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 2011

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 18.0% to approximately RMB830.1 million (2010: approximately RMB703.5 million)
- Gross profit increased by approximately 15.8% to approximately RMB479.1 million (2010: approximately RMB413.9 million)
- Profit and total comprehensive income for the year decreased by approximately 9.3% to approximately RMB188.8 million (2010: approximately RMB208.1 million)
- Basic earnings per share decreased by approximately 21.0% to approximately RMB9.4 cents (2010: approximately RMB11.9 cents)
- Proposed final dividend HK2.88 cents (equivalent to RMB2.34 cents) (2010: HK3.00 cents (equivalent to RMB2.55 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 2011 (the "Year"), prepared on the basis set out in Note 2.1, together with the comparative figures for the year ended 31 December 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	**2011** *RMB'000*	2010 *RMB'000*
Revenue	*3*	**830,084**	703,514
Cost of sales		**(350,998)**	(289,643)
Gross profit		**479,086**	413,871
Other income		**6,213**	3,340
Selling and distribution expenses		**(119,854)**	(84,338)
Administrative expenses		**(75,742)**	(32,288)
Profit before tax		**289,703**	300,585
Income tax expense	*5*	**(100,868)**	(92,460)
Profit and total comprehensive income for the year attributable to owners of the Company	*6*	**188,835**	208,125
Earnings per share	*8*		
Basic (RMB cents)		**9.4**	11.9
Diluted (RMB cents)		**9.4**	11.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current Assets			
Property, plant and equipment		**211,614**	166,387
Prepaid lease payments		**12,292**	3,757
Deposits paid for prepaid lease payments		**54,334**	54,334
Deposits paid for acquisition of property, plant and equipment		**20,580**	43,730
Deposit paid for a potential acquisition		**20,000**	–
Biological assets		**1,544**	–
		320,364	268,208
Current Assets			
Inventories		**198,146**	193,253
Trade receivables	*9*	**148,975**	125,574
Deposits and prepayments		**3,343**	2,653
Prepaid lease payments		**677**	92
Bank balances and cash		**1,274,711**	1,177,733
		1,625,852	1,499,305
Current Liabilities			
Trade payables	*10*	**25,429**	20,089
Other payables and accruals		**46,871**	39,280
Tax liabilities		**37,717**	34,618
		110,017	93,987
Net Current Assets		**1,515,835**	1,405,318
Total Assets Less Current Liabilities		**1,836,199**	1,673,526
Non-current Liability			
Deferred tax liability		**34,707**	27,555
		1,801,492	1,645,971
Capital and Reserves			
Share capital		**17,624**	17,668
Reserves		**1,783,868**	1,628,303
Total Equity		**1,801,492**	1,645,971

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 HM 11, 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 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, except for the biological assets that are measured at fair value less costs to sell. 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 ("HKFRSs")

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

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

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

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

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

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

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

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

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

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

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

HKFRS 13 Fair Value Measurement

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

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

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

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

3. REVENUE

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

	North-East Region *RMB'000*	Northern Region *RMB'000*	Eastern Region *RMB'000*	South-Central Region *RMB'000*	South-West Region *RMB'000*	Total *RMB'000*
For the year ended 31 December 2011						
Segment revenue from external customers	122,973	163,265	269,225	105,360	169,261	830,084
Segment profit	67,569	87,327	136,479	53,966	84,449	429,790
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
As at 31 December 2011						
Segment assets	19,141	34,936	51,033	11,905	31,960	148,975
Segment liabilities	4,830	6,412	10,574	4,138	6,648	32,602
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

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

Revenue

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

	2011	2010
	RMB'000	*RMB'000*
Profit		
Total segment profit	**429,790**	372,533
Unallocated amounts:		
Other corporate income	**6,213**	3,340
Other corporate expenses	**(146,300)**	(75,288)
Consolidated profit before tax	**289,703**	300,585

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

	2011	2010
	RMB'000	*RMB'000*
Assets		
Total segment assets	**148,975**	125,574
Other unallocated amounts		
Property, plant and equipment	**211,614**	166,387
Prepaid lease payments	**12,969**	3,849
Deposits paid for prepaid lease payments	**54,334**	54,334
Deposits paid for acquisition of property, plant and equipment	**20,580**	43,730
Deposit paid for a potential acquisition	**20,000**	–
Biological assets	**1,544**	–
Inventories	**198,146**	193,253
Deposits and prepayments	**3,343**	2,653
Bank balances and cash	**1,274,711**	1,177,733
Consolidated total assets	**1,946,216**	1,767,513

Reportable and operating segment assets comprise trade receivables.

