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TONTINE

CHINA TONTINE WINES GROUP LIMITED

中國通天酒業集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 389)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 7.5% to approximately RMB379.2 million (2011: RMB352.6 million)
- Gross profit increased by approximately 8.1% to approximately RMB217.7 million (2011: RMB201.3 million)
- Profit and total comprehensive income for the period attributable to owners of the Company increased by approximately 7.3% to approximately RMB75.5 million (2011: RMB70.4 million)
- Basic earnings per share increased by approximately 5.7% to approximately RMB3.7 cents (2011: RMB3.5 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 2012 (the “Period”), together with the comparative figures for the six months ended 30 June 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

		Six months ended	
		30 June	
		2012	2011
	<i>Notes</i>	(Unaudited)	(Unaudited)
		RMB'000	RMB'000
Revenue	3	379,158	352,579
Cost of sales		(161,444)	(151,268)
Gross profit		217,714	201,311
Other income	5	3,647	2,439
Selling and distribution expenses		(80,960)	(42,140)
Administrative expenses		(26,970)	(51,111)
Profit before tax	6	113,431	110,499
Income tax expense	7	(37,957)	(40,152)
Profit and total comprehensive income for the period attributable to owners of the Company		75,474	70,347
Earnings per share	8		
Basic (RMB cents)		3.7	3.5
Diluted (RMB cents)		3.7	3.5

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

		30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
	Notes		
Non-current Assets			
Property, plant and equipment	10	229,496	211,614
Prepaid lease payments		12,175	12,292
Deposits paid for prepaid lease payments		54,334	54,334
Deposits paid for acquisition of property, plant and equipment		28,000	20,580
Deposits paid for a potential acquisition		36,000	20,000
Biological assets		2,003	1,544
		<u>362,008</u>	<u>320,364</u>
Current Assets			
Inventories		171,729	198,146
Trade receivables	11	167,781	148,975
Deposits and prepayments		6,863	3,343
Prepaid lease payments		677	677
Bank balances and cash		1,267,418	1,274,711
		<u>1,614,468</u>	<u>1,625,852</u>
Current Liabilities			
Trade payables	12	20,479	25,429
Other payables and accruals		58,127	46,871
Tax liabilities		19,999	37,717
		<u>98,605</u>	<u>110,017</u>
Net Current Assets		<u>1,515,863</u>	<u>1,515,835</u>
Total Assets Less Current Liabilities		<u>1,877,871</u>	<u>1,836,199</u>
Non-current Liability			
Deferred tax liability		39,707	34,707
		<u>1,838,164</u>	<u>1,801,492</u>
Capital and Reserves			
Share capital		17,624	17,624
Reserves		1,820,540	1,783,868
Total Equity		<u>1,838,164</u>	<u>1,801,492</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Share capital (unaudited) RMB'000	Share premium (unaudited) RMB'000	Special reserve (unaudited) RMB'000 (Note a)	Statutory reserves (unaudited) RMB'000 (Note b)	Share option reserve (unaudited) RMB'000	Retained profits (unaudited) RMB'000	Total (unaudited) RMB'000
At 1 January 2012	17,624	910,541	86,360	117,773	27,221	641,973	1,801,492
Total comprehensive income for the period	-	-	-	-	-	75,474	75,474
Recognition of equity-settled share-based payments	-	-	-	-	8,259	-	8,259
Share options lapsed	-	-	-	-	(19,635)	19,635	-
Dividends recognised as distribution (note 9)	-	-	-	-	-	(47,061)	(47,061)
At 30 June 2012	<u>17,624</u>	<u>910,541</u>	<u>86,360</u>	<u>117,773</u>	<u>15,845</u>	<u>690,021</u>	<u>1,838,164</u>
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
Recognition of equity-settled share-based payments	-	-	-	-	20,868	-	20,868
Dividends recognised as distribution (note 9)	-	-	-	-	-	(51,457)	(51,457)
At 30 June 2011	<u>17,668</u>	<u>913,710</u>	<u>86,360</u>	<u>90,943</u>	<u>26,733</u>	<u>550,315</u>	<u>1,685,729</u>

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 (the "Stock Exchange").
- (b) In accordance with the relevant laws and regulations of the People's Republic of China (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 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 2012*

