YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

2009 Annual Report

2010.04.16

Content

I. Important

The Board of Directors，the Board of Supervisors and directors, supervisors & senior management of the Company collectively and individually accept full responsibility for the truthfulness; accuracy and completeness of the information contained in this report and confirm that to the best of their knowledge and belief there are no unfaithful facts, significant omissions or misleading statements.

No director, supervisors or senior managers declares to have dissidence or to be unable to guarantee the truthfulness, accuracy and completeness of the information contained in this report.

Except independent director Mr. Ju Guoyu entrusted Mr. Geng Zhaolin on his behalf to vote for the proposals due to business trip, director Mr. Aldino Marzorati entursted Mr. Augusto Reina to vote on his behalf for the proposals due to sickness, all other 11 directors attended the Board of Directors' meeting to deliberate the 2009 annual report.

Ernst & Young Hua Ming provides the audit report with standard and unreserved audit advice.

Mr. Sun Liqiang (Chairman of the Company), Mr. Leng Bin (Chief Financial Officer) and Mr. Jiang Jianxun (Financial Manager) assure the truthfulness and completeness of the financial report in the annual report.

The reader is advised that this report has been prepared originally in Chinese. In the event of a conflict between this report and the original Chinese version or difference in interpretation between the versions of the report, the Chinese language report shall prevail.

II. KEY COMPANY DATA OF RECORD

1. Legal Name in Chinese: 烟台张裕葡萄酿酒股份有限公司
   Legal Name in English: Yantai Changyu Pioneer Wine Company Limited

2. Legal Representative: Sun Liqiang

3. Secretary to the Board of Directors: Qu Weimin
   Contact Address: 56 Dama Road, Yantai City, Shandong Province, the PRC
   Telephone: 0086-535-6633658
   Facsimile: 0086-535-6633639
   E-Mail: quwm@changyu.com.cn

   Authorized Representative of the Securities Affairs: Li Tingguo
   Contact Address: 56 Dama Road, Yantai City, Shandong Province, the PRC
   Telephone: 0086-535-6633656
   Facsimile: 0086-535-6633639
   E-Mail: stock@changyu.com.cn

4. Registered Address: 56 Dama Road, Yantai City, Shandong Province, the PRC
   Office Address: 56 Dama Road, Yantai City, Shandong Province, the PRC
   Postal Code: 264000
   Web Site: http://www.changyu.com.cn
   Mailbox: webmaster@changyu.com.cn

5. Publications: The newspapers in which the Company's information is disclosed:
   "China Securities Newspaper" and "Securities Times" in the PRC
   "Hong Kong Commercial Daily" outside the PRC
   Web Site for carrying the report: http://www.cninfo.com.cn
   Annual Report kept at: BOD Office of the Company

6. Place of listing of the Shares: Shenzhen Stock Exchange
   Abbreviation of the Shares: Changyu A, Changyu B
   Code Number of the Shares: 000869, 200869

7. Other information of the Company:
   - The first registration date: September 18th, 1997
   - The original place of registration: the Business Administration Bureau of Shandong Province
   - The registration amendment date: June 23rd, 2006
   - The registration amendment place: the Business Administration Bureau of Shandong Province
   - The business license number: 3700001806012
   - The registration number of revenue: 37060216500338-1 in State Taxation Bureau
     370601267100035 in Local Taxation Bureau
   - The organization code: 26710003-5
   - The accountant appointed by the Company: Ernst & Young Hua Ming Certified Public Accounts Co. Ltd.
     The office address of the Chinese accountant appointed by the Company: Level 17, Ernst & Young Tower, Oriental Plaza, Beijing

III. SUMMARY OF ACCOUNTING AND FINANCIAL INFORMATION

1. Summary of Financial Information for the Report Period

Unit：CNY

Item	Amount
Business profit	1,472,056,684
Total profit	1,499,254,984
Net profit attributed to the shareholders of the company	1,127,328,843
Net profit attributed to the shareholders of the company after deducting the irregular profit and loss	1,106,795,279
Net cash flows from the operating activities	1,359,587,515

Note: The item and involved amount after deducting the irregular profit and loss

Unit: CNY

Item	2009	2008
Net profit attributed to common shareholders of the Company	1,127,328,843	894,620,794
Add (less): item of irregular profit and loss		
Profit and loss on disposal of fixed assets and intangible assets	(368,132)	(14,335)
Profit and loss on investment of equity transfer	(1,556,000)	(2,936,502)
Government subsidy income credited to the current	(19,078,631)	(4,654,572)
Net income from other non-business activities	(905,444)	(2,123,673)
Tax return without formal official documents	(3,240,000)	
Gainings when acquiring the subsidiary	(3,606,093)	
Effect index for the income tax of irregular profit and loss	7,188,575	2,432,270
Net profit after deducting the irregular profit and loss	1,105,763,118	887,323,982
Add : effect index for irregular profit and loss attributed to minority shareholders	1,032,161	16,793
Net profit attributed to common shareholders of the Company after deducting irregular profit and loss	1,106,795,279	887,340,775

2. Differences in Net Profit and Net Asset under the PRC Accounting Standards and International Accounting Standards

The net profit and net asset of the Company in 2009 was respectively CNY1,127,328,843 and CNY3,038,226,013 according to the PRC Accounting Standards by Ernst & Young Hua Ming. During the report period, there were no differences between the PRC Accounting Standards and the International Accounting Standards, so there were no differences for the net profit and the net asset confirmed according to the PRC Accounting Standards and the International Accounting Standards.

3. Principal Accounting and Financial Information for the Preceding Three Years of the Report Period

Unit：CNY

Item	2009	2008	More or less than last year(%)	2007
Business revenue	4,199,403,351	3,453,442,314	21.60	2,730,166,091
Total profit	1,499,254,984	1,183,248,986	26.71	949,443,426
Net profit attributed to the shareholders of the listed company	1,127,328,843	894,620,794	26.01	635,627,764
Net profit attributed to the shareholders of the listed company after deducting the irregular profit and loss	1,106,795,279	887,340,775	24.73	634,319,547
Basic earnings per share	2.14	1.70	25.88	1.21
Diluted earnings per share	2.14	1.70	25.88	1.21
Basic earnings per share after deducting the irregular profit and loss	2.10	1.68	25.00	1.20
Overall sharing for the return rate of net assets (%)	37.10	35.17	1.93	28.52
Weighted average for the return rate of net assets (%)	41.17	38.26	2.91	30.98
Overall sharing for the return rate of net assets (%) after deducting the irregular profit and loss	36.43	34.88	1.55	28.46
Weighted average for the return rate of net assets (%) after deducting the irregular profit and loss	40.42	37.95	2.47	30.92
Net cash flows from the operating activities	1,359,587,515	1,251,046,530	8.68	816,161,158
Net cash flows per Share from the operating activities	2.58	2.37	8.86	1.55
	End of 2009	End of 2008	More or less than last year(%)	End of 2007
Total assets	5,364,160,798	4,060,932,580	32.09	3,251,224,474
Total shareholders' equity (minor shareholders' equity excluded)	3,038,226,013	2,543,633,170	19.44	2,229,020,376
Net assets per share attributed to the shareholders of the listed company	5.76	4.82	19.50	4.23

IV. CHANGES IN SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

1. Changes in Share Capital

Unit: share'0000

	Amount before this change		Change (+ -)					Amount after this change	
	Amount	Percentage %	Allot new share	Distribute bonus share	Transfer other capital to share capital	others	Sub total	Amount	Percentage %
1. Limited shares	26,575	50.40				-2,636	-2,636	23,939	45.40
(1)State Shares									
(2) State legal person share									
(3)Other domestic corporate share	26,575	50.40				-2,636	-2,636	23,939	45.40

--- domestic legal person share	26,575	50.40				-2,636	-2,636	23,939	45.40
---domestic natural person share									
(4) foreign held share									
---overseas legal person share									
--- overseas natural person share									
2. Unlimited shares	26,153	49.60				2,636	2,636	28,789	54.60
(1)CNY common share	8,305	15.75				2,636	2,636	10,941	20.75
(2)Foreign share listed in PRC	17,848	33.85						17,848	33.85
(3) Foreign share listed overseas									
Total shares	52,728	100.00						52,728	100.00

2. Changes in Limited Shares

Unit: share'0000

Shareholder's Name	Numbers for the limited shares on Jan.1st, 2009	Numbers of releasing the limited shares in 2009	Numbers of Increasing the Limited shares in 2009	Numbers for the limited shares on Dec.31st,2009	Reasons for limiting the shares on Dec.31st,2009	Releasing date for the limited shares
Yantai Changyu Group Co Ltd.	26,575	2,636	0	23,939	Share structure reform	March 21st, 2009
Total	26,575	2,636	0	23,939		-

3. Information about the Issuance and Listing of Stocks

(1) The Company did not issue new stocks within preceding three years by the end of report period.

(2) During the report period, the Company's total shares, the structure of shares and the structure of assets and liabilities were not changed because of distribution of dividends in the form of shares, increase of capital stock, allocation, re-issuance of stocks, disclosed issuance of stocks, enforcement of title warrants, implementation of stock equity incentive plan, business merger, transfer of company's transferable debentures to stocks, decrease of registered capital, listing of internal shares, issuance of bonds or other causes.

(3) The Company didn't issue any internal stocks.

4. Shareholders' Introduction

(1) The total number and top 10 shareholders at the end of report period

Total amount of Shareholders	12,513 Shareholders including 7,499 shareholders with A shares, 5,014 shareholders with B shares				
The top 10 shareholders					
Name of Shareholders	The character of the shareholders	Percentage (%)	Number of shares hold	Number of limited listing shares	Lien or frozen shares
YANTAI CHANGYU GROUP CO.LTD.	Domestic non-state-ownedlegal person	50.40	265,749,120	239,385,120	0
HTHK/CMG FSGUFP-CMG FIRST STATE CHINA GROWTH FD	Foreign shareholder	4.27	22,498,466	0	0
GAO-LING FUND, L.P.	Foreign shareholder	2.57	13,528,954	0	0
BBH BOS S/A FIDELITY FD-CHINA	Foreign shareholder	1.40	7,399,747	0	0

FOCUS FD					
LION VALUE-ADDED SECURITIES INVESTMENT FUND	Domestic non-state-owned legal person	0.95	5,000,000	0	0
TAIKANG LIFE INSURANCE CO. LTD. DIVIDEND-PERSONAL DIVIDEND-019-FH002 SHEN	Domestic non-state-owned legal person	0.88	4,622,067	0	0
GOVERNMENT OF SINGAPORE INV. CORP. –A/C “C”	Foreign shareholder	0.86	4,559,063	0	0
CHINA UNIVERSAL GROWTH FOCUS SECURITIES-ORIENTED CAPITAL FUND	Domestic non-state-owned legal person	0.79	4,168,479	0	0
MIRAE ASSET CHINA SOLOMON EQUITY INVESTMENT TRUST 1	Foreign shareholder	0.76	4,012,950	0	0
UBS (LUXEMBOURG) S.A	Foreign shareholder	0.75	3,988,430	0	0

The top 10 Shareholders of unlimited shares		
Name of Shareholders	Number of unlimited shares held	Type of Shares
YANTAI CHANGYU GROUP CO. LTD.	26,364,000	A share
HTHK/CMG FSGUFP-CMG FIRST STATE CHINA GROWTH FD	22,498,466	B share
GAO-LING FUND, L.P.	13,528,954	B share
BBH BOS S/A FIDELITY FD-CHINA FOCUS FD	7,399,747	B share
LION VALUE-ADDED SECURITIES INVESTMENT FUND	5,000,000	A share
TAIKANG LIFE INSURANCE CO. LTD. DIVIDEND-PERSONAL DIVIDEND-019-FH002 SHEN	4,622,067	A share
GOVERNMENT OF SINGAPORE INV. CORP. –A/C “C”	4,559,063	B share
CHINA UNIVERSAL GROWTH FOCUS SECURITIES-ORIENTED CAPITAL FUND	4,168,479	A share
MIRAE ASSET CHINA SOLOMON EQUITY INVESTMENT TRUST 1	4,012,950	B share
UBS (LUXEMBOURG) S.A	3,988,430	B share
The explanation for the relationship and accordant action of the top 10 shareholders	In the top 10 shareholders, Yantai Changyu Group Company Limited has no associated relationship with the other 9 listed shareholders, and the relationship between the other shareholders is unknown.	