	2011	2010
	RMB'000	*RMB'000*
Liabilities		
Total segment liabilities	**32,602**	25,459
Other unallocated amounts		
Trade payables	**25,429**	20,089
Other payables and accruals	**14,269**	13,821
Tax liabilities	**37,717**	34,618
Deferred tax liability	**34,707**	27,555
Consolidated total liabilities	**144,724**	121,542

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

5. INCOME TAX EXPENSE

	2011	2010
	RMB'000	*RMB'000*
The charge comprises:		
Current tax		
PRC Enterprise Income tax	**87,716**	80,642
Withholding tax on distributed profits	**6,000**	1,691
	93,716	82,333
Deferred tax		
Current year	**7,152**	10,127
	100,868	92,460

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.

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

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

	2011	2010
	RMB'000	*RMB'000*
Profit before tax	**289,703**	300,585
Tax charge at income tax rate of 25%	**72,426**	75,146
Tax effect of income not taxable for tax purpose	**(139)**	(5)
Tax effect of expenses not deductible for tax purpose	**15,429**	5,501
Deferred tax on undistributed earnings of PRC subsidiaries	**13,152**	11,818
Income tax expense for the year	**100,868**	92,460

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

	2011	2010
	RMB'000	*RMB'000*
Profit and total comprehensive income for the year has been arrived at after charging:		
Auditor's remuneration	**1,377**	1,478
Directors' remuneration	**4,512**	2,843
Cost of inventories recognised as an expense	**253,389**	217,664
Depreciation of property, plant and equipment	**12,250**	5,906
Amortisation of prepaid lease payments	**242**	92
Less: amounts included in biological assets	**(150)**	–
	92	92
Research and development costs recognised as an expense (included in administrative expenses)	**2,250**	1,250
Net foreign exchange loss (included in administrative expenses)	**20,431**	2,306
Staff costs, including directors' remuneration		
– salaries and other benefits costs	**9,217**	10,812
– share based payments	**5,952**	1,634
– sales commission	**19,161**	16,241
– retirement benefits scheme contribution	**1,535**	2,073
Write off of inventories	**202**	–
Loss on disposal of property, plant and equipment	**450**	–

7. DIVIDENDS

	2011	2010
	RMB'000	*RMB'000*
Dividend recognised as distribution during the year:		
2010 Final – HK3.00 cents (equivalent to RMB2.55 cents) per share (2010: 2009 Final – HK2.88 cents (equivalent to RMB2.53 cents) per share)	**51,457**	43,539

The final dividend of HK2.88 cents per share in respect of the year ended 31 December 2011 (equivalent to RMB2.34 cents) (2010: final dividend of HK3.00 cents in respect of the year ended 31 December 2010 (equivalent to RMB2.55 cents)) has been proposed by the directors and is subject to approval by the shareholders in the forth coming annual general meeting.

8. 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:

	2011	2010
	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	**188,835**	208,125

	2011	2010
	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	**2,016,527,436**	1,754,098,384

The computation of diluted earnings per share for both years does not assume the exercise of the Company's share options as the exercise price of those share options granted during the year ended 31 December 2010 was higher than the average market price per share from the date of grant to 31 December 2011.

9. TRADE RECEIVABLES

The Group allows a credit period of 90 days to its trade customers except for new 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.

	2011	2010
	RMB'000	*RMB'000*
0 – 30 days	**79,057**	73,004
31 – 60 days	**10,306**	33,523
61 – 90 days	**59,612**	19,047
	148,975	125,574

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

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

10. TRADE PAYABLES

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

	2011	2010
	RMB'000	*RMB'000*
0 – 30 days	**11,906**	8,366
31 – 60 days	**10,543**	8,783
61 – 90 days	**2,980**	2,940
	25,429	20,089

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The business environment in the period under review was challenging but abundant with opportunities. The inflation control policies imposed by the Central Government, including the higher level of bank reserves and benchmark lending, controlled the momentum of rapid economic growth in China to a sustainable level. However, leveraging on its good reputation, leading position in the sweet wine industry and strong customer base, the Group overcame these challenges and maintained relatively stable development.

