Group wisely with the long-term, best interests of the Company and its shareholders in mind at all times.

Liquidity and financial resources

Our working capital was healthy and positive for the Period 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 Period. As at 30 June 2011, we recorded a net current assets position of approximately RMB1,447 million (31 December 2010: RMB1,405 million). The improvement was primarily due to an increase in our bank balances and cash of approximately RMB25.5 million as a result of the improvement in our business performance during the Period.

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 cultivate and maintain a strong team spirit among our employees with a view to bringing out their potential and capability, and to incentivize them to work together to contribute to the Group and achieve the Company's 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 30 June 2011, the Group employed a work force of 416 (including Directors) in Hong Kong and in the PRC (31 December 2010: 374). The total salaries and related costs (including the Directors' fee) for the period ended 30 June 2011 amounted to approximately RMB23.9 million (2010: RMB11.8 million).

Share option scheme

A share option scheme (the "Share Option Scheme") was adopted by the shareholders of the Company on 19 November 2009. The Share Option Scheme is to provide incentive for selected participants to work with commitment towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole and to retain and attract persons whose contributions are or may be beneficial to the growth and development of the Group.

Details of the Share Option Scheme were set out in the prospectus of the Company dated 5 November 2009 in connection with the initial public offering (the "IPO") of its shares by way of placing and public offer (the "Share Offer") on the Stock Exchange. No Share was granted under the Share Option Scheme during the Period.

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 RMB100.5 million contracted but not provided for in the condensed consolidated financial statements as at 30 June 2011. 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 referred to and disclosed in the Prospectus and cash generated from operating activities.

As at 30 June 2011, none of the Group's assets was pledged (2010: nil).

USE OF PROCEEDS

The Company was officially listed on the main board of the Stock Exchange on 19 November 2009 by way of the Share Offer with net proceeds of approximately HK$438.9 million raised therefrom.

On 9 November 2010, the Company entered into a placing and subscription transaction (the "Placing and Subscription") with net proceeds of approximately HK$594.1 million raised therefrom.

Details of the application of the net proceeds from the Share Offer and the Placing and Subscription as at 30 June 2011 are set out below:

	IPO	**Placing and Subscription**	**Utilised**	**Unutilised as at 30 June 2011**
	HK$ million	*HK$ million*	*HK$ million (Note)*	*HK$ million*
Expansion of production facilities	113.6	–	(113.6)	–
Development of wine estate	68.2	–	(52.1)	16.1
Development of wine cellar	45.5	–	(45.5)	–
Developing and increasing awareness of our brand	105.2	–	(72.9)	32.3
Expansion of distribution network	52.6	–	(4.2)	48.4
General working capital, future acquisition and other general corporate purposes	53.8	594.1	(100.9)	547.0
Total	438.9	594.1	(389.2)	643.8

As at 30 June 2011, the unutilised net proceeds were placed in short term bank deposit in Hong Kong and in the PRC.

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

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2011 (2010: 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 Rules Governing the Listing of Securities on the Stock Exchange (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") contained in Appendix 14 to the Listing Rules and complied with the code provisions ("Code Provisions") and certain recommended best practices set out in the Code, save for the deviation from Code Provision A.2.1, which states that the roles of chairman and the chief executive officer ("CEO") should be segregated 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 and the CEO of the Company, is able to lead the Board in major business decision making for the Group and enables the Board's decision to be effectively made, which is beneficial to the management, and the development of the Group's business. Therefore, Mr. Wang assumes the dual roles of being the chairman of the Board and the CEO of the Company notwithstanding the deviation.

AUDIT COMMITTEE REVIEW

The interim results for the Period are unaudited and have not been reviewed by the auditor of the Company. The audit committee of the Company (comprised all the independent non-executive Directors) 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 Period.

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 2011 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, 23 August 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.