(2) Introduction for the holding shareholders and the actual controllers

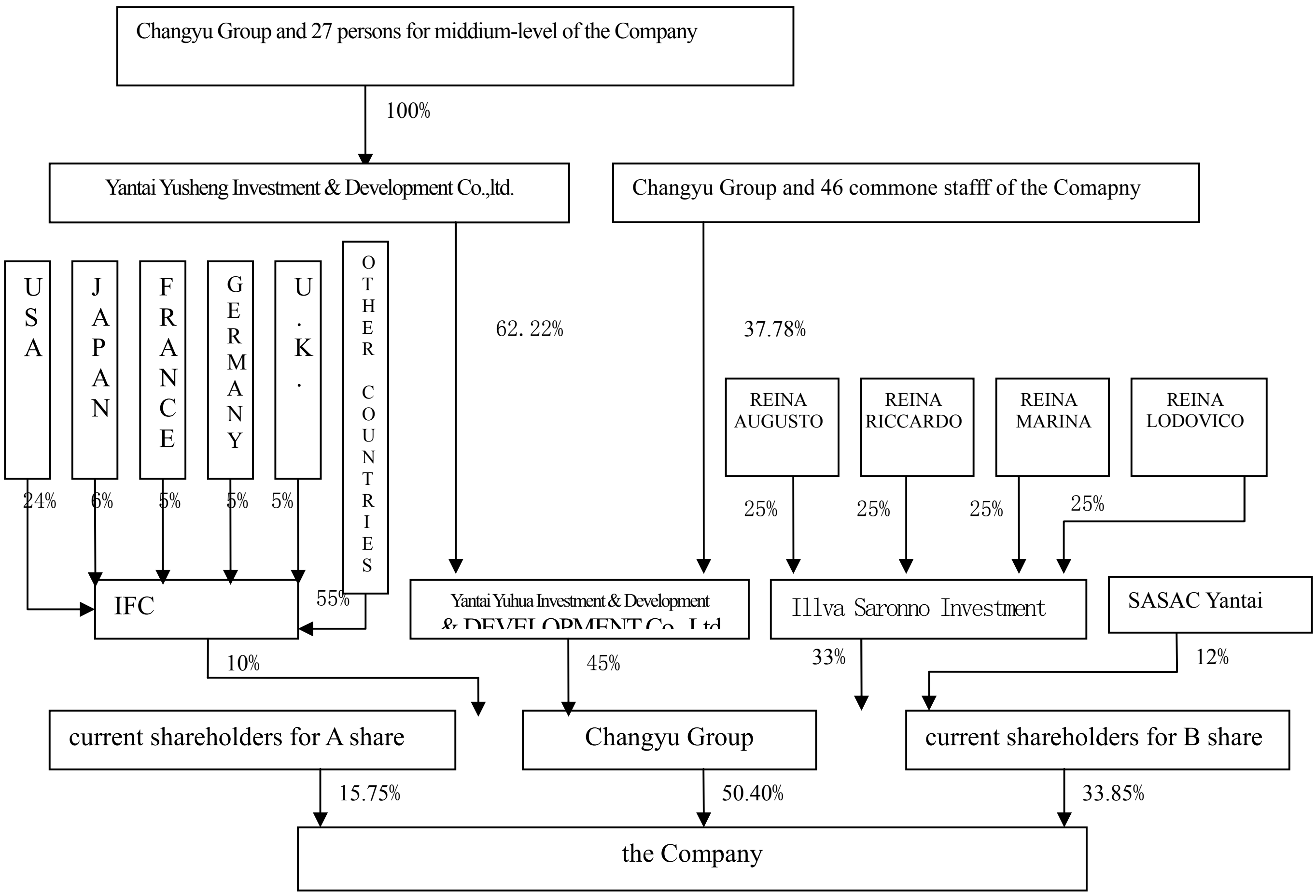
1) Legal holding shareholder
Name of the legal holding shareholder: Yantai Changyu Group Company Limited (hereafter called Changyu Group).
Legal representative: Mr. Sun Liqiang
Registered capital: CNY 50 million
Establishment date: April 27^{th}, 1997
Business scope: wine, healthy liquor, distillating liquor, drinks, production, distribution, the plant of primary products and the import & export business under permission.

2) Legal actual controllers
Changyu Group is actually controlled by four parties: Yantai Yuhua Investment & Development Co., Ltd, ILLVA Saronno Investment Italy, International Finance Corporation and State-owned Assets Supervision and Administration Commission of Yantai Municipal Government (hereafter called SASAC Yantai). The situation of the four parties is as following:
① Name of the legal holding shareholder: Yantai Yuhua Investment & Development Co. Ltd

Legal representative: Mr. Jiang Yongsheng
Registered capital: CNY 387,995,100
Establishment date: October 28th, 2004
Business scope: Under state permission, property investment, tenancy of machine and facility, wholesale and retail of construction material, chemical products (chemical hazard products excluded), hardware, and electronical products , grape plant.
The holding shareholder of Yantai Yuhua Investment & Development Co. Ltd. is Yantai Yusheng Investment & Development Co. Ltd., which was established on October 27th 2004 with legal representative Mr. Li Jianjun, registered capital CNY 67.333 million and business scope of property investment under the state permission.
② Name of the legal holding shareholder: ILLVA Saronno Investment Italy
Legal representative: Mr. Augusto Reina
Registered capital: EUR 5,160,000
Establishment date: January 24th, 2005 (its name is changed from ARCHIMEDE SRL)
Business scope: The company's operating scope includes receiving the investments and dividends that Italian or overseas businesses provide or distributed to other companies; controlling the use of and dealing with and buying or selling and disposing the corporate stocks, public stocks and individual stocks; providing capital and technical coordination to the company's joint ventures and performing the duties of a controlling party; engaging in the activities in terms of providing financial assistance, technical and R&D and occupational training, shareholding affairs, organizing the storage of raw materials and warehousing of final products upon the precondition that it is helpful for the joint ventures and in order to realize the final operation goals; production and sales of food products, alcoholic and nonalcoholic products as well as any other related industrial, commercial, financial and tertiary activities via subsidiary companies and joint ventures or directly by itself; conducting business activities in the fields of acid food and agriculture.
③ Name of the legal holding shareholder: International Finance Corporation
Registered address: 2121 Pennsyvania Avenue, N.W. Washington DC 20433, USA
Registered capital: USD 2.36 billion
Registered date: 1956
Business scope: International Finance Corporation is one of the members of World Bank, mainly dedicated to investing in private sectors of developing countries while providing technical support and consultation service. The corporation is a multilateral financial institution that ranks first in the world in terms of providing capital stock and loans to developing countries. Its purpose is to promote sustainable investments of private sectors of developing countries in order to alleviate poverty and improve people's life.
④State-owned Assets Supervision and Administration Commission of Yantai Municipal Government

3) The change for the holding shareholders and the actual controllers
During the report period, there is no any change for the holding shareholders and the actual controllers.

4) Introduction for property right and control relations between the Company and its actual controllers



（3）The other legal shareholders holding over 10% of the Company's share

Except Yantai Changyu Group Company Limited, there are no any other legal shareholders holding 10% or over of the Company's share.

（4）Share holding of top 10 limited stockholders and limitation conditions

Unit: share

No.	Limited Shareholders' name	Limited shares held by them	Date of listing	Newly added tradable shares	Limitation conditions
1	Yantai Changyu Group Co., Ltd	265,749,120	March 25th 2009 March 25th 2010 March 25th 2011	26,364,000 26,364,000 213,021,120	1. From the day of being granted the right of circulation on stock market as March 21st,2006, Changyu Group will not transact or transfer its shareholding in the Company within 36 months 2. Within 12 months as from the day of the expiry of the afore-said promising period, the amount of the former non-circulating stock that Changyu Group may list for transaction at Stock Exchange can't be over 5% of its total and within 24 months after that, can't be over 10% of its total. 3. Changyu Group also promised to propose over the shareholders' meetings 2005, 2006 and 2007 to distribute the Company's profit in cash no less than 65% of the distributable profit realized in the same year and ensure to vote for aye for this proposal.

V. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

1. The basic information of directors, supervisors and senior management

(1)Information for the change of share holding and salary of directors, supervisors and senior management

The salary for the independent directors is paid according to the resolution of Shareholder's meeting. The salary for the Chairman, directors with administration duty, supervisors, managers and other senior management should be paid on basis of the evaluation result according to the *Evaluation and Incentives Scheme for Senior Managemen of the Company* which is passed during the Board of Director's meeting.

NAME	POST	SEX	AGE	Term for Post	Shares hold at the beginning of the year	Shares hold at the ends of the year	Reason for change	Total Salary drew from the company during the report period	Whether or not draw the salary from shareholder's company and other related company
Sun Liqiang	Chairman to the Board of Directors	M	62	2006.12.07—2009.12.06	0	0	---	99.88	NO
Zhou Hongjiang	Vice-chairman to the Board of Directors and general manager	M	45	2006.12.07—2009.12.06	0	0	---	98.23	NO
Leng Bin	Director and vice-general manager	M	47	2006.12.07—2009.12.06	0	0	---	71.52	NO
Qu Weimin	Director, Vice-general manager and Secretary to the Board of Directors	M	52	2006.12.07—2009.12.06	0	0	---	67.78	NO
Jiang Jinqiang	Director	M	37	2006.12.07—2009.12.06	0	0	---	0	NO
Augusto Reina	Director	M	69	2006.12.07—2009.12.06	0	0	---	0	NO
Aldino Marzorati	Director	M	57	2006.12.07—2009.12.06	0	0	---	0	NO
Antonio Appignani	Director	M	71	2006.12.07—2009.12.06	0	0	---	0	NO
Jean Paul Pinard	Director	M	60	2006.12.07—2009.12.06	0	0	---	0	NO
Geng Zhaolin	Independent Director	M	67	2006.12.07—2009.12.06	0	0	---	5	NO
Ju Guoyu	Independent Director	M	63	2006.12.07—2009.12.06	0	0	-----	5	NO
Wang Shigang	Independent Director	M	44	2006.12.07—2009.12.06	0	0	---	5	NO
Wang Zhuquan	Independent Director	M	45	2007.09.07—2009.12.06	0	0	--	5	
Fu Mingzhi	Chairman for the Board of supervisors	M	56	2006.04.27—2009.04.28	0	0	---	70.83	NO
Zhang Hongxia	supervisor	F	53	2006.04.27—2009.04.28	0	0	---	50.16	NO
Lian Zhendian	Supervisor	M	41	2006.04.27—	0	0	---	0	NO

				2009.04.28					
Yang Ming	Vice-general manager	M	51	---	0	0	---	68. 49	NO
Li Jiming	Chief Engineer	M	43	---	0	0	---	69. 81	NO
Jiang Hua	Vice-general manager	M	46	---	0	0	---	67. 43	NO
Sun Jian	Vice-general manager	M	43	---	0	0	---	66. 80	NO
Jiang Jianxun	Fianance manager	M	43	---	0	0	---	46. 41	NO
Total					0	0	---	797.54	---

(2) Information of directors, supervisors who hold posts in shareholder' s Company

Name	Name of shareholder	Post in shareholder's company	Term for the post	Paid by shareholder's company or not
Sun Liqiang	Yantai Changyu Group Company LTD	Chairman of the Board of Directors and general manager	2009.10.28—2013.10.27	No
Zhong Hongjiang	Yantai Changyu Group Company LTD	Vice chairman of the Board of Directors	2009.10.28—2013.10.27	No
Fu Mingzhi	Yantai Changyu Group Company LTD	Director and vice general manager	2009.10.28—2013.10.27	No
Leng Bin	Yantai Changyu Group Company LTD	Director	2009.10.28—2013.10.27	No
Augusto Reina	Yantai Changyu Group Company LTD	Director	2009.10.28—2013.10.27	No
Aldino Marzorati	Yantai Changyu Group Company LTD	Director	2009.10.28—2013.10.27	No
Antonio Appignani	Yantai Changyu Group Company LTD	Director	2009.10.28—2013.10.27	No
Jean Paul Pinard	Yantai Changyu Group Company LTD	Director	2009.10.28—2013.10.27	No
Zhang Hongxia	Yantai Changyu Group Company LTD	Chief of audit department	-	No

2. Principal Working Experiences of Incumbent Directors, Supervisors and Senior Managers

(1) Members of the Board of Directors

Mr. Sun Liqiang, Chairman, is a college graduate and senior economist. Now he is the representative of Eleventh National People's Congress, Chairman and General manager of Changyu Group. He began serving as chairman of the Company on September 18, 1997 and has held the position ever since.

Mr. Zhou Hongjiang, is a mastership graduate and senior engineer. He began serving as general manager of the Company on December 28, 2001 and as Director, Vice Chairman and General Manager of the Company on May 20, 2002.

Mr. Leng Bin, Director, is a postgraduate and senior accountant and now is the Director of Changyu Group. He began serving as a director of the Company on June 15, 2000.

Mr. Qu Weimin, holds a bachelor of engineering and is a senior economist. He began serving as Director, Deputy General Manager and concurrently as Secretary of the board of directors of the Company on September 18, 1997.

Mr. Jiang Jinqiang, is a university graduate, holds the qualifications of registered accountant and valuator, now is the full-time supervisor of SASAC Yantai and the director of Changyu Group. He began serving as a director of the Company on April 27, 2006.

Mr. Augusto Reina is serving as chief executive officer of several companies including Illva Saronno Holding SpA and Illva Saronno Investment SRL, member of the board of directors of

Barberini Spa, director of Federvini (Italian Alcohols Production and Export Association), director of Istituto Del Liquore (Wine Research Institute) , director of Assovini (Sicily Viniculture and Wine Production Association) and director of Changyu Group. He has been director of this company since April 27th , 2006.
Mr. Aldino Marzorati, a university graduate, is general manager of Illva Saronno Holding SpA and director of the board of directors of some branches under the group company and the director of Changyu Group. He has been director of this company since April 27th , 2006.
Mr. Antonio Appignani, a university graduate, is vice chairman of Italian Business Consultation Committee, chief of Professional Ethics Committee, teacher of vocational training course of Industrial and Commercial Consultation Committee, member of Economic and Commercial Committee of the public university "G. D Annunzio" and concurrently serving as member of the board of directors of different companies and member of the board of directors of several companies under Illva Group and the director of Changyu Group. He has been director of this company since April 27th, 2006.
Mr. Jean-Paul Pinard, a doctor in economics and finance, began to serve as director of the Bureau of Agriculture of International Finance Corporation under World Bank from 2001, and retired in 2007, now is the director of Changyu Group. He has been director of this company since December 7th, 2006.
Mr. Geng Zhaolin, is a postgraduate and senior engineer. He previously served as Vice Director of the China Foods Standardization Technology Committee, executive director of China Foods Technology Institute, counselor of China Association of Wine Industry. He began serving as an independent director of the Company on May 20, 2002.
Mr. Ju Guoyu, is a professor and doctorate tutor. He previously served as President of Economic Institute of Peking University and Vice President of the Economic Society of Beijing Municipality, independent director of Tibet Jin Zhu Co., Ltd and Guangdong Guanhao Scientific Technology Co., Ltd. He began serving as independent director of the Company on September 24, 2003.
Mr. Wang Shigang, holds an MBA and is a Senior Accountant. He previously served as Vice Chairman and Vice General Manager of Shandong Hengyuan Certified Public Accountants Firm, director of Jinan Branch of said firm, independent director of Shandong Dongyuen Chemical Industry Co.,Ltd. He began serving as independent director of the Company on May 20, 2002.
Mr. Wang Zhuquan, is the doctor for administration (accountancy), holds the qualifications of registered accountant and valuator, now is the professor, master and Phd Supervisor, vice dean of Administration Institute, dean of Accountancy Department under Ocean University of China. He began serving as independent director of the Company on September 7, 2007.