The Group recorded a revenue of approximately RMB830.1 million (2010: RMB703.5 million), representing an increase of approximately 18.0% for the year ended 31 December 2011 and the Group's profit and total comprehensive income attributable to owners of the Company decreased by approximately 9.3% to approximately RMB188.8 million (2010: RMB208.1 million).

The Company's basic earnings per share reached RMB9.4 cents (2010: RMB11.9 cents) based on the weighted average number of shares in issue during the Year.

The decline in profitability for the Year was mainly attributable to the newly imposed city construction tax and education surcharge to the Group's subsidiaries in mainland China, exchange loss due to Renminbi exchange rate fluctuation and the share option expenses for the share options granted during the year ended 31 December 2010.

BUSINESS REVIEW

Sales and distribution network

The Group sells substantially all of our products to distributors, who distribute and sell our grape wine products to third-party retailers, including supermarkets, and 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, 5 new distributors were appointed, and cooperation with 4 distributors was terminated by the Group after careful selection and evaluation. As at 31 December 2011, the Group's products were sold through 72 distributors in 19 provinces and 3 municipal cities in the PRC. All distributors are independent third parties and are generally engaged in the business of distributing and selling of grape wine products.

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

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

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

	2011		2010	
	RMB'000	*%*	*RMB'000*	*%*
North-East *(Note 1)*	**122,973**	**14.8%**	104,220	14.8%
Northern *(Note 2)*	**163,265**	**19.7%**	138,337	19.7%
Eastern *(Note 3)*	**269,225**	**32.4%**	226,809	32.2%
South-Central *(Note 4)*	**105,360**	**12.7%**	90,589	12.9%
South-West *(Note 5)*	**169,261**	**20.4%**	143,559	20.4%
Total	**830,084**	**100.0%**	703,514	100.0%

Notes:

1. North-East Region includes provinces of Liaoning, Jilin and Heilongjiang.

2. Northern Region includes provinces of Hebei, Shaanxi, Inner Mongolia, Shanxi and city of Beijing.

3. Eastern Region includes provinces of Jiangsu, Zhejiang, Anhui, Fujian, Shandong and city of Shanghai.

4. South-Central Region includes provinces of Henan, Hubei, Hunan and Guangdong.

5. South-West Region includes provinces of Sichuan, Yunnan, Guizhou and city of Chongqing.

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

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

Supply of grapes

Production of quality grape wine products is highly dependent upon sufficient supply of quality grapes and grape juice. Currently, we source our supply of grapes from 285 local grape farmer suppliers, whose vineyards are located in the regions around Ji'An City, Jilin Province, the PRC at the foothills of the Changbai mountain range on the banks of the Yalu river. In order to maintain reliable and stable supplies of quality grapes to meet our needs, we have entered into a 20 year long-term contract with each of our grape farmer suppliers and our vineyard management team supervises the planting, nurturing and harvesting of the grapevines. To ensure we have reliable and solid supplies of quality grapes and grape juices to meet the production needs of our growing business as well as our expanded production capacity, the Group has kept identifying new grape farmers and grape juices suppliers, who meet our quality requirements and thorough tests are conducted on the grapes and grape juices they produce. These procedures ensure we procure quality grape farmers and grape juices suppliers.

Production capacity

The Group's new production facilities in Tonghua County, Jilin Province, were built and completed in the fourth quarter of 2010, thereby increasing the Group's annual production capacity to 39,000 tonnes. The expansion has enabled the Group to promptly response to market demand and further enhance the overall cost effectiveness in the long run.

Business outlook

There are initial signs that China's recent rounds of credit tightening measures are beginning to take effect. Keeping a lid on inflation remains the biggest challenge but the general consensus is that the economic growth will still be maintained at a moderate rate whilst the longer-term fundamentals for the industry remain unchanged in that increasing urbanization and household income will be key drivers to generate an increase in the demand for the grape wine products.