	Six months ended	
	30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Cash generated from operations	134,856	135,505
Income tax paid	(50,675)	(56,135)
NET CASH FROM OPERATING ACTIVITIES	84,181	79,370
INVESTING ACTIVITIES		
Interest received	3,474	2,439
Purchase of property, plant and equipment	(24,467)	(2,839)
Deposits paid for acquisition of property, plant and equipment	(7,420)	(2,000)
Deposits paid for a potential acquisition	(16,000)	—
NET CASH USED IN INVESTING ACTIVITIES	(44,413)	(2,400)
CASH USED IN FINANCING ACTIVITY		
Dividend paid	(47,061)	(51,457)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(7,293)	25,513
CASH AND CASH EQUIVALENTS AT 1 JANUARY	1,274,711	1,177,733
CASH AND CASH EQUIVALENTS AT 30 JUNE		
represented by bank balances and cash	1,267,418	1,203,246

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

The condensed consolidated financial statements have been prepared on the historical cost basis, except for the biological assets that are measured at fair value less cost to sell. Historical cost is generally based on the fair value of the consideration given in exchange of goods.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA:

Amendments to HKFRS 7
Amendments to HKAS 12

Financial Instruments: Disclosures – Transfers of Financial Assets
Deferred Tax: Recovery of Underlying Assets

The application of the above amendments to 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 statements.

3. REVENUE

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

4. SEGMENT INFORMATION

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 reportable and operating segments under HKFRS 8 are identified based on different geographical zones of goods delivered in the PRC: North-East Region, Northern Region, Eastern Region, South-Central Region and South-West Region.

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.

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 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 <i>RMB'000</i>	Northern Region <i>RMB'000</i>	Eastern Region <i>RMB'000</i>	South- Central Region <i>RMB'000</i>	South- West Region <i>RMB'000</i>	Total <i>RMB'000</i>
For the six months ended 30 June 2012 (unaudited)						
Segment revenue from external customers	54,258	80,854	121,804	54,565	67,677	379,158
Segment profit	30,595	42,222	61,365	27,708	33,183	195,073
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
As at 30 June 2012 (unaudited)						
Segment assets	21,146	31,245	54,203	28,575	32,612	167,781
Segment liabilities	2,675	3,986	6,007	2,690	3,337	18,695
As at 31 December 2011 (audited)						
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

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.

	Six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Profit		
Total segment profit	195,073	187,312
Unallocated amounts:		
Other corporate income	3,647	2,439
Other corporate expenses	(85,289)	(79,252)
Consolidated profit before tax	<u>113,431</u>	<u>110,499</u>

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.

	At 30 June 2012 (Unaudited) RMB'000	At 31 December 2011 (Audited) RMB'000
Assets		
Total segment assets	167,781	148,975
Other unallocated amounts		
Property, plant and equipment	229,496	211,614
Prepaid lease payments	12,852	12,969
Deposits paid for prepaid lease payments	54,334	54,334
Deposits paid for acquisition of property, plant and equipment	28,000	20,580
Deposits paid for a potential acquisition	36,000	20,000
Biological assets	2,003	1,544
Inventories	171,729	198,146
Deposits and prepayments	6,863	3,343
Bank balances and cash	<u>1,267,418</u>	<u>1,274,711</u>
Consolidated total assets	<u>1,976,476</u>	<u>1,946,216</u>

Reportable and operating segment assets comprise trade receivables.

	At 30 June 2012 (Unaudited) RMB'000	At 31 December 2011 (Audited) RMB'000
Liabilities		
Total segment liabilities	18,695	32,602
Other unallocated amounts		
Trade payables	20,479	25,429
Other payables and accruals	39,432	14,269
Tax liabilities	19,999	37,717
Deferred tax liability	39,707	34,707
	<u>138,312</u>	<u>144,724</u>
Consolidated total liabilities	<u>138,312</u>	<u>144,724</u>

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

5. OTHER INCOME

	Six months ended 30 June 2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Interest income from bank deposits	3,474	2,439
Rental income	173	—
	<u>3,647</u>	<u>2,439</u>

6. PROFIT BEFORE TAX

	Six months ended 30 June 2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Profit before tax has been arrived at after charging:		
Cost of inventories recognised as an expense	116,584	109,169
Depreciation of property, plant and equipment	6,585	5,738
Amortisation of prepaid lease payments	355	45
Less: amounts included in biological assets	(310)	—
	<u>45</u>	<u>45</u>
Net exchange loss	<u>312</u>	<u>14,392</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
The charge comprises:		
Current tax		
PRC Enterprise Income tax	32,957	39,152
Deferred tax		
Current period	5,000	1,000
	<u>37,957</u>	<u>40,152</u>

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.