(2) Members of the Board of Supervisors
Mr. Fu Mingzhi, is a university graduate and senior economist. Currently he is the Director and Deputy General Manager of Changyu Group. He began serving as a Chairman to Board of Supervisors of the Company on April 27th, 2006.
Ms. Zhang Hongxia, is a college graduate and senior accountant. She is presently Director of the Auditing Office of Changyu Group. She began serving as supervisor of the Company on September 18, 1997.
Mr. Lian Zhendian, a postgraduate and senior accountant, is section chief of the Developing and Planning Commission of Yantai City, supervisor of the board of supervisors of Yantai Non-ferrous Metal Group Co., Ltd., Yantai Administrative and Institutional Affairs Company and Yantai Commercial Materials Holding Co., Ltd.. He has been supervisor of this company since April 27th , 2006.

(3) Other senior managers
Mr. Yang Ming, is a university graduate and applied researcher. He began serving as Deputy General Manager of the Company on August 12, 1998.
Mr. Li Jiming, is a doctoratoral graduate and applied researcher. He began serving as Chief Engineer of the Company on September 14, 2001.

Mr. Jiang Hua, is a postgraduate and engineer. He began serving as Deputy General Manager of the Company on September 14, 2001.
Mr. Sun Jian, holds an MBA and is an assistant engineer. He began serving as Deputy General Manager of the Company on March 22, 2006.
Mr. Jiang Jianxun, holds an MBA and is an accredited accountant. He began serving as Financial Manager of the Company on May 20, 2002.

3.Change of Directors, Supervisors and Senior Management

During the report period, it is reviewed and proved by the 15th meeting of Board of Directors that Mr. Wang Gongtang resigned the technique consultant because of the old age.Apart from this, there is no any change for the directors, supervisors and senior management.

4. Staff of the Company

As to December 31st 2009, the total registered staff number of the Company (including the headquarter and main controlling subsidiary company) was 3,856, including 968 production workers, 2,357 sales persons, 108 technicians, 75 financial members, 181 administrative persons. Among the staff members, 969 persons were university graduates, which is 25.13% of the total employees, 1,654 persons were college graduates, which is 42.89% of the total employees, 539 persons were Senior middle school graduates, which is 13.98% of the total employees, and 694 persons were graduated below senior middle school, which is 18.00% of the total employees.
All the retired staff's expenses were paid by social security system, not by the Company.

VI. CORPORATE GOVERNANCE STRUCTURE

1. Current Corporate Governance Situation of the Company

The Company has, according to relevant national laws and rules including the "*Company Law of the People's Republic of China*", "*Securities Law of the People's Republic of China*" , "*Guidelines on Listed Companies Internal Control*", "*Listing Guidelines at Shenzhen Stock Exchange*" and also other laws and rules issued by CSRC and Shenzhen Stock Exchange, established *Articles of Associations* and other internal governance regulations, improved its legal entity structure and internal management rules and legally conducted its activities. The Company's governance structure is in accord with requirements of relevant regulatory documents on listing company's governance issued by CSRC.
(1) About shareholders and shareholders' meeting
The Company convened the shareholders' meetings in strict accordance with regulations and rules of *Deliberation Rules of Shareholders' Meeting*, and ensured all shareholders especially small and medium shareholders to enjoy same equity and well exercised their rights.
(2) about the Company and holding shareholder
The Company has independent power on business and self-management, and also be independent of its holding shareholder on business, staff, assets, organization and finance, the Board of Directors, Board of Supervisors and also internal organizations operated independently in the Company. The holding shareholder of the Company could regulate its activities,
no other behavior was found that surpassed the shareholders' meeting to directly or indirectly interfere with the decision-making and business activities of the Company.
(3) about the director and board of directors
The Company strictly elected all directors in light of *Articles of Associations*. At present, the Company has four independent directors accouting for one third of all directors, and the number and composition of board of directors was basically in accord with requirements of regulations and also *Articles and Associations*. All directors of the Company could work in the light of regualtions including *Rules of Board of Directors'Procedure* and *Working Rules for Independent Directors*, punctually attended board of directors' and shareholders' meetings, actively took part in relevant knowledge training and knew very well about the laws and regulations concerned.
(4) about supervisor and board of supervisors
The Company strictly elected all supervisors in light of *Company Laws* and *Articles of Associations*. At present, board of supervisors has three people among which one supervisor is representative for

staff, the number and composition of board of supervisor was in accord with requirements of regulations and rules. All supervisors of the Company could follow the requirement of *Rules of Board of Supervisors' Procedure*, seriously perform their duties, effectively supervise and present their independent opinion on important issues, interrelated deals, financial status, the duty performance of directors and managers of the Company.

(5) about performance evaluation and incentive system

The Company has established and gradually improved fair and transparent performance evaluation standard and incentive system for directors, supervisors and senior managers, the engagement of managers was open and transparent, and accorded with laws and regualtions.

(6) about the party with relevant benefit

The Company fully respected and safeguarded the legal rights of the party with relevant benefit, so as to try to realize harmony and balance on benefit among society, shareholders, company and staff, and jointly drive the company to develop continually and stably.

(7) about the information disclosure and transparency

The Company has appointed the secretary to Board of Directors to be responsible for investor relation management including information disclosure, investor relations management and reception of shareholders' visit and consultation. The Company has also assigned *China Securities Newspaper*, *Securities Times*, *Hongkong Commercial Daily* and web site http://www.cninfo.com.cn/ to disclose information, punctually, accurately and truly disclosed any information in the light of requirement of relevant laws and rules, and also ensured all shareholders to have same opportunity to acquire any information.

2. The Duty Performance of President, Independent Directors and Other Directors

During the report period, all directors of the Company performed their duties and abided by the directors' conduct standard in accordance with the *Company Law* and *Articles of Associations*, followed relevant requirements of *Rules of Board of Directors' Procedure* when voting during board of directors' meetings and made any decision in prudent way, so as to protect the interests of the Company and all investors also.

The president seriously abided by *Company Law* and *Articles of Associations*, promoted the development of board of directors, made any decision on significant business issues in accord with group decision making system of board of directors, actively drove the establishment and improvement of internal control system and eusured the Company to run canonically, in the same time, ensured the right of independent directors and secretary to board of directors to know any important issue, seriously studied relevant laws and regualtions and strengthened the awareness of duty performance according to law.

The Company has four independent directors now, among which two people are accounting professionals. During the report period, all independents could perform their duties in accordance with *Articles of Associations*, *Working Rules for Independent Directors* and other relevant laws and rules, attended the board of directors' meetings in serious and responsible attitude, attended to their duties without any reservation, studied the Company's whole operation status in detail, investigated the site of construction projects and operation area to direct the work, earnestly deliberated all proposals, objectively expressed their ideas and views, made independent and candid judgement according to their professional knowledge, issued their independent opinions on significant matters and exerted positive efforts on candid and fair decision-making by board of directors and protecting the benefits of small and medium investors. During report period, all independent directors had no objection to proposals of board of directors and other issues of the Company.

Other directors also strictly obeyed relevant rules, well performed their duties and protected the Company and also shareholders' benefit.

3. Information for Personnel, Assets, Finance, Institution and Business Associated with Holding Shareholders

(1) Personnel arrangement: the Company's general manager, deputy general managers and other senior officers, all of whom were paid by the Company did not hold any post in the controlling parties. The Company was entirely independent in personnel arrangement, conclusion and adjustment of labor contracts thanks to its sound system in this regard.

(2) Assets: Tangible assets and Intangible assets including trademark, industrial property right and non-patent technologies were all clearly divided between the Company and the controlling shareholder, and all legal formalities were completed. The Company being a legal independent entity consistently conducted business activities legally and provided no guarantee in any form with its assets for its shareholders or individuals' liabilities or any other legal persons or natural persons. However, due to some issues from the past, the Company's assets are as yet incomplete. The intangible assets such as trademark ownership and land title still held by the controlling shareholders, and the Company will actively negotiate with the controlling shareholder to rectify those long-standing problems step by step upon the precondition of no infringement on the Company and shareholders' interests.

(3) Finance: the Company has independent finance department, chief account and financial staff, and also standardized accounting system. The Company has also established its own bank accounts, duly and legally paying taxes, workers insurance fund. None of the financial individuals holds concurrent posts in associated companies.

(4) Offices: the Company has set up a sound organizational framework, in which the Board of Directors and Board of Supervisors operate independently. No superior and subordinate relationship exists between the Company and the functional departments of the controlling shareholder.

(5) Operations : the operations of the Company are independent of the controlling shareholder, the Company owns itself completely independent systems covering research and development, accounting, workforce and labor, quality control, raw materials purchase, production and sales, and is possessed of self-run capabilities, and has neither relationship with the controlling shareholder in terms of supply and sales by proxy nor competition with the other.

4. Formulation and Improvement of Internal Control Rules

During the report period, the Company drew up and revised various internal control rules in the light of management demand. After repeated revision and amendment, the Company worked out numerous workable internal control rules in terms of production and sales, financial management and information disclosure and so on, and effectively implemented the new rules in its routine operations. so as to ensure strong supports to the Company's sustainable and repid development, efficaciously preventing gross fault or misconducts and lowering the Company's operation risks. Please read the detailed information in *Self Evaluation Report on Internal Control.*

5. Performance Evaluation and Incentive to Senior Management

The Company has already established a system for evaluation of achievement of senior management and the related incentive system, which linked the reward with the Company's benefit, and personal achievement. The Emolument Committee under Board of Directors assumed the responsibility of stipulating the policy and appraising the scheme for salaries and rewards. Based on the production and business goals, this committee examined senior personnel according to their management achievement and index, and took these as basis for awards or penalties.

VII. BRIEF INTRODUCTION TO THE SHAREHOLDERS' MEETING

One shareholders' meeting was convened by the Company during the report period. The 2008 shareholders' meeting was held on April 30th , 2009 in the meeting room of the Company's Wine Culture Museum. The meeting notice was published in "*China Securities Newspaper*", "*Securities Times*" in the PRC and "*Hong Kong Commercial Daily*" on April 10th, 2009.

VIII. BOARD OF DIRECTOR'S REPORT

1. Discussion and Analysis of Management Team

(1) The review of operations during the report period

① General information of operations during the report period

During the report period, due to continual impact from world economic crisis, the comsuption capability was restrained to a certain extent in the country, it also gave great pressure on continual and fast development of wine industry in China. Facing such complicated situation outside, the Company insisted on keeping the market as core target, timely updated the operation strategy, thus made remarkable achievements, and futher confirmed the leading position of the Company in China wine industry. Following are the change and relative reasons concerning principal sales, principal profit and net profit of the Company during the report period:

Unit: CNY

Item	2009	2008	More or less than last year(%)
Principal sales	4,199,403,351	3,453,442,314	21.60
Principal profit	1,472,056,684	1,176,456,406	25.13
Net profit attributed to shareholders of listing company	1,127,328,843	894,620,794	26.01

Remark to the main factors causing major changes: the increase of principal sales is contributed by the sales revenue increase due to strong market demand during the report period, and the principal profit increase is caused by fast increase of principal sales, while the net profit attributed to shareholders of listed company is contributed by increase of principal profit and non-principal income.

②The principal business and its operation

a. Principal business achievements assorted by products and trade type

Unit: CNY’0000

Product	Principal Sales	Principal Cost	Gross Profit Ratio %	More or less than last year of the principal sales %	More or less than last year of the principal cost %	More or less than last year of the gross profit ratio
Wine & alcoholic beverage	413,590	117,063	71.70%	21.07%	15.45%	↑1.38%
Total	413,590	117,063	71.70%	21.07%	15.45%	↑1.38%
by product						
Wine	339,000	88,237	73.97%	23.64%	14.64%	↑2.04%
Brandy	58,141	22,608	61.12%	10.58%	21.05%	↓3.36%
Healthy Liquor	3,187	1,441	54.78%	7.45%	-3.74%	↑5.24%
Sparkling Wine	13,262	4,777	63.98%	11.70%	12.35%	↓0.20%
Total	413,590	117,063	71.70%	21.07%	15.45%	↑1.38%
Related party transaction	845	-	-	-	-	not applicable

b. Principal business achievements assorted by territory distribution

Unit：CNY’0000

District	Principal Sales	More or less than last year of the principal sales %
The coastal region	358,336	21.36
The middle region	42,066	22.38
The western region	19,538	24.41
Total	419,940	21.60

c. Business situations of key products taking over 10% of the Company’s sales

The sales of wine and brandy took 10% or more of the Company’s principal business, and the sales revenue, sale cost and gross profit ratio were set below:

Unit: CNY’0000

Product Name	Sales	Sale Cost	Gross Profit Ratio (%)
Wine	339,000	88,237	73.97%
Brandy	58,141	22,608	61.12%

During the report period, the Company’s principal business and its structure did not change a lot compared with that of the last year.

d. Major suppliers and clients

Unit：CNY'0000

Total purchases from the top 5 suppliers	13,384	Proportion of all purchases	15.68%
Total products sold to the top 5 clients	15,885	Proportion of all products sold	3.78%

③The Company's asset compositions and changes of financial data

Unit: CNY'0000

Entry	December 31, 2009		December 31, 2008		Increase or decrease of proportion in total assets
	Amount	Proportion in total assets (%)	Amount	Proportion in total assets (%)	
Account receivable	98,022,443	1.83	8,234	2.03	-0.20%
Inventory	1,131,240,892	21.09	99,794	24.57	-3.48%
Investable realty	0	0	0	0	0
Long-term investment	1,000	0.19	1,000	0.25	-0.06%
Fixed assets	99,679	18.58	72,823	17.93	0.65%
Unfinished project	10,937	2.04	15,449	3.80	-1.76%
Short-term loans	22,450	4.19	0	0	4.19%
Long-term loans	1,050	0.20	0	0	0.20%
Entry	Amount for this year		Amount for last year		Increased or decreased amount %
Operating cost	109,367		86,979		25.74%
Overheads	22,005		19,424		13.29%
Finance cost	3,023		3,536		-14.51%
Income tax	36,327		28,874		25.81%

Remark to the main factors causing major changes:

a) The operating cost is increased due to enlargement of business scope, gradual increase of sales volume, also the increase of advertisement expenditure, frieight and total rewards to sales staff.

b) The overheads increase is mainly attributed to the depreciation growing in 2009 and also stuff's warefare increase.

c) The finance cost decrease is due to less interest income from bank deposit.

d) The income tax grew from the increase of total profit.