The Group has considerable advantages in a more competitive environment. Higher brand equity, a comprehensive network, products leadership and a strong management team will ensure that the Company will continue to create value for its shareholders. The business development plans and strategies of the Group as disclosed below are set for the coming years:

Develop Tontine wine estate

The Group plans to develop a wine estate in Ji'An City, Jilin Province, to produce a premium range of our estate bottle wines from high quality grapes. Wines produced by the wine estate, which will be labelled as "Estate Bottled", will be produced from high quality grapes grown in our self-operated vineyards within our wine estate. Our wine estate, with vineyards covering a total area of approximately 2,000 mu*, will be installed with wine production and wine cellaring facilities and is expected to have an annual yield of around 500 tonnes (approximately 600,000 bottles (750 ml)). During the Year, vineyards in the region that covers a total area of approximately 300 mu has been set up and planted with Beibinghong (北冰紅).

Develop Tontine wine cellar

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

* 1 mu equals to approximately 667 square metres.

Expand and develop distribution network

The Group plans to enhance our current sales and distribution network throughout the PRC by establishing not less than 20 Tontine retail shops in certain selected markets in the PRC. As at the date of this announcement, retail shops were launched in 8 cities (Beijing, Chengdu, Dengfeng, Jian, Shanghai, Shenyang, Wuhan and Xiangtan). We plan to establish not less than 5 retail shops in 2012. These retail shops will serve as sales and marketing platforms for Tontine brand products, and provide marketing support to our distributors.

Explore opportunities to expand our market share

The Group adopts a proactive but prudent approach in pursuing business opportunities with growth potentials and which the Board believes would bring synergy or be complementary to achieving the Group's long-term goal in taking a leadership role in the wine industry in the PRC. The proposed acquisition of certain equity interest of and/or investment in 烟台白洋河釀酒有限责任公司 (Yantai Baiyanghe Winery Co., Inc.*), which is principally engaged in the production and sale of alcoholic beverages with wine portfolio containing approximately 80 types of wine products (as announced by the Company in November 2011) would, if materialized, be expected to enable the Group to increase its production capacities, benefit from synergies, access new markets, broaden customer base and achieve economies of scale in the long run. All these factors are instrumental to the business growth and development of the Group. The proposed transaction, if successfully consummated, would represent an important milestone in the development of the business of the Group.

Looking forward, notwithstanding the negative sentiments on the back of the sovereign debt crises in Europe, the Group remains positive in its outlook on Chinese economy and on grape wine markets largely due to the ongoing strength of consumer spending and internal demand in China.

To meet future challenge, the Group will continue to implement its strict cost control measures, and 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 for expansion and optimisation, the Group will continue to develop more products with huge potential to cater for the demand of different customers.

Meanwhile, the Group will continue to proactively identify potentially favourable expansion, merger and acquisition opportunities, so as to enhance the Group's profitability and bring maximum returns to shareholders.

* *For identification purpose only.*

FINANCIAL REVIEW

Revenue

Revenue represents proceeds from the sale of grape wine products. Our revenue increased by approximately 18.0% to approximately RMB830.1 million for the year ended 31 December 2011 from approximately RMB703.5 million in 2010. Our customers mainly comprised regional distributors in the PRC and we sold our products to our distributors at prices ranging from approximately RMB5.9 to RMB115.0 per bottle. The growth in revenue was due to a satisfactory increase in sales volume. The following table sets forth a breakdown of the Group's revenue for the Year:

	2011		2010		Growth of Revenues
	RMB'000	***% of total revenues***	*RMB'000*	*% of total revenues*	*(%)*
Revenue					
Sweet wines	**573,709**	**69.1%**	498,164	70.8%	15.2%
Dry wines	**256,375**	**30.9%**	205,350	29.2%	24.8%
Total	**830,084**	**100.0%**	703,514	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:

	2011		2010	
	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	**14,823**	**38.7**	12,997	38.3
Dry wines	**8,683**	**29.5**	7,017	29.3
Total	**23,506**	**35.3**	20,014	35.2