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 RMB5,000,000 (2011: RMB1,000,000) 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 basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2012	2011
	(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	<u>75,474</u>	<u>70,347</u>
	At	At
	30 June 2012	30 June 2011
	(Unaudited)	(Unaudited)
	Number	Number
	of shares	of shares
Number of shares		
Weighted average number of ordinary shares for the purpose		
of basic and diluted earnings per share	2,013,018,000	2,017,934,000
Effect of dilutive potential ordinary shares: share options	<u>346,649</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose		
of diluted earnings per share	<u>2,013,364,649</u>	<u>2,017,934,000</u>

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 option as the exercise price of those options granted during the year ended 31 December 2010 was higher than the average market price per share during the Period.

9. DIVIDENDS

During the current interim period, a final dividend of HK2.88 cents (equivalent to RMB2.34 cents) per share in respect of the year ended 31 December 2011 (2011: HK3.00 cents (equivalent to RMB2.55 cents) per share in respect of the year ended 31 December 2010) 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 2012, the Group acquired property, plant and equipment at a cost of approximately RMB24,467,000 (2011: RMB2,839,000).

11. TRADE RECEIVABLES

The Group allows a credit period of 90 days to its trade customers except for such 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:

	At 30 June 2012 (Unaudited) RMB'000	At 31 December 2011 (Audited) RMB'000
0 – 30 days	72,388	79,057
31 – 60 days	74,588	10,306
61 – 90 days	20,805	59,612
	<u>167,781</u>	<u>148,975</u>

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 2012 (Unaudited) RMB'000	At 31 December 2011 (Audited) RMB'000
0 – 30 days	11,378	11,906
31 – 60 days	7,976	10,543
61 – 90 days	1,125	2,980
	<u>20,479</u>	<u>25,429</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group's revenue for the six months ended 30 June 2012 amounted to approximately RMB379.2 million (2011: RMB352.6 million), representing an increase of approximately 7.5% 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 increased by approximately 7.3% to approximately RMB75.5 million (2011: RMB70.4 million).

The Company's basic earnings per share reached RMB3.7 cents (2011: RMB3.5 cents) based on the weighted average number of shares in issue during the Period.

The improvement in profitability for the Period over the same period of last year was mainly attributable to increase in sales volume and improvement of the gross profit margin.

BUSINESS REVIEW

For the six months ended 30 June 2012, the global economy experienced severe challenges. The slowdown in Chinese economy, the crippling European debt crisis and the sluggish economy in America had caused sustained uncertainties in the global economy. In light of the uncertain global economic condition and the huge internal consumption potential, the Chinese government saw the need to introduce a radical change in China's development model from a production to a consumption-led growth model and actively launched stimulating policies to boost incomes and domestic consumption. This was evident in China's implementation of the 12th Five-Year Plan for National Economic and Social Development, which had shifted the steering wheel of the Chinese economy from quantitative to qualitative growth by focusing on quality of life over quantity of GDP. This had resulted in higher wages and better benefits for workers and, in turn, encouraged more household spending across the country.

During the Period, the Group managed to grasp the market opportunities brought by the above consumption windfalls and achieved a satisfactory growth.

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) research and develop new products with higher profit margin.

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 wine 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 2012, 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 and billboards to emphasize the health benefits of moderate consumption of grape wines in order to establish consumer loyalty and strengthen the popularity for 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 in the PRC for the Period:

	Six months ended 30 June			
	2012		2011	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
North-East Region (<i>Note 1</i>)	54,258	14.3	47,310	13.4
Northern Region (<i>Note 2</i>)	80,854	21.3	73,914	21.0
Eastern Region (<i>Note 3</i>)	121,804	32.1	113,280	32.1
South-Central Region (<i>Note 4</i>)	54,565	14.4	52,005	14.8
South-West Region (<i>Note 5</i>)	67,677	17.9	66,070	18.7
Total	<u>379,158</u>	<u>100.0</u>	<u>352,579</u>	<u>100.0</u>

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 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 285 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 and grape juices to meet the production needs of our growing business as well as our production capacity, 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. Furthermore, 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.