③ Relevant changes of the Company's cash flow during report period

Unit: CNY

Entry	Amount this year	Amount last year	Increased or decreased amount %
Cash flow generated from operating activities			
Subtotal of cash inflow	5,710,668,307	4,950,074,416	15.37%
Subtotal of cash outflow	4,351,080,792	3,699,027,886	17.63%
Net cash flow generated from operating activities	1,359,587,515	1,251,046,530	8.68%
Cash flow generated from investment activities			
Subtotal of cash inflow	516,214,080	40,792,997	1165.45%
Subtotal of cash outflow	266,708,426	775,791,436	-65.62%
Net cash flow generated from investment activities	249,505,654	-734,998,439	133.95%
Cash flow generated from capital-raising activities			
Subtotal of cash inflow	230,000,000	150,000	153233.33%
Subtotal of cash outflow	633,136,613	580,008,000	9.16%
Net cash flow generated from capital-raising activities	-403,136,613	-579,858,000	30.48%

Remark to the main factors causing major changes:

a)The great change on cash flow from operating activities is caused by large increase of cash inflow, cash outflow and net cash flow from operating activities mainly due to better operation achievements and enlargement on business scope during the report period.

b) The great change on cash flow from investment is caused by large addition on cash outflow from investment activities and decrease of cash outflow due to the reduction of time deposit over three months during report period.

c) The great change on cash flow from capital-raising activities is due to the Company's performance of 2008 profit distribution plan during the report period, while CNY633.137 million as cash dividends was distributed to all shareholders, more than that of last year, and also the new long-term loan and short-term loan happened in report period.

⑤ Utilization of the Company's equipment, market and flow of technicians

During the report period, the Company's equipment was maintained in good running condition, production ran smoothly, equipment availability kept high, and no production accidents took place. By means of scientific planning and meticulous scheduling, the Company not only ensured stable production but also met market needs and with neither overstocking of products nor serious shortage of supply. There was no change of technicians and backups, thus no impact on the Company's operations and management.

⑥ The operations and analysis of major holding and sharing company

Unit: CNY'0000

Company Name	Sharing Ratio	Business Scope	Major Products or Services	Registered Capital	Total Assets	Net Assets	Net Profit
Yantai Changyu-Castle Wine Chateau Co. LTD.	70%	To research, produce and sell wine and sparkling wine	Dry red wine, dry white wine and sparking wine of Changyu-Castle	USD5 million	16,800	11,184	6,349
Longfang Castel-Changyu Wine Co. LTD.	49%	To produce and sell wine	Dry red wine, Dry white wine	USD3 million	4,650	3,665	618
Yantai Kylin Packaging Co. LTD.	50%	To produce and sell packaging material	Cork, aluminum cap, PVC capsule and so on.	USD1.4 million	6,755	4,575	854
Chateau Changyu AFIP Global	70%	To research, produce and sell brandy and wine	Brandy, premium dry red wine and white wine	11,000	13,801	9,611	1,273
Chateau Liaoning Changyu Ice Wine Co., Ltd.	51%	To produce ice wine	Ice wine	2,630	9,051	3,159	140
Xinjiang Tianzhu Winery Co., Ltd.	60%	To plant grape, produce and sell grape juice, bulk wine and fruit wine	Grape and bulk wine	3000	17,774	10,743	142

During report period, the net profit from Yantai Changyu-Castel Chateau and Langfang Castel Changyu Wine Co., Ltd decreased by 37% and 53% respectively compared with last year, mainly due to the reducing on two companies' internal settlement price by the Company, the net profit from Chateau Changyu AFIP Global was 154% up thanks to its sales volume increase.

⑦ Specific subject under control of the Company

During the report period, the Company neither had any specific subject under its control nor needed to report related data in a consolidated statement because of existence of a specific subject.

(2) Looking forward to the Company's Development

① As the impact from world economic crisis is gradually fading on China economy, the macro-economy will turn into normal increasing period in China, and Chinese capability and confidence on consumption will be uplifted following the gradually performance of state policies to increase people's earning and enlarge the domestic consumption demand, the more attention to health and continual pursuing on fation by people, especially the growing consumption group over middle class to whom drinking wine has affected or is affecting their life style and could give powerful demonstration and driving effect on surrounding people, and then become the driving force to enlarge China wine market scale and further increase the consumption for high quality wine, all that will offer the Company good opportunity to enhance sales volume for wine. But, due to entry of more foreign wines to Chinese market, the import quantity and variety might grow greatly for those wines, and also for the expansion of domestice competitors, the competition will be still very intense in China wine market, which will bring more difficulty on market development and increase the market exploitation cost, yet the competition situation might go on in short period as few big brands still act the leading role in market such as Changyu, Greatwall and Dynasty etc, and the trend for continual enlargement and fast development for whole scope of China wine market will not be changed in medium and long term.

Confronting the above disadvantageous situation, the Board of Directors, the Board of Supervisors and entire top management will consistently act in a diligent, conscientious, realistic and surefooted manner to do their utmost to fulfill all budgetary targets and create more value for the shareholders.

② The Company's development strategy and marketing plan

Acknowledging the current situation and considering the Company's expectations for great potential for middle to long-term development of China's wine market, the Company will stick to its strategies of setting wine as its core product while developing various categories; setting middle-range and high-end products as first priority while developing all products at different levels, continue to carry on the differentiation policy as market subdivision and sales by category, optimize the products structures and sales channels, gradual increase the sales proportion of middle-range and high-end products, and balance the development of all category, so as to improve the Company's profit making abilities in a sustainable steady way, and then further increase the market share.

The Company anticipates a turnover not less than CNY 4.8 billion in 2010 and plans to hold the main operating cost and other three period costs under CNY 2.5 billion. To realize the abovementioned goals, the Company will mainly take the following measures:

First, the Company will continue its market focus, with increased financial support to promotion and market penetration, strengthening marketing management and enhancing the Company's marketing level. The Company will further classify the category, variety, channel and consumption group, launch different marketing strategy, further improve marketing subdivision, carry on sales by category, further strengthen the management, training and examining for marketing personals and distributor team so as to improve the positivity and working ability of marketing team, rationalize the relation among different brands, improve the comprehensive influence power of brand, intensify price control, strictly eliminate counterfeit products and hazardous transshipments, so as to preserve and protect market order.

Second, to properly increase capital input, add new vineyard base for premium grapes, accelerate the construction of new wineries and chateaux in Shanxi, Ningxia and Xiangjia provinces, improve the production and operation facilities, actively push the preparatory investigating, proving and programming of investment projects for medium to long term, and further improve product quality and production capability so as to lay good foundation for the Company's medium to long term development.

Third, to strengthen the financial and auditing management, intensify the operation crisis control, effectively push energy saving and consumption reducing, advance the operation quality and profits. The Company will improve financial accounting and examining system, revise and improve the punishment system for economic loss, intensify all expenditure and cost control, establish the managing and monitoring system on advertisement input by category, improve financial informatization level, further enhance the working efficiency and financial analysis level for financial department, strengthen the auditing and monitoring on investment projects and subsidiaries in other places, intensify the special auditing on account receivable, non-performing assets, controllable cost and assets occupation by subsidiaries, set up checking and examining system for advertisement, strengthen the security trainning so as to ensure no safety accident happens, severely perform the supervision and management on abnormal energy consumption, adopt advanced equipments and technolody to try to reduce correspondingly the energy consumption per CNY10000 of production value by 8% in 2010 .

Fourth, to improve the management and construction on vineyard base, complete well the purchase on raw meterials such as grape in 2010, so as to ensure the good and enough grape supply with proper varieties and fair price, therefore lay the solid foundation for the Company to fulfill its strategy.

③ The Company's capital demand and investment plan

In 2010, the total capital expenditure plan is CNY 517.33million in construction of five projects including the purchase of new oak barrels, purchase of 60ha. land and construction of production base for high quality wine in Shihezi City of Xinjiang province, purchase of offices for sales companies, renting 600mus land to expand production of Chateau Changyu AFIP Global and construction of new chateau in Xianyang city of Shanxi province.

All above projects will be supported by the Company's own capital.

④ Potential risks and countermeasures

a) Risks of fluctuation of raw material prices

Grapes are the main raw materials for the Company to produce wine. The yield and quality of grapes are closely related to several natural factors such as drought, rains, snow and frost, which will create impacts on the quantity and price of grapes purchsed by the Company and cause the Company's production achievement even more unpredictable. Therefore, the Company will optimize the allocation of vineyards to lower the risks of grape price by developing new vineyards in Ningxia and Xinjiang as well as extending the area of company vineyards.

b) Risks of input-output ratio uncertainties

Under the circumstances of intensified market competition and needing to meet demands for market penetration, the Company has to invest more and more in marketing, thus led to high proportion covered by operating cost in principle sales, the input-output ratio will greatly affect the Company's achievement, so that some investments may not yield predicted returns, espetially because the impact from world economic crisis is not disappeared to China conomy yet, the unpredictable factors of people's consumption capability will then increase and thus generate more market input-output ratio uncertainty. Therefore, the Company will try to enhance the accuracy of market forecasting through intensified market surveys and analysis, and continue to improve its input-output assessment system to ensure that investment can reach the predicted goals.

c) Risks in product transport

The Company's products are fragile yet need to be distributed at home and abroad mainly by sea, railway and highway. Seasonal conditions during peak sales seasons of Spring Festival must contend with potentially deficient domestic transport capability due to high transportation demands between passengers and cargo, and also some natural & unnatural factors such as strong wind, snow, frost and traffic accident etc, which may result in goods not being transported to the markets on time. To overcome such disadvantages, the Company will make its efforts to lower those risks through more effective sales prediction linking production to sales, arranging production and transport strategically, and increasing inventories in the distant markets before the peak sales season.

d) risks in investment blunder

According to the scheme, the Company will launch more investment projects in future years, while the investment amount is big and part projects will have long construction period. Although the decision-makers of the Company fulfilled complete demonstration and made the decision scientifically in strict accordance with relevant regulations of the Company, few projects might need to increase more investment amount or can not realize the expected revenue due to different uncertainties.

2. Investment of the Company

(1) The Uses of the Proceeds Collected in the Report Period

The Company made a public offering of 32 million A Shares for capital increase in October of 2000, and received net proceeds of CNY 613.46 million. By end of report period, the Company actually invested all proceeds in same projects as disclosed in the Prospectus, and there is no any change on imvestment project.

Except those projects for improvement of intermediate procedures on production and sales which were difficult to rationally confirm the benefit, other productive projects all made good benefits.

(2) Projects invested with non-raised capital

During the report period, the Company totally invested self-possessed capital CNY193.21million in

the following four projects:
First, the construction of Changyu Ningxia wnery. During the report period, CNY 85.79million was totally invested, all main works were finished to ensure the fermentation capability for bulk wine of 20000tons and put into production in August 2009. During the report period, the Company has totally processed 4560tons grapes.
Second, the renovation on productie power and the construction of fermentation capability for Changyu (Jingyang) Wine Co,Ltd. CNY20.54 million has been input for this project to complete the land requisition of 70mus, renovation on 8000tons productive power and adding 3000tons fermentation capability.
Third, the purchase of working offices for sales companies. During the report period, the Company has invested CNY8.13million and completed the purchase and decoration of working offices in Shanghai, Suzhou and Haikou.
Fourth, the construction of Changyu AFIP Beijing. During the report period, the Company input CNY78.75million in the proportion of investment, and the accumulative investment is CNY415million up to now, all the main works have been finished and put into production. During the report period, the Company realized the sales of AFIP products of 236tons, sales volume of CNY115.43million, 145.83% and 274.04% up respectively compared with last year.

3. Audits and Changes of Accounting Policies
(1) Audits information
Ernest & Yong Hua Ming audited the Company's 2009 financial statement and accordingly compiled a standard auditing report with unreserved audit advice.
(2) Changes of accounting policies
Please read the appendix of financial statement of the Company for any change of accounting policy and accounting estimation or alteration of accounting error.

4. Information of Routine Work of the Board of Directors
(1) Meetings and resolutions of the Board of Directors
Four meetings of the Board of Directors were convened during the report period.
①The 15th meeting of the 4th-term Board of Directors was held on April 8th, 2009, the resolution announcement was published in "*China Securities Newspaper*", "*Securities Times*" in the PRC and "*Hong Kong Commercial Daily*" on April 10th, 2009.
②The 16th meeting of the 4th-term Board of Directors was held on April 22nd, 2009, "*The First Quarter Report of 2009*" was deliberated and approved.
③The 17th meeting of the 4th-term Board of Directors was held on August 6th, 2009, the resolution announcement was published in "*China Securities Newspaper*", "*Securities Times*" in the PRC and "*Hong Kong Commercial Daily*" on August 8th, 2009.
④The 18th meeting of the 4th-term Board of Directors was held on October 22nd, 2009, "*The Third Quarter Report of 2009*" was deliberated and approved.
(2) Information on the Board of Directors' execution of the resolutions of shareholders' meetings
① According to the resolution of 2008 Shareholders' meeting, the Board of Directors implemented 2008 profit distribution scheme during the report period, that is, based on the existing 527.28 million shares, the Company distributed CNY 12 for every 10 shares to all of its shareholders (including tax, or CNY10.80 in cash actually after tax deduction for every 10 shares to A Share's individual shareholders and investment fund institutions, the tax is not deducted for B Share's investors temporarily). On May 25th, 2009, the Company published the "*Notice of 2008 Dividend Distribution*" in "*China Securities Newspaper*" and "*Securities Times*" , fixing the date of June 3rd , 2009 as the registration day of Stock A and the last transaction day of Stock B and the date of June 4th, 2009 as the equity and interest calculation day. The Company had finished the profit distribution at the first half of June 2009.
② The Board of Directors of the Company has revised *The Articles of Association* according to the resolutions of 2008 shareholders' meeting.
③ The Board of Directors of the Company has retained Ernest & Yong Hua Ming as the auditor in 2009 according to the resolution of 2008 shareholders' meeting.