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

	2011		2010	
	RMB'000	%	*RMB'000*	%
Raw materials				
– Grapes and grape juice	**149,880**	**42.7%**	132,798	45.8%
– Yeast and other additives	**9,282**	**2.7%**	8,635	3.0%
– Packaging materials	**81,213**	**23.1%**	67,930	23.5%
– Others	**829**	**0.2%**	682	0.2%
Total raw material cost	**241,204**	**68.7%**	210,045	72.5%
Production overheads	**12,185**	**3.5%**	7,619	2.6%
Consumption tax and other taxes	**97,609**	**27.8%**	71,979	24.9%
Total cost of sales	**350,998**	**100.0%**	289,643	100.0%

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, label, corks and packing boxes. During the Year, the cost of grapes and grape juice were the key component of cost of sales and accounted for approximately 42.7% of the Group's total cost of sales. The percentage of the total raw material cost to total cost of sales decreased approximately 3.8% from approximately 72.5% to approximately 68.7% 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 0.9% from approximately 2.6% to approximately 3.5% mainly due to the increase of depreciation, labour cost and other overheads as a result of the completion of production capacity expansion from 19,000 tonnes to 39,000 tonnes per annum in the fourth quarter of 2010.

The consumption tax and other taxes increased approximately 2.9% from approximately 24.9% 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 Year, the gross profit of the Group increased approximately 15.8% from approximately RMB413.9 million to approximately RMB479.1 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 decreased approximately 1.1% from approximately 58.8% to approximately 57.7%. This was mainly attributable to the increase in our cost of sales for reasons stated above.

Selling and distribution expenses

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

During the Year, the selling and distribution expenses increased and accounted for approximately 14.4% (2010: 12.0%) 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 64.2% to approximately RMB70.6 million (2010: RMB43.0 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 and other incidental administrative expenses.

In 2011, administrative expenses represented 9.1% of our revenue and increased from approximately RMB32.3 million for the financial year 2010 to approximately RMB75.7 million for the financial year 2011. The increase was mainly attributable to: (i) the share option expense of approximately RMB21.4 million for the share options granted during the year ended 31 December 2010; (ii) exchange loss of approximately RMB20.4 million due to Renminbi exchange rate fluctuation; and (iii) the administrative staff salaries and the expenses related to the Hong Kong office.

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 2011, the effective tax rate of the Group increased to approximately 34.8% (2010: 31.0%). Our effective tax rates were higher than our PRC enterprise income tax rate because (i) commencing from 1 January 2008, the amount of our taxation also included deferred tax calculated at the applicable withholding tax rate of the undistributed earnings of the PRC subsidiary derived on or after 1 January 2008 pursuant to the joint circular of the Ministry of Finance and State Administration of Taxation (Cai Shui 2008 No. 1) and (ii) more expenses in Hong Kong office (including share option expenses and exchange loss) were not allowed to be deducted under the PRC enterprise income tax law for the Year.

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

The profit and total comprehensive income for the year attributable to owner of the Company decreased from approximately RMB208.1 million in 2010 to approximately RMB188.8 million in 2011, representing a decrease of approximately 9.3%, primarily as a result of the factors described above.

Trade receivables analysis

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

As at 31 December 2011, the trade receivables were approximately RMB149.0 million (2010: RMB125.6 million) and average trade receivables turnover days were approximately 60 days (2010: 58 days). The average trade receivables turnover days slightly increased in 2011 primarily due to our granting of credit periods to new customers who started purchasing our products in 2010.

Trade payables analysis

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

As at 31 December 2011, the trade payables were approximately RMB25.4 million (2010: RMB20.1 million) and average trade payables turnover days were approximately 33 days (2010: 30 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 2011 and early 2012.

Inventories analysis

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

As at 31 December 2011, the inventories were approximately RMB198.1 million (2010: RMB193.3 million) and average inventory turnover days were approximately 282 days (2010: 287 days). The inventory turnover days for our business are 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 shorter average inventory turnover days during the Year was primarily the result of faster sale of products.

Financial management and treasury policy

The Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). Accordingly, there has been no significant exposure to foreign exchange fluctuation.