Business outlook

The global economy in the current year is not expected to be encouraging and the overall operating environment remains to be highly challenging. In Europe, the debt crisis is still threatening to spread. Recovery of the US domestic economy will take time. China as the most powerful engine of global economic growth has to deal with structural adjustments in switching from exports to domestic demand as a way of maintaining sustained economic growth. Nevertheless, the Group has absolute faith in the Chinese Government's macro-control ability, there will inevitably be untold challenges in the course of switching from exports to domestic demand, yet there will also be untold business opportunities. In this respect, the Group is well prepared – both to confront challenges and to embrace opportunities. 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)). As at the date of this announcement, 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).

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 烟台白洋河酿酒有限责任公司 (Yantai Baiyanghe Winery Co., Inc.[#]), which is principally engaged in the production and sale of alcoholic beverages with wine portfolio containing approximately 80 types of wine products (as announced by the Company in November 2011) would, if materialized, be expected to enable the Group to upgrade the Group's wine making technology, enhance the level of product quality, 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, while the sovereign debt crisis in Europe and the slowing down of the economic growth of China have caused uncertainties in the economic outlook and affect the consumption atmosphere in 2012, the growing affluence of consumers in China still provides an enormous opportunity for the grape wine market in the medium and long run. Under such circumstances, the Group will continue to (i) implement its strict cost control measures, and (ii) 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.

* 1 mu equals to approximately 667 square metres.

For identification purpose only.

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 and diversify its product portfolio. During the Period, the Group launched 5 new products (3 sweet wine products and 2 dry wine products). The new products, which add to the diverse product portfolio of the Group, are expected to cater for a wider range of customers and are well-received. We will continue to increase our investment in the research and development of our products.

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

FINANCIAL REVIEW

Revenue

Revenue represents proceeds from the sale of grape wine products. Our revenue increased by approximately 7.5% to approximately RMB379.2 million for the six months ended 30 June 2012 from approximately RMB352.6 million over the same period last year. 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 RMB84.6 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				Growth of Revenues (%)
	2012	% of total	2011	% of total	
	<i>RMB'000</i>	<i>revenues</i>	<i>RMB'000</i>	<i>revenues</i>	
Sweet wines	259,438	68.4	242,536	68.8	7.0%
Dry wines	119,720	31.6	110,043	31.2	8.8%
Total	379,158	100.0	352,579	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			
	2012	Average ¹	2011	Average ¹
	Total	selling price	Total	selling price
	units sold	<i>RMB'000</i>	units sold	<i>RMB'000</i>
	<i>tonnes</i>	<i>per tonne</i>	<i>tonnes</i>	<i>per tonne</i>
Sweet wines	6,263	41.4	5,702	42.5
Dry wines	4,179	28.7	3,840	28.7
Total	10,442	36.3	9,542	37.0

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

The growth in revenue was due to satisfactory increase in sales volume. During the Period, the decrease in the average selling price of our grape wine products was due to the replacement of 7 old products (5 sweet wine products and 2 dry wine products) with 5 new products (3 sweet wine products and 2 dry wine products), which were generally with higher profit margin and lower selling prices.

Cost of sales

	Six months ended 30 June			
	2012		2011	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Raw materials				
– Grapes and grape juice	65,340	40.5	66,085	43.7
– Yeast and other additives	4,415	2.7	3,569	2.4
– Packaging materials	40,577	25.1	33,315	22.0
– Others	352	0.2	303	0.2
Total raw material cost	110,684	68.5	103,272	68.3
Production overheads	5,900	3.7	5,897	3.9
Consumption tax and other taxes	44,860	27.8	42,099	27.8
Total cost of sales	161,444	100.0	151,268	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 40.5% of the Group's total cost of sales. The percentage of the total raw material cost to total cost of sales was relatively stable during the Period as compared with 2011.

Production overheads primarily consist of depreciation, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses for production. Production overheads as a percentage of revenue in 2012 remained stable as compared with 2011.

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 8.1% from approximately RMB201.3 million to approximately RMB217.7 million. This was mainly attributable to the increase in the sales volume of our grape wine products, particularly our products with higher profit margins.