④ During the report period, the Board of Directors has performed external investment in accordance with the power limit on decision-making granted by shareholders' meeting, and no violation of exceeding the authority happened.

(3) Summarized report on performance of the auditing committee under the Board of Directors

a) On March 30th, 2009, after the engaged accountants has aired their preliminary opinions, independent directors as the delegate to the auditing committee discussed with the accountants and made out the written comments which read "we compared notes in detail with the certified public accountants firm who was responsible for auditing the Company's annual financial statements and made detailed explanations of the problems found during auditing and the items to be adjusted. The Company has made an adjustments to the items in reference to the certified public accountants's comments. According to the auditing results we learnt from the said accountants and the production and sales reuslts in the year that were reported to us by the Company's managements as well as the progress of important issues, we came to a conclusion at last that we have no objecion to the Company's 2009 financial statements preliminarily determined by Ernst & Young Hua Ming and its preliminary auditing opinions. "

b)The first meeting of auditing committee was convened on April 7th, 2009, on which the auditing committee deliberated and approved "*The Auditng Report 2008'* issued by Ernest & Young Hua Ming, *"The Proposal of Financial Statement 2008", "The Proposal on Profit Distribution Plan of 2008",* "*The Scheme on Renewal of Contract with Certified Public Accounts Firm" and* "*Self Evaluation Report on Internal Control"*, and it was unanimously agreed to submit the abovementined proposals to the 15th meeting of 4th-term Board of Directors for deliberation, and suggested to renew the contract with Ernest & Young Hua Ming as the auditing firm in 2009 with contract period for one year, auditing expenditure for CNY1.5million including travelling fee and all operating cost, and the meeting came to a conclusion as following:

① Ernst & Young Hua Ming provided the audit report with unreserved audit advice for the Company's 2008 financial statement, therefore truly, objectively and accurately reported the Company's financial situation, operation achievement and cash flow status

② During the report period, the Company kept good financial situation and continued its fast development, the overheads and finance cost was well controlled, yet the operating cost increased a lot which should be under proper control.

③ The profit distribution plan proposed by the Company was rational which not only considered the shareholders' interests but also took account of the Company's long-term development under current economy recession.

④The Company's *Self Evaluation Report on Internal Control* objectively reported the current situation about internal control. Thanks to improvement within few years, the Company set up internal control system suitable for its own operation character which was rather efficient and could ensure the Company to effectively perform its policies and achieve its target so as to guarantee the standardized operation, continual and healthy development of the Company, and also pretecting all investors' legal rights.

c) The second meeting of auditing committee was convened on August 6th, 2009, on which the auditing committee deliberated and approved "*The Semi-annual Report of 2009", "The Profit Distribution Plan for First Half of 2009"*, and it was unanimously agreed to submit the abovementined proposals to the 17th meeting of 4th-term Board of Directors for deliberation, and meeting conclusion was made as following:

① The Company's financial statement for first half of 2009 truly, objectively and accurately reported the finance status, operation achievement and cash flow situation.

② It is rational for the Company's profit distribution plan for first half of 2009. And the auditing committee agreed to submit abovementioned proposals to the board of directors for deliberation.

d) The auditing committee held the third meeting on Dec.15th, 2009, communicated with certified public accounts firm on audit arrangement for financial statement of 2009, also deliberated and approved *The Audit Plan for 2009*.

The auditing committee gave full play to its supervision function during the auditing of the

Company’s 2009 financial statements and safeguarded the auditing independency.
(4) Summarized report on performance of the emolument committee under the Board of Directors
The emolument committee under the Board of Directors is responsible for assessment of the performance of the directors and senior managers who get paid by the Company, and examine the pay policy and scheme on the Company’s directors and senior managers.
The emolument committee of the Board of Directors held the first meeting on April 7th, 2009 and deliberated the *“ Proposal on 2008 Assessment Results of the Company’s Senior Officers’ Performance”*.
During the report period, the emolument committee also inspected the paying fulfillment of the directors and senior managers who received their salaries in the Company in 2008. It is believed that the assessment on the salaries of the directors, supervisors and senior managers who get paid by the Company was entirely in accordance with the Company’s economic responsibility system and the salaries disclosed by the Company were in conformity with the actually paid amount.

5. Preliminary plan for profit distribution 2009
According to the audit result from Ernst & Young Hua Ming, the Company’s net profit achieved in 2009 is CNY1,135,985,468, and the net profit attributed to the Company’s shareholders is CNY1,127,328,843 after deducting minor shareholders’ equity.
The following is the distributable profits of the consolidated and parent company in 2009 according to Chinese accounting standard:

Unit:CNY

	Consolidated	Parent company
Distributable profit after tax	1,657,780,929	1,705,057,969
Among which: net profit for 2009	1,127,328,843	1,209,691,757
Distributable profit carried forward from beginning of report period	1,163,188,086	1,128,102,212
Dividends distribution of 2008	(632,736,000)	(632,736,000)

Although the Company has good cash flow and enough capital now, yet taking account of rather large capital expenditure in 2010, the Company will submit the following preliminary plan for profit distribution of 2009 :
The Company will not withfraw legal public reserve fund when launching 2009 profit distribution because the balance of legal public reserve fund has exceeded 50% of the Company’s registered capital. Based on a total of 527.28 million shares of the Company registered on December 31st, 2009, the Company plans to pay CNY1.2 in cash for every share as dividends to all shareholders (including tax, or CNY1.08 in cash actually after tax deduction for every share to A Share’s individual shareholders and investment fund institutions) , totaling CNY 632.736 million, which accounts for 56.13% of total net profit or CNY1,127,328,843 attributed to parent company’s shareholders in consolidated financial statements, and the remaining undistributed priofit of CNY1,025,044,929 will be reserved for next year.
The cash dividends to the shareholders of Stock B will be paid to the beneficiaries’ accounts in HKD at the middle rate of CNY to HKD listed by People’s Bank of China on the first working day after the day when the resolution of shareholders’ meeting 2009 was made.
The above distribution plan will be submitted to 2009 shareholders’ meeting for deliberation.
The information of cash dividend distribution for preceding three years is as following:

Unit: CNY

	Cash dividend amount (income tax included)	Net profit attributed to parent company’s shareholders in consolidated financial statements	Percentage of net profit attributed to parent company’s shareholders in consolidated financial statements
2008	632,736,000.00	894,620,794.00	70.73%
2007	580,008,000.00	635,627,764.00	91.25%
2006	421,824,000.00	394,517,034.00	106.92%

6. Other Disclosed Information

The newspapers for the Company to disclose information remained the same and still are "*China Securities Newspaper*", "*Securities Times*" in PRC and "*Hong Kong Commercial Daily*" at abroad.

IX. BOARD OF SUPERVISORS' REPORT

1. Meetings of the Board of Supervisors

Three meetings of the Board of Supervisors were convened during the report period.

The 14th meeting of the 3rd-term Board of Supervisors was held on April 8th, 2009, four proposals were deliberated and approved including "*Proposal on 2008 Annual Report* ", "*2008 Profit Distribution Scheme* ", "*Self Evaluation Report on Internal Control"*and "*The Working Report of Board of Supervisors 2008* ".

The 15th meeting of the 3rd-term Board of Supervisors was held on April 22nd, 2009, the proposal as "*The Report of First Quarter 2009*" was deliberated and approved.

The 16th meeting of the 3rd-term board of supervisors was held on October 22nd, 2009, the proposal as "*The Report of Third Quarter 2009*" was delibrated and approved.

2. Independent Comments of the Board of Supervisors for Relative Issues 2009

During the report period, the Board of Supervisors of the Company conscientiously performed its duties, was active in its work, attended all meetings of the board of directors as non-voter, well supervised major issues of the Company including the routines and resolutions of shareholders' and Board of Directors' meetings, resolutions execution of shareholders' meeting by board of directors, the operation of all professional committees under board of directos, the duty performance of top management, and carried out a series of supervisory and checking activities in the Company's operations, financial condition, interrelated transactions, external guanrantee, external investment, the use of large own capital and procedures for other important decision-making.The following comments are hereto written out after careful studies:

(1) During the report period, the operation of the Company was completely in accordance with the *Company Law*, *Articles of the Association*, also relevant policies and statutes of state. The decision-making procedure of the Company accorded wih the law, and the Company had established perfect inner management system. During the report period, the directors and senior managerial staff of the Company were honest and dedicated to their work, abided by laws and rules, could conscientiously execute the resolutions of the shareholders' meetings and the decisions of the Board of Directors, followed the national laws, rules and the Company-made regulations while performing their duties, safeguarded the interests of both the Company and all shareholders, and were found no conducts and behaviors against laws, rules, the company-made regulations or of infringements upon the interests of the Company.

(2) The Company's financial management is up to the standards and accounting system is complete. The Company strictly followed the standards and system, and no Company's assets were illegally impropriated or capital was lost. During the report period, the Company's various expenses were reasonable and rational and its reserves accorded with the provisions in law, rules and articles of association. The Company's financial condition was good and asset quality satisfactory and calculation and confirmation of revenues, outlays and profits were true and accurate. Ernest & Yong Huaming conducted audits to the Company's 2009 financial statements and issued an auditing report with standard and unreserved opinion accordingly. The Board of Supervisors believes that the report reflected the Company's financial standing, operating outcomes and cash flow authentically, objectively and accurately.

(3) No conducts of underground deals and infringements upon shareholders' interests or of making the losses of corporate assets were found.

(4) The interrelated transactions occurred during the report period were carried out strictly in the light of the relevant state stipulations and with complete formalities and on the basis of impartial transaction, which were all for the good of the Company and shareholders. The Company had no corporate or private guarantee/ pledge-related contracts.

(5) The Board of Directors and managerial group of the Company fully executed all resolutions of

shareholders' meetings, and made well achievements on operation.

X. Major Issues

1. The Company had no major lawsuit and arbitration over the year

2. The relative issues about bankruptcy and reform

During the report period, the Company had no any bankruptcy and reform activity.

3. The information about holding share equity of other listed company or financial enterprise

During the report period, the Company subscribed new IPO shares and earned the yield of CNY1.556million by selling all alloted IPO shares, except that, the Company does not hold share equity of other listed company, or any financial enterprises including commercial bank, securities company, insurance company, trust company and futures company.

4. Important merger and acquisition, sales of assets

The Company had no merger and acquisition, sales of assets during the report period.

In order to set up stable vineyard base for long term so as to ensure the Company's requirement for material grape within future 5 years or much longer period, approved by the 17th meeting of the 4th-term Board of Directors on August 6th, 2009, the Company invested CNY60million to take over 60% share equity of Xinjiang Tianzhu Wine Co., Ltd in Shihezi city of Xinjiang province by way of capital increae, and fulfilled all legal procedures for the transaction on August 30th, 2009.

5. The performance on share equity incentive scheme

The Company does not constitute or execute any share equity incentive scheme.

6. Significant interrelated deals

1) Interrelated creditor's rights and liabilities

By the end of report period, among the running capital involved between the Company and its controlling shareholder's subsidiary-

Yantai Changyu Tour Co., Ltd, CNY115,000 for wine product sales has not been paid back to the Company. During the report period, neither the controlling party nor its affiliated businesses ever used the Company's capital for non-operating purpose, and there is also no any guarantee activity occurred. The Company did not provided capital to its controlling shareholder and subsidiary companies during the report period. The capital circulations among the Company and its controlling shareholder and subsidiary companies all belong to operating capital flow and the interrelated credits and debts between the Company and its controlling shareholder will not produce any impact on the Company's operating results and financial condition.

2) Read the remark of financial statements "8. Relationship between the Interrelated Parties and Their Deals" for the interrelated deals extended from the previous year(s) to the report period.

7. Major and important contracts and execution results

(1) During the report period, the Company had no guarantee/ pledge-related contracts. It didn't trust, contract or lease the assets of other companies, and vice versa.

(2) Major guarantee

During the report period, the Company neither had any immature guarantee nor provided any guarantee to any units including the subsidiary companies of the Company and individuals.

(3) Financing entrustment

During the report period, the Company established no trusteeship with any party in terms of its monetary capital nor was there entrusted financing extended from the previous years to the report period

8. Issues Promised by the Company

During the report period, the Compny's holding shareholder-Yantai Changyu Group Co., Ltd. made the promise that Group company will issue the suggestive announcement through the Company within two transaction days before the first decreasing of shares by Group Company, disclosed information will include but not only limit to the planned transaction quantity, transaction time, transaction price range and reason for share decreasing as required by Shenzhen Stock Exchange, if Group company intends to sell the current shares of the Company after releasing the limit condition and the total quantity for share decreasing is up to 5% within 6 months from the first transaction.

Except Changyu Group, there is no shareholders who held over 5% (including 5%) of the Company's shares.

9. Information about appointing and dismissing certified public accountants firm

The resolution was passed during the 2008 shareholders' meeting in which the Company decided to renewal the contract with Ernest & Yong Huaming to be the auditor for the Company in 2009 for a length of one year. The annual auditing expenditure totalled up to CNY1.5 million including travel fees and all operating cost.

10. Records of punishments, criticism in the form of circular or open reprimands made by the competent authorities

During the report period, no punishment records, enquiries, administrative punishment, written criticism, public reprimand nor investigations were made or filed against this company, its directors, supervisors, senior managers, stockholders or actual controller by the China Securities Regulatory Commission, securities exchanges, or other competent authorities, judicial departments or disciplinary inspection departments. Nor were there any prosecutions or individuals detained for criminal responsibilities.