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

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

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

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 2011, the Group employed a work force of 410 (including Directors) in Hong Kong and in the PRC (2010: 374). The total salaries and related costs (including the Directors' fee) for the year ended 31 December 2011 amounted to approximately RMB35.9 million (2010: RMB30.8 million).

USE OF PROCEEDS

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

On 9 November 2010, the Company entered into a placing and subscription agreement (the "Placing and Subscription") in which an aggregate of 300,000,000 new shares in the Company were placed and subscribed for at HK$2.08 per share. Net proceeds of approximately HK$594.1 million (equivalent to approximately RMB505.0 million) were raised from the Placing and Subscription.

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

	IPO *HK$ million*	**Placing and Subscription** *HK$ million*	**Utilised** *HK$ million (Note)*	**Unutilised as at 31 December 2011** *HK$ million*
Expansion of production facilities	113.6	–	(113.6)	–
Development of wine estate	68.2	–	(54.0)	14.2
Development of wine cellar	45.5	–	(45.5)	–
Developing and increasing awareness of our brand	105.2	–	(105.2)	–
Expansion of distribution network	52.6	–	(5.9)	46.7
General working capital, future acquisition and other general corporate purposes	53.8	594.1	(149.2)	498.7
Total	438.9	594.1	(473.4)	559.6

As at 31 December 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.

LIQUIDITY AND FINANCIAL RESOURCES

Our working capital was healthy and positive for the financial years 2010 and 2011 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 2011. As at 31 December 2011, we recorded a net current assets position of approximately RMB1,515.8 million (2010: RMB1,405.3 million). The improvement was primarily due to an increase in our bank balances and cash by approximately of RMB97.0 million as a result of the improvement in our business performance in 2011.

CAPITAL COMMITMENTS AND CHARGES ON ASSETS

The Group made capital expenditure commitments including approximately RMB100.4 million that was authorised but not contracted for and approximately RMB95.7 million contracted but not provided for in the financial statements as at 31 December 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 IPO as stated in the Prospectus and cash generated from operating activities.

As at 31 December 2011, none of the Group's assets was pledged (2010: nil).

DIVIDEND

The Directors recommend, subject to shareholders' approval at the forthcoming annual general meeting (the "AGM") to be held on 3 May 2012, the payment of a final dividend of HK2.88 cents (equivalent to RMB2.34 cents) (2010: HK3.00 cents (equivalent to RMB2.55 cents)) per share for the year ended 31 December 2011 to those shareholders whose names appear on the register of members of the Company on 11 May 2012. The final dividend is expected to be paid on or no later than 28 May 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 April 2012 to 3 May 2012 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited (the "Hong Kong Share Registrar"), at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. on 26 April 2012.

The register of members of the Company will be closed from 10 May 2012 to 11 May 2012 (both days inclusive) for the purpose of determining shareholders who qualify for the final dividend. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Hong Kong Share Registrar for registration by 4:30 p.m. on 9 May 2012.

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

During the Year, the Company purchased a total of 4,916,000 ordinary shares of HK$0.01 each in the Company on the Stock Exchange at an aggregate consideration of HK$3,931,840. All of the purchased shares were cancelled.

Month of the purchases	Total number of the ordinary shares purchased	Highest price paid per share	Lowest price paid per share	Aggregate consideration
		HK$	*HK$*	*HK$*
August 2011	1,200,000	0.93	0.86	1,062,000
September 2011	2,200,000	0.96	0.60	1,744,000
October 2011	1,516,000	0.81	0.64	1,125,840
	4,916,000			3,931,840

The Directors considered that the above 4,916,000 shares were purchased at a discount to the net asset value per share and resulted in an increase in the net asset value per share then in issue.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

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 2011.

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 the chairman and the chief executive officer ("CEO") should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and CEO and Mr. Wang Guangyuan currently performs these two roles. Mr. Wang is responsible for the overall business strategy and development and management of our Group. The Board 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 and 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 2011.

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 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 gratitude to our management and all staff for their continuous efforts and whole-hearted devotion. We are also truly grateful to our shareholders, investors, business partners and customers for their enormous support and trust.

By order of the Board
Wang Guangyuan
Chairman and Executive Director

Hong Kong, 22 March 2012

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.