Our average gross profit margin slightly increased approximately 0.3% from approximately 57.1% to approximately 57.4%. 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 21.4% (2011: 12.0%) 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) an increase in transportation costs which was broadly in line with increase in sales; and (iii) an increase in advertising and promotional charges of approximately 173.7% to approximately RMB58.3 million (2011: RMB21.3 million). During the Period, the increase in advertising and promotional charges was mainly due to the continued engagement by the Group in brand building activities through joint promotions with Yantai Baiyanghe Winery Co., Inc. in the "China Food & Beverage Fairs 2012" (「全國糖酒商品交易會」), organising the "Expert Forum on the Development of the Grape Wine Industry in China" (「中國葡萄酒產業發展專家論壇」) and the "Symposium on the Yalu River Valley Grape Production Region" (「鴨綠江河谷葡萄產區專家研討會」). The Group will ensure that our promotion strategy is responsive to market dynamics and competition.

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, foreign exchange loss, and other incidental administrative expenses.

During the Period, administrative expenses represented 7.1% of our revenue and decreased by approximately RMB24.1 million to approximately RMB27.0 million (2011: RMB51.1 million) for the Period. The decrease was mainly attributable to the decrease in share option expense and exchange loss due to Renminbi exchange rate fluctuation.

Income tax expenses

Tax represents 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 2012, the effective tax rate of the Group decreased to approximately 33.5% (2011: 36.3%). 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 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 in Hong Kong office were not allowed to be deducted under the PRC enterprise income tax law 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 increased from approximately RMB70.4 million to approximately RMB75.5 million, representing an increase of approximately 7.3%, primarily as a result of the factors described above.

Financial management and treasury policy

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

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

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

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

Liquidity and financial resources

Our working capital was healthy and positive for the 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 2012, we recorded a net current assets position of approximately RMB1,515.9 million (31 December 2011: RMB1,515.8 million). The Group has sufficient financial resources and a strong cash position for satisfying working capital requirements of business development, operations and capital expenditures.

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 30 June 2012, the Group employed a work force of 413 (including Directors) in Hong Kong and in the PRC (31 December 2011: 410). The total salaries and related costs (including the Directors' fee) for the Period amounted to approximately RMB11.9 million (2011: RMB23.9 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 (the "Prospectus") 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.

Use of proceeds

The Company was officially listed on the main board of the Stock Exchange on 19 November 2009 by way of IPO as disclosed in the Prospectus 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.

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

	IPO	Placing and Subscription	Utilised	Unutilised as at 30 June 2012
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million (Note)</i>	<i>HK\$ million</i>
Expansion of production facilities	113.6	—	(113.6)	—
Development of wine estate	68.2	—	(68.2)	—
Development of wine cellar	45.5	—	(45.5)	—
Developing and increasing awareness of our brand	105.2	—	(105.2)	—
Expansion of distribution network	52.6	—	(9.0)	(43.6)
General working capital, future acquisition and other general corporate purposes	53.8	594.1	(267.7)	380.2
Total	438.9	594.1	(609.2)	423.8

As at 30 June 2012, the unutilised net proceeds were placed in short term bank deposit in Hong Kong and in the PRC.

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

Capital commitments and charges on assets

The Group made capital expenditure commitments including approximately RMB118.0 million that was authorised but not contracted for and approximately RMB64.4 million contracted but not provided for in the condensed consolidated financial statements as at 30 June 2012. These commitments were required mainly to support the Group's production capacity expansion. The funding of such capital commitments will be paid out of the net proceeds of the IPO as stated in the Prospectus and cash generated from operating activities.

As at 30 June 2012, none of the Group's assets was pledged (2011: nil).

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2012 (2011: 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 (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for directors' securities transactions. The Company has made specific enquiry of all Directors and that all the Directors have confirmed their compliance with the required standards set out in the Model Code 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 Corporate Governance Code which became effective on 1 April 2012 (formerly the Code on Corporate Governance Practices) (the "CG Code") contained in Appendix 14 to the Listing Rules and complied with the code provisions and certain recommended best practices set out in the CG Code, save for the deviation from code provision A.2.1 of the CG Code, 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 2012 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

ACKNOWLEDGEMENT

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

By order of the Board
Wang Guangyuan
Chairman and Executive Director

Hong Kong, 21 August 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.