11. Situation of infraction on stock trading for directors, supervisors, senior management and the shareholders with holding over 5% stock of the company

During the report period, there is no directors, supervisors, senior management and the shareholders with holding over 5% stock of the company who disobeyed the rules to buy and sell the stocks of the company.

12. The Company's Receptions, Studies and Visits

Reception date	Reception place	Reception way	Visitor	Main topic and material provided
2009.2.17	Meeting room of the Company	Field survey	Morgan Stanley	Principal operation and the future development of the company
2009.2.19	Meeting room of the Company	Field survey	China Galaxy Investment	
2009.2.21	Meeting room of the Company	Field survey	China Universal Fund	
2009.3.07	Meeting room of the Company	Field survey	Nomura Securities	
2009.3.10	Meeting room of the Company	Field survey	China International Capital Corporation	
2009.3.14	Meeting room of the Company	Field survey	Nomura International	
2009.4.11	Meeting room of the Company	Field survey	Shanghai Shento Assets	
2009.5.13	Meeting room of the Company	Field survey	Taikang Life Assets	
2009.5.15	Meeting room of the Company	Field survey	Kaicong Stone Investment	
2009.5.23	Meeting room of the Company	Field survey	China Lift Asset Management	
2009.6.03	Meeting room of the Company	Field survey	Great Wall Securities	
2009.6.15	Meeting room of the Company	Field survey	First City Investment	
2009.7.15	Meeting room of the Company	Field survey	Yun-hui Investment	
2009.7.18	Meeting room of the Company	Field survey	Yuan Tai Securities in Hongkong	
2009.7.26	Meeting room of the Company	Field survey	Paul Silver Investment	
2009.8.05	Meeting room of the Company	Field survey	Shanghai Securities	
2009.8.11	Meeting room of the Company	Field survey	Clairvoyance	
2009.8.15	Meeting room of the Company	Field survey	Double Ninth Investment	
2009.8.17	Meeting room of the Company	Field survey	E-Fund	
2009.8.18	Meeting room of the Company	Field survey	CSRX	
2009.8.18	Meeting room of the Company	Field survey	New Century Fund	

2009.8.18	Meeting room of the Company	Field survey	Kaicong Stone Investment
2009.8.25	Meeting room of the Company	Field survey	SYWG Securities
2009.8.25	Meeting room of the Company	Field survey	Fullgoal Fund
2009.8.28	Meeting room of the Company	Field survey	Everbright Securities
2009.9.08	Meeting room of the Company	Field survey	GF Fund
2009.9.15	Meeting room of the Company	Field survey	Shenzhen Red Chip Investment
2009.9.22	Meeting room of the Company	Field survey	China International Capital Corporation
2009.10.11	Meeting room of the Company	Field survey	Guotai Junan Securities
2009.10.11	Meeting room of the Company	Field survey	GF Fund
2009.10.19	Meeting room of the Company	Field survey	Huayan Capital
2009.10.30	Meeting room of the Company	Field survey	Industrial Securities
2009.11.11	Meeting room of the Company	Field survey	Tokai Securities
2009.11.23	Meeting room of the Company	Field survey	China International Capital Corporation
2009.11.23	Meeting room of the Company	Field survey	Boshi Fund
2009.11.23	Meeting room of the Company	Field survey	Hongyuan Securities
2009.11.27	Meeting room of the Company	Field survey	Ruixin Investment
2009.12.24	Meeting room of the Company	Field survey	Fidelity Fund
2009.12.30	Meeting room of the Company	Field survey	GF Securities

13. Index for Information Disclosure of the Company

Announcement No.	Title	Publication Date	Publication Address
2009-Lin001	Indicative announcement on releasing restrictions on restricted shares	2009.03.23	“China Securities News” “Securities Times” “Hong Kong Commercial Daily”
2009-Lin002	Clarification Announcement	2009.04.07	
2009-Lin003	Latest information about 2008 business achievement	2009.04.07	
2009-Lin004	Announcement on the resolution of the fifteenth meeting of the fourth Board of Directors	2009.04.10	
2009-Lin005	Announcement on the resolution of the fourteenth meeting of the third Board of Supervisors	2009.04.10	
2009-Lin006	Announcement on the related transaction 2009	2009.04.10	
2009-Lin007	The notice of opening 2008 shareholders’ meeting	2009.04.10	
2009-Ding001	2008 annual report and its summary	2009.04.10	
2009-Ding002	The report of the first quarter 2009	2009.04.24	
2009-Lin008	Announcement on the resolution of 2008 shareholders’ meeting	2009.05.04	
2009-Lin009	Implementation announcement on 2008 distribution rights	2009.05.25	
2009-Lin010	Additional announcement for 2008 annual report	2009.06.27	
2009-Ding003	2009 Semi-annual Report	2009.08.08	
2009-Lin011	Announcement on the resolution of the seventeenth meeting of the fourth Board of Directors	2009.08.08	
2009-Lin012	Short statement of change in stockholder equity	2009.08.12	
2009-Ding004	The report of the third quarter 2009	2009.10.26	

All above-mentioned information has also been disclosed in web site of http://www.cninfo.com.cn.

14. Other Major Issues

The Company will not make any financing through the issuance any shares or bonds within the prescient one year.

XI Financial Report

INDEPENDENT AUDITORS' REPORT

To shareholders of Yantai Changyu Pioneer Wine Company Limited
(A joint stock limited company incorporated in the People's Republic of China)

We have audited the financial statements of Yantai Changyu Pioneer Wine Company Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 3 to 85, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated and company income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The management and the directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Chinese Accounting Standards. This responsibility includes designing, implementing, maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with PRC Standards on Auditing issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the profit and cash flows for the year then ended in accordance with Chinese Accounting Standards.

Ernst & Young Hua Ming	Chinese Certified Public Accountant: Qian Xiao Yun
	Chinese Certified Public Accountant: Li Peng
Beijing, the People's Republic of China	14 April 2010

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CONSOLIDATED BALANCE SHEET

31 December 2009

ASSETS	Notes 5	2009	2008
CURRENT ASSETS			
Cash and Bank	1	2,545,210,286	1,748,573,840
Bills Receivable	2	38,107,831	13,378,706
Trade Receivables	3	98,022,443	82,343,029
Advances to Suppliers	4	31,885,027	5,278,985
Interest Receivable	5	8,969,343	19,176,250
Other Receivables	6	22,424,303	23,713,826
Inventories	7	1,131,240,892	997,942,600
Long-term Debt Investments Due Within One Year		-	15,000,000
Other Current Assets		1,104,453	253,935
Total Current Assets		3,876,964,578	2,905,661,171
NON-CURRENT ASSETS			
Long-Term Equity Investments	8	10,000,000	10,000,000
Property, Plant and Equipment	9	996,792,865	728,229,135
Construction in Progress	10	109,372,318	154,490,715
Intangible Assets	11	147,509,555	101,426,926
Biological Assets	12	39,717,396	40,675,990
Long-Term Prepaid expense	13	38,956,022	21,452,595
Deferred Tax Assets	14	139,267,274	91,950,794
Other Non-Current Assets		5,580,790	7,045,254
Total Non-Current Assets		1,487,196,220	1,155,271,409
Total Assets		5,364,160,798	4,060,932,580

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CONSOLIDATED BALANCE SHEET (CONTINUED)

31 December 2009

LIABILITIES AND EQUITY	Notes 5	2009	2008
CURRENT LIABILITIES			
Short-Term Loan	16	224,500,000	-
Trade Payables	17	343,079,052	220,708,265
Advances from Customers	18	371,221,002	188,709,167
Employee Benefits	19	176,980,999	151,849,547
Taxes Payable	20	556,959,447	457,714,254
Interest Payable	21	605,030	-
Other Payables	22	477,048,092	412,923,817
Total Current Liabilities		2,150,393,622	1,431,905,050
NON-CURRENT LIABILITIES			
Long-Term Loan	23	10,500,000	-
Deferred Tax Liability	14	5,336,115	-
Other Long-term liabilities	24	23,250,000	-
Total Non-Current Liabilities		39,086,115	-
Total Liabilities		2,189,479,737	1,431,905,050
EQUITY			
Share Capital		527,280,000	527,280,000
Capital Surplus	25	557,222,454	557,222,454
Surplus Reserve	26	295,942,630	295,942,630
Retained Earnings	27	1,657,780,929	1,163,188,086
Equity Attributable to Equity Holders of the Company	28	3,038,226,013	2,543,633,170
Minority Interests		136,455,048	85,394,360
Total Equity		3,174,681,061	2,629,027,530
Total Liabilities and Equity		5,364,160,798	4,060,932,580

The financial statements have been signed by:

Legal Representative	Financial Controller/ Chief Accountant	Accounting Supervisor
14 April, 2010	14 April, 2010	14 April, 2010

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes 5	2009	2008
Revenue	29	4,199,403,351	3,453,442,314
Less: Cost of Sales	29	1,191,669,609	1,036,020,758
Taxes and Surcharges	30	253,331,114	214,623,474
Selling Expenses		1,093,674,541	869,788,111
Administrative Expenses		220,052,778	194,243,184
Provision on Impairment of Assets	31	1,457,541	1,635,014
Add: Financial Income	32	30,232,166	35,362,131
Investment Income	33	2,606,750	3,962,502
Operating Profit		1,472,056,684	1,176,456,406
Add: Non-operating Income	34	28,797,573	10,488,825
Less: Non-operating Expenses	35	1,599,273	3,696,245
Including: losses on disposal of non-current assets		5,986	15,664
Profit before Tax		1,499,254,984	1,183,248,986
Less: Income Tax	36	363,269,516	288,742,526
Profit for the Year		1,135,985,468	894,506,460
Attributable to Equity holders of the Company		1,127,328,843	894,620,794
Minority Interests		8,656,625	(114,334)
Earnings Per Share			
Basic Earnings Per Share	37	2.14	1.70
Diluted Earnings Per Share	37	2.14	1.70
Comprehensive Income		1,135,985,468	894,506,460
Attributable to Equity holders of the Company		1,127,328,843	894,620,794
Attributable to Minority Interests		8,656,625	(114,334)

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CONSOLIDATED CHANGES IN EQUITY

Year ended 31 December 2009

	2009						
	Attributable to equity holders of the Group						
	Issued Capital	Capital Surplus	Surplus Reserve	Retained Earnings	Subtotal	Minority Interest	Total
At 1 January 2009	527,280,000	557,222,454	295,942,630	1,163,188,086	2,543,633,170	85,394,360	2,629,027,530
Profit for the Year	-	-	-	1,127,328,843	1,127,328,843	8,656,625	1,135,985,468
Comprehensive Income	-	-	-	1,127,328,843	1,127,328,843	8,656,625	1,135,985,468
Acquisition of a Subsidiary	-	-	-	-	-	42,404,063	42,404,063
Proposed Final Dividend (No.28 of Notes 5)	-	-	-	632,736,000)	(632,736,000)	-	632,736,000)
At 31 December 2009	527,280,000	557,222,454	295,942,630	1,657,780,929	3,038,226,013	136,455,048	3,174,681,061

	2008						
	Attributable to equity holders of the Group						
	Issued Capital	Capital Surplus	Surplus Reserve	Retained Earnings	Subtotal	Minority Interest	Total
At 1 January 2008	527,280,000	557,222,454	295,942,630	848,575,292	2,229,020,376	85,358,694	2,314,379,070
Profit for the Year	-	-	-	894,620,794	894,620,794	114,334)	894,506,460
Comprehensive Income	-	-	-	894,620,794	894,620,794	114,334)	894,506,460
Investment in Subsidiary	-	-	-	-	-	150,000	150,000
Final Dividend (No.28 of Notes 5)	-	-	-	580,008,000)	(580,008,000)	-	(580,008,000)
At 31 December 2008	527,280,000	557,222,454	295,942,630	1,163,188,086	2,543,633,170	85,394,360	2,629,027,530

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2009

	Notes 5	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from sales of goods or rendering of services		5,681,610,588	4,818,481,180
Cash Received form Tax Return		3,240,000	-
Cash received relating to Other Operating Activities	38	25,817,719	131,593,236
Cash Inflows from Operating Activities		5,710,668,307	4,950,074,416
Cash Paid for Goods and Services		(1,932,856,970)	(1,834,039,043)
Cash Paid to and on Behalf of Employees		(272,698,595)	(250,604,280)
Cash Paid for All Types of Taxes		(1,083,358,216)	(843,870,393)
Cash Paid Relating to Other Operating Activities	38	(1,062,167,011)	(770,514,170)
Cash Outflows from Operating Activities		(4,351,080,792)	(3,699,027,886)
Net Cash flows from Operating Activities	39	1,359,587,515	1,251,046,530
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Received from Sale of Investments		424,320,111	-
Cash Received from Return on Investments		48,622,460	38,273,159
Cash Received from Acquisition of a Subsidiary		42,851,536	-
Proceeds from Disposals of Property, Plant and Equipment		419,973	2,519,838
Cash Inflows from Investing Activities		516,214,080	40,792,997
Cash paid for acquisition of Properties, Plants and Equipments, Intangible Assets and Other Long-term Assets		(266,708,426)	(286,391,436)
Cash paid for Acquisition of Investments		-	(489,400,000)
Cash Outflows from Investing Activities		(266,708,426)	(775,791,436)
Net Cash flows from Investing Activities		249,505,654	(734,998,439)

	Notes 5	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Received from Borrowings		230,000,000	-
Including: Cash Received from Absorption of Minority Interest Investments		-	15 0,000
Cash Inflows from Financing Activities		230,000,000	150,000
Dividends Paid and Interest Paid	28	(633,136,613)	(580,008,000)
Cash Outflows from Financing Activities		(633,136,613)	(580,008,000)
Net Cash flows from Financing Activities		(403,136,613)	(579,858,000)
NET INCREASE/DECREASE OF CASH AND CASH EQUIVALENTS		1,205,956,556	(63,809,909)
ADD: CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		792,724,722	856,534,631
CASH AND CASH EQUIVALENTS AT END OF YEAR	39	1,998,681,278	792,724,722

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

BALANCE SHEET

Year ended 31 December 2009

ASSETS	Notes 11	2009	2008
CURRENT ASSETS			
Cash and Bank		1,701,195,926	1,199,543,976
Bills Receivables		12,294,221	5,215,800
Trade Receivables	1	13,163,722	13,271,136
Advances to Suppliers		19,918,724	2,942,070
Interest Receivable		8,969,343	19,176,250
Dividend Receivables		447,429,274	406,972,236
Other Receivables	2	633,416,634	361,305,380
Inventories		467,402,171	438,936,622
Other Current Assets		-	15,000,000
Total Current Assets		3,303,790,015	2,462,363,470
NON-CURRENT ASSETS			
Long-Term Equity Investments	3	229,077,178	169,077,178
Property, Plant and Equipment		331,281,278	351,548,553
Construction in Progress		2,234,216	8,263,910
Intangible Assets		90,579,308	93,648,384
Biological Assets		11,444,646	11,738,099
Deferred Tax Assets		26,315,465	14,950,351
Other Non-Current Assets		5,544,630	6,747,847
Total Non-Current Assets		696,476,721	655,974,322
Total Assets		4,000,266,736	3,118,337,792

LIABILITIES AND EQUITY	Notes 11	2009	2008
CURRENT LIABILITIES			
Short-Term Loan		220,000,000	-
Trade Payables		232,881,603	169,592,563
Employee benefits		112,116,156	105,145,026
Taxes Payable		115,867,141	68,218,327
Other Payables		219,943,753	266,834,580
Interest Payable		605,030	-
Total Current Liabilities		901,413,683	609,790,496
NON-CURRENT LIABILITIES			
Other Long-Term Liabilities		13,350,000	-
Total Non-Current Liabilities		13,350,000	-
Total Liability		914,763,683	609,790,496
EQUITY			
Share Capital	No.25 of Notes 5	527,280,000	527,280,000
Capital Surplus	No.26 of Notes 5	557,222,454	557,222,454
Surplus Reserve	No.27 of Notes 5	295,942,630	295,942,630
Retained Earnings		1,705,057,969	1,128,102,212
Total Equity		3,085,503,053	2,508,547,296
Total Liabilities and Equity		4,000,266,736	3,118,337,792

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

INCOME STATEMENT

Year ended 31 December 2009

	Notes 11	2009	2008
Revenue	4	1,282,782,886	1,208,537,522
Less:Cost of Sales	4	957,084,581	947,070,136
Taxes and Surcharges		152,142,756	136,557,840
Administrative Expenses		131,356,586	129,538,650
Add: Financial Income		34,082,435	34,112,567
Investment Income	5	1,152,606,750	973,811,469
Operating Profit		1,228,888,148	1,003,294,932
Add: Non-operating Income		1,545,292	681,831
			11
Less: Non-operating Expenses		96,018	0,159
Profit before Tax		1,230,337,422	1,003,866,604
Less: Income Tax		20,645,665	11,037,598
Profit for the Year		1,209,691,757	992,829,006
Comprehensive Income		1,209,691,757	992,829,006

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CHANGES IN EQUITY

Year ended 31 December 2009

	2009				
	Issued Capital	Capital Surplus	Surplus Reserve	Retained Earnings	Total
At 1 January 2009	527,280,000	557,222,454	295,942,630	1,128,102,212	2,508,547,296
Profit for the Year	-	-	-	1,209,691,757	1,209,691,757
Comprehensive Income	-	-	-	1,209,691,757	1,209,691,757
Investment in Subsidiary	-	-	-	-	-
Proposed Final Dividend (No.28 of Notes 5)	-	-	-	(632,736,000)	(632,736,000)
At 31 December 2009	527,280,000	557,222,454	295,942,630	1,705,057,969	3,085,503,053

	2008				
	Issued Capital	Capital Surplus	Surplus Reserve	Retained Earnings	Total
At 1 January 2008	527,280,000	557,222,454	295,942,630	715,281,206	2,095,726,290
Profit for the Year	-	-	-	992,829,006	992,829,006
Comprehensive Income	-	-	-	992,829,006	992,829,006
Investment in Subsidiary	-	-	-	-	-
Proposed Final Dividend (No.28 of Notes 5)	-	-	-	(580,008,000)	(580,008,000)
At 31 December 2008	527,280,000	557,222,454	295,942,630	1,128,102,212	2,508,547,296

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CASH FLOW STATEMENT

Year ended 31 December 2009

	Notes 11	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from sales of goods or rendering of services		1,520,451,727	1,433,463,793
Cash received relating to Other Operating Activities		1,213,604	19,269,709
Cash Inflows from Operating Activities		1,521,665,331	1,452,733,502
Cash Paid for Goods and Services		(1,037,814,506)	(1,008,871,977)
Cash Paid to and on Behalf of Employees		(102,031,362)	(145,647,681)
Cash Paid for All Types of Taxes		(209,456,392)	(201,360,736)
Cash Paid Relating to Other Operating Activities		(363,667,357)	(44,521,466)
Cash Outflows from Operating Activities		(1,712,969,617)	(1,400,401,860)
Net Cash flows from Operating Activities	6	(191,304,286)	52,331,642
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Received from Sale of Investments		15,000,000	-
Withdrawal of Matured Term Deposits (Over Three Months)		392,320,111	-
Cash Received from Return on Investments		1,159,406,911	711,240,026
Proceeds from Disposals of Property, Plant and Equipment		343,453	(5,406,167)
Cash Received Relating Other Investing Activities		-	3,962,501
Cash Inflows from Investing Activities		1,567,070,475	709,796,360
Cash paid for acquisition of Property, Plant and Equipment, Intangible Assets and Other Long-term Assets		(9,058,129)	(56,318,124)
Cash paid for Acquisition of Term Deposits over 3 Months		-	(467,400,000)
Cash Paid for Investment		(60,000,000)	(1,350,000)
Cash Outflows from Investing Activities		(69,058,129)	(525,068,124)
Net Cash flows from Investing Activities		1,498,012,346	184,728,236

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CASH FLOW STATEMENT (CONTINUED)

Year ended 31 December 2009

	Notes 11	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Received from Bank Loan		220,000,000	-
Cash Inflows from Financing Activities		220,000,000	-
Dividends Paid and Interest Paid		(632,736,000)	(580,008,000)
Cash Outflows from Financing Activities		(632,736,000)	(580,008,000)
Net Cash flows from Financing Activities		(412,736,000)	(580,008,000)
INCREAMENT (DECREAMENT) OF CASH AND CASH EQUIVALENTS		893,972,060	(342,948,122)
ADD: CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	7	265,694,858	608,642,980
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	7	1,159,666,918	265,694,858

1. CORPORATE INFORMATION

Yantai Changyu Pioneer Wine Co., Ltd. (the "Company") was incorporated as a joint stock limited company in accordance with the Company Law of the People's Republic of China (the "PRC") in a reorganization carried out by Yantai Changyu Group Co., Ltd. ("Changyu Group Company"), in which Changyu Group Company injected certain assets and liabilities in relation to the brandy, wine, sparkling wine, and tonic wine production and sales businesses to the Company. The Company and its subsidiaries (the "Group") are principally engaged in the production and sales of wine, brandy, sparkling wine and tonic wine.

Pursuant to the approval from the Government of Shandong Province (Luzheng [1997]119), the Company was reorganized as a joint stock limited company on 10 April 1997. On 23 September 1997, the Company was approved by China Securities Regulatory Commission (the "CSRC") ([1997] No. 52) to issue 88,000,000 domestically listed foreign investment shares ("B shares") on Shenzhen Stock Exchange. On 18 September 1997, the Company obtained the business license with the registered number No. 26718011-9.

In October 2000, the Company was approved by CSRC to issue 32,000,000 domestically listed Shares ("A Shares"). The A shares were listed on Shenzhen Stock Exchange on 26 October 2000.

Pursuant to the share reform notices issued by the Company in February 2006, Changyu Group Company transferred its 13,977,600 shares to the shareholders of A share of the Company. After the reform, percentage of equity attributable to Changyu Group Company decreased from 53.8% to 50.4%. At 31 December 2009, the total shares issued by the Company amounts to 527,280,000 shares. Please refer to No.25 of Notes 5 in detail.

The holding company of the Group is Changyu Group Company, which was jointly controlled by Yantai SASAC, ILLVA Saronno Investment Italy, International Finance Corporation and Yantai Yuhua Investment and Development Company Limited.

The financial statements have been authorized by the board of directors on 14 April 2010. According to the Company's articles of association, the financial statements will be reviewed by shareholders on the shareholder's meeting.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Preparation of Financial Statements

The financial statements are prepared in according with “Corporate Accounting Standards – The Principles” which was published by Ministry of Finance in February 2006, and “the 38 specific accounting standards”, its application guide, interpretations for accounting standards, and other relevant regulations (collectively “CAS”).

The financial statements are prepared on a going concern basis.

Except for certain financial instrument, the measurement basis adopted by the group in preparing its financial statement is historical cost. Subsequently, if the assets are impaired, impairment provisions are made in accordance with the relevant accounting standards.

(2) Declaration for Implementing CAS

The financial statements are prepared in accordance with CAS, which showing a true and fair view of the financial position on 31 December 2009, financial performance and cash flow in 2009 of the Company and the Group.

(3) Accounting Year

The accounting year of the Group is from 1 January to 31 December.

(4) Reporting Currency

The Group reporting and presentation currency is the Renminbi (“RMB”). Unless otherwise stated, the unit of the currency is Yuan.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(5) Business Combination

A business combination is the bringing together of separate entities or businesses into one reporting entity, classified into the business combination under common control and business combination under non common control.

Business Combination under Common Control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The combining entity that obtains control of other combining entities or businesses is the acquirer, and the other entities involved are the acquirees. The combination date is when the acquirer effectively obtains the control of the acquirees.

The assets and liabilities obtained by the acquirer shall be measured at carrying amount in the acquiree's accounts as at the date of combination. Where there is a difference between the carrying amount of the net assets of the acquiree and the cost of combination, capital surplus shall be adjusted. Where the capital surplus is not sufficient to offset the value of the net assets acquired, retained earnings shall be adjusted.

Any costs directly attributable to the business combination are charged to profit and loss when incurred.

Business Combination under Non-Common Control

A business combination involving entities or businesses under non-common control is a business combination in which all of the combining entities or businesses are not ultimately controlled by the same party or parties both before and after the business combination. The combining entity that obtains control of other combining entities or businesses is the acquirer, and the other entities involved are the acquirees. The acquisition date is when the acquirer effectively obtains the control of the acquirees.

For business combination under non-common control, cost of business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree plus any cost directly attributable to the business combination. For business combination impalement through more than one exchange, the cost of business combination is the sum of each exchange. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(5) Business Combination (Continued)

For business combination under non-common control, the assets and liabilities and contingent liabilities obtained by the acquirer shall be measured at fair value as at the date of combination.

Where the cost of combination is greater than the fair value of assets and liabilities and contingent liabilities, the difference should be recognized as goodwill. Where the cost of combination is smaller than the fair value of acquiree's assets and liabilities and contingent liabilities, and cost of combination should be reevaluated. Where cost of combination is still smaller than fair value of acquiree's net assets, the difference should be recognized in income statement.

(6) Consolidated Financial Statements

The consolidation scope of consolidated financial statements is determined on the basis of control. The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. The subsidiaries are entities that are controlled by the Company.

The subsidiaries adopt the same accounting year and accounting policies as the Company adopted. All intercompany balances, transactions, income and expenses within the Group are eliminated in full on consolidation.

The position of profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the Company refers to "Minority Interests", which is presented separately in the consolidated financial statements.

For the subsidiaries acquired through business combination under non-common control, their financial performance and cash flow shall be included in the consolidated financial statements from the combination date, as long as they are under control by the Company. In preparation of the consolidated financial statements, the subsidiaries' identifiable assets, liabilities and contingent liabilities are adjusted by their fair value on the acquisition date.

For the subsidiaries acquired through business combination under common control, their financial performance and cash flow shall be included in the consolidated financial statements. When preparing comparative consolidated financial statements, the pre-combination adjustment of the subsidiary's financial statements is considered as it has existed before the business combination from the beginning of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(7) Cash and cash Equivalents

Cash comprises cash on hand and demand deposit. Cash equivalents refers to short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Foreign Currency Transactions and Foreign Currencies Reporting

For any foreign currency transactions, they are recorded in functional currency. Transactions in currencies other than the reporting currency are translated into the reporting currency at the exchange rates prevailing on the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are restated into the reporting currency using the rates of exchange ruling at the balance sheet date. The exchange gains or losses are dealt with in the income statement for the year. The exchange gains or losses arising from foreign currency borrowings in relation to the acquisition or construction of a fixed asset are accounted for according to the requirements relating to the capitalization of borrowing costs. Non-monetary items denominated in foreign currencies which are measured at historical cost are translated using the exchange rates on their transaction dates. Non-monetary foreign items denominated in foreign currencies which are measured at fair value are translated using the exchange rates on balance sheet date, and any difference is recognized in income statement or other comprehensive income.

(9) Inventories

Inventories comprise raw materials, work in progress, finished goods and transitory materials.

The inventories are initially measured at cost. The cost of inventories comprises all costs of purchase, cost of conversion and other costs. When inventories are sold, the cost of sale is calculated on a weighted-average basis.

Agricultural products harvested from the entity’s biological assets are measured on a weighted-average basis, which comprises all material, labor and other indirect expense incurred in producing and gathering the agricultural assets.

Agricultural products harvested are reported in accordance with the *CAS 1 Inventories.*

The Company adopts perpetual inventory system.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Inventories (Continued)

Inventories are measured at the lower of cost and net realizable value at the balance sheet date. If the cost of inventories is higher than the net realizable value, the impairment of inventories is accrued and recognized in income statement. If the factors causing any impairment of the inventories do not exist, where the net realizable value is higher than the cost, the amount of impairment is reversed and the reversed amount is recognized in the income statement.

The net realizable value is estimated selling prices in ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The inventory provision for raw materials is assessed by categories of inventories, where finished goods are assessed by items. For the homogeneous products which are produced and sold in the same region and are inseparable from other inventories, the inventory provision is accrued collectively.

(10) Long Term Equity Investments

Long term equity investments comprise investments in subsidiaries, joint ventures, associates and any investment whose fair value cannot be reliably measured, with which the Company cannot exert control, joint control or significant influence over the investee.

The investment is initially measured at cost. For business combination under common control, the investment cost is recorded at the book value of the acquiree's equity acquired. For business combination under non-common control, the investment cost is recorded at combination cost. Long term equity investments other than business combination, the investment cost is recorded at cash paid plus any direct expense, tax or other expenditures associate with the investment, or the fair value of the equity instruments issued, or value agreed in the investment contract, except for the value agreed in the investment contract is not a fair market value.

Cost method is adopted for the investments whose fair value cannot be reliably measured, with which the Group does not exert control, joint control or significant influence over the investees. Cost method is also adopted for the investments in subsidiaries in the Company's balance sheet.

When cost method is adopted, the long term equity investments are measured at its initial investment cost, except that the initial investment cost contains declared dividend. The dividend declared by the investee is recorded as investment income in income statement. Impairment is assessed according to relevant policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(10) Long Term Equity Investments (Continued)

The invested entities over which the Group has joint control or significant influence are measured by equity method. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. Significant influences refers to the power to participate in making decisions on the financial and operating of an enterprise but not to control or joint control together with other parties over the formulation of the policies.

By equity method, where initial cost of investment excesses the fair value of identifiable net assets of investee, the difference should be recognized in initial investment cost. Where initial cost of investment is smaller than the fair value of identifiable net assets of investee, the difference should be recognized in income statement and the investment cost should be adjusted accordingly.

By equity method, after investment, The Group recognizes the investment profits or losses and adjusts the book value of the long term equity investment based on the share of the net profits or losses of the investee. The share of the net profits and losses of the investee should be recognized at fair value of all identifiable assets in accordance with the accounting policy and accounting period of the Group, and the inter-company transactions between the investees and the Group shall be eliminated in proportion to the Group’s equity interest in the investees after making adjustments on the net profits of the investees’(the loss shall be recognized in full in case impairment is recognized from the inter-company transactions). For the investment in associate and joint ventures before the first time adoption of CAS, the debit balance of the investment differences, if any, also should be deducted from the investment income. The Group will reduce the book value of the long term equity investment in accordance with the share of profits or cash dividends declared to distribute by the invested entities.

The net losses of the invested entity should be recognized until the book value of the long term equity investment and other long term rights and interests which substantially from the net investment made to the invested entities are reduced to zero, unless the Group has the obligation to assume extra losses. Where any change is made to the owner's equity other than the net profits and losses of the invested entity, the book value of the long term equity investment are adjusted and be included in the owner's equity, which will be transferred to the income statement according to a certain proportion upon disposal of the long term equity investment. When disposing of a long term equity investment, the difference between its book value and the proceeds is recognized in the income statement in the corresponding period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(10) Long Term Equity Investments (Continued)

Details for the impairment test and impairment loss recognition for the long term equity investments in subsidiaries, associates and joint ventures, please refer to Note 2 (18). Details for the impairment test and impairment loss recognition for other long term equity investment, which fair value not available in active market and cannot be reliably measured, please refer to Note 2 (17).

(11) Biological Assets

The biological assets of the Group are vines.

Biological assets should be recognized when and only when:

(i) The Group controls the asset as a result of past events,
(ii) It is probable that future economic benefits associate with the asset will flow to the entity, and
(iii) The cost of the asset can be measured reliably.

Biological assets comprise consumptive biological assets, productive biological assets, and not for profit biological assets. Biological assets are initially measured at its cost.

The Group charge deprecation for productive biological assets which satisfy expected production, and record the deprecation in balance sheet and income statement. The Group uses straight line method to calculate the deprecation, and details as follows:

Category	Estimated Useful Life	Estimated Residual Rate	Annual Depreciation Rate
Vines	20 years	-	5%

Consumptive biological assets and productive biological assets are measured as at each balance sheet date. Where reliable evidence shows there is natural disaster, plant diseases, insect pests, animal disease or change of market demand that make the realizable net value of any consumptive biological asset or the recoverable amount of any productive biological asset is lower than its book value, provision or impairment should be recognized in income statement in according to the difference. Where the factors which cause any provision of a consumptive biological asset are not exist, the amount of provision are reversed limited to the provision which has been made. The reversed amounts are recognized in the income statement of the current period. Impairment on productive biological assets cannot be reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(11) Biological Assets (Continued)

No provision should be made for not for profit biological assets.

The Group evaluates the useful life, expected net salvage value, and the depreciation method of the property, plant and equipment at the end of each year.

Agricultural produce harvested from the entity's biological assets are measured at its weighted-average book value. The book value comprises all material, labor and other indirect expense occurred in producing and gathering the agricultural assets. Agricultural produce harvested are reported in accordance with the *CAS 1 Inventories.*

When biological assets are sold, lost, dead, or damaged, the carrying amount is recognized in the income statement after deduction of relevant taxes.

(12) Property, Plant and Equipment

Property, plant and equipment defines as the assets held for use in the production or supply of goods or services, for rental to others, or for administrative purpose, and are expected to be used for more than one year.

Property, plant and equipment should be recognized as an asset if, and only if:

(i) It is probable that future economic benefits associated with the item will flow to the entity; and
(ii) The cost of the item can be measured reliably.

Subsequent expenditure related to property, plant and equipment under the recognition principle could be recognized as asset in balance sheet, otherwise is recognized in income statement.

Property, plant and equipments are initially measured at cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Property, Plant and Equipment (Continued)

Depreciation is calculated on a straight line basis. The estimated useful life and residual value rate are as follows:

	Estimated Useful Life	Estimated Residual Rate	Annual Depreciation Rate
Buildings	30-40years	5%-40%	2%-3.2%
Machinery	10-20years	5%	4.8%-9.5%
Motor Vehicles	6-12years	5%	7.9%-15.8%

A variety of depreciation rate can be used for different components of an item of property, plant and equipment according to its different useful lives or nature.

The Group evaluates the useful life, expected net residual value, and the depreciation method of the property, plant and equipment every year, and makes adjustment where necessary.

For details of the impairment test and impairment loss recognition for property, plant and equipment, please refer to Note 2 (18).

(13) Construction in Progress

Construction in progress are measured on actual construction costs, including the direct costs of construction, capitalized borrowing costs during the period of construction and other expenditures.

Construction in progress is reclassified to the property, plant and equipment when completed and ready for use.

Details for the impairment test and impairment loss recognition for construction in progress, please refer to Note 2 (18).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(14) Borrowing Costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowing of funds, which includes interests, amortization of discounts or premiums, ancillary costs, and exchange differences arising from foreign currency borrowings.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset shall commence when:

(i) Expenditures of the asset are being incurred;
(ii) Borrowing costs are being incurred; and
(iii) Activities that are necessary to prepare the asset for its intended use of sale are in progress.

Capitalization of borrowing costs shall cease when all the activities necessary to prepare the qualifying asset for its intended use of sale are substantially complete. Any borrowing costs incurred after this should be recognized in income statement.

During the capitalization period, the amount of borrowing costs eligible for capitalization on a qualifying asset for each accounting period shall be determined by:

(i) The actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowing for specifically purpose borrowing; or
(ii) Applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing coasts applicable to the borrowings of the entity for general purpose borrowing.

When the acquisition, construction or production of a qualifying asset is abnormally interrupted before it necessarily takes a substantial period of time to get ready for its intended use or sale, and the interruption period exceed three months, the capitalization of borrowing coasts shall be temporally ceased. During the cessation of capitalization, the borrowing costs should be recognized in income statement, until the construction resume.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(15) Intangible Assets

Intangible assets are measured initially at cost.

The estimated useful lives are determined on the periods during which it can bring economic benefits to the Group. If the periods cannot be reliably determined, the intangible assets are classified as intangible assets with indefinite useful life.

The useful lives of the intangible assets are as follows:

	Useful life
Land Use Rights	50 years
Software	5 years

The land use rights obtained by purchase or payment of land lease prepayment are recorded as intangible assets. For self-constructed buildings, the land use rights and plants are recorded as intangible assets and property, plant and equipment, respectively. Purchased buildings are allocated between land use rights and buildings based on actual payments, and are totally recorded as property, plant and equipment when it is difficult to allocate.

Intangible assets with finite lives are amortized over the useful life on the straight line basis. The amortization period and amortization method for an intangible asset with a finite useful life are reevaluated at each year end.

Intangible assets with indefinite lives are assed for impairment every year whenever there is an indication that the intangible asset may be impaired. If there is evidence that the useful lives of the intangible assets are finite, the change in the useful life assessment from infinite to finite is accounted for on a prospective basis.

For details for the impairment test and impairment loss recognition for intangible assets, please refer to Note 2 (18).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(16) Long Term Prepaid Expenses

Long term prepaid expenses refer to the prepaid expenses which are amortized over 1 year. Long term prepaid expenses are amortized over the useful economic life on a straight line basis.

Amortization period:

Land Requisition Fees	50 years
Land Leasing Fees	50 years
Others	50 years

(17) Financial Instruments

Financial instruments refer to the contracts whereby the financial assets of an enterprise are formed, and whereby the financial liabilities or right instruments of any other entity are formed.

Recognition and Derecognizing of Financial Instruments

The Group recognizes the financial assets or financial liabilities as it contracted in financial instruments agreements.

If a financial asset meets any of the following requirements, it is derecognized:

(i) If the contractual rights for collecting the cash flow of the said financial asset are terminated; or

(ii) Transferred the ownership of receive the cash flow form financial assets, or with the responsibility of transferred all cash flow received form financial assets to the third parties; And (a) actually transferred out all the risk and reward related to the financial assets, or (b) actually neither remained nor transferred out almost of the risk and reward of financial assets, but lost the control of the financial assets.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognizing of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(17) Financial Instruments (Continued)

In a regular way purchase or sale financial instrument, the financial instrument should be recognized or derecognized on transaction date. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation of convention in the marketplace concerned. Transaction date is the date that the Group commits to purchase or disposal a financial instrument.

<u>Classification and Measurement of Financial Assets</u>

Financial assets are classified when they are initially recognized, including financial assets at fair through profits or losses, held to maturity investments, loans and receivables and available for sale financial assets, and hedging instrument. Financial assets initially recognized at fair value. For financial assets measured at fair value through profits or losses, the transaction expenses thereof are directly included in the current profits or losses; for other categories of financial assets and financial liabilities, the transaction expenses thereof are included in the initial costs.

Subsequent measurement of financial assets depends on its classification

Financial Assets at Fair Value through Profits and Losses

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they meet any of the following requirements: (i) The financial assets being acquired mainly for the purpose of selling or repurchase in the near future; (ii) Forming a part of the identifiable combination of financial instruments, which are managed in a centralized way, and for which there is objective evidence that the enterprise will manage the combination by way of short term profit making in the near future; (iii) Being a derivative instrument. Theses financial assets are subsequently measured at fair value, and all the realized and unrealized profits and losses are included in profits and losses of the current year. Gains or losses on these financial assets are recognized in the income statement whenever they are realized or not realized. Dividend or interest associate with financial instrument which measured at fair value and changes recorded in income statement, should be recorded in income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(17) Financial Instruments (Continued)

Held to Maturity Investments

Non derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held to maturity investments are subsequently measured at carried amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available for Sale Financial Assets

Available for sale financial assets are non-derivative financial that are initially designated as available for sale or are not classified into any of the other three categories. After initial recognition, available for sale financial assets are measured at fair value, with gains or losses recognized as capital surplus reserve until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are recognized in the income statement. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Interest and dividends earned are recoded as interest income and dividend income, respectively and are recognized in the income statement.

Available for sale financial assets which have no quoted price and fair value cannot be reliably measured are measured at cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(17) Financial Instruments (Continued)

Classification and Measurement of Financial Liabilities

Financial liabilities are classified into financial liabilities at fair through profits and losses, other financial liabilities and hedging instrument when they are initially recognized. For financial liabilities at fair through profits and losses, the transaction expenses thereof are directly included in the current profits or losses, while the transaction expenses of other financial liabilities are include in the initially recognized amounts.

Subsequent measurement of financial liability depends on its classification

Financial Liabilities at Fair Value through Profits and Losses

Financial liabilities at fair through profits and losses include transaction financial liabilities, and the designated financial liabilities measured at fair value upon initial recognition, and whose variation is recognized in the income statement of the current year. Financial liabilities that meet any of the following requirements are classified as transaction financial liabilities: (i) The financial liability being undertaken mainly for the purpose of selling or repurchase in the near future; (ii) Forming a part of the identifiable combination of financial instruments, which are managed in a centralized way, and for which there is objective evidence that the enterprise will manage the combination by way of short term profit making in the near future; (iii) Being a derivative instrument. Theses financial liabilities are subsequently measured at fair value, and all the realized and unrealized profits and losses are recognized in the income statement of the current year.

Other Financial Liabilities

The financial liabilities are subsequently measured at amortized cost by adopting effective interest rate method.

Fair Value of Financial Instruments

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market prices. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis; option pricing models and other valuation models.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(17) Financial Instruments (Continued)

Impairment of Financial Assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Positive evidences refer to those occurred after the initial recognition, have effect on estimated future cash flows of the financial assets, and can be measured reliably.

Assets Carried at Amortized Cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate after taking into account of the collateral over these balances.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If it is determined that objective evidence of impairment exists for an individually assessed financial asset, the impairment losses are recognized in the income statement of the current year. Not individually significant financial assets are assessed individually or collectively included in a group of financial assets with similar credit risk characteristics. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of asset does not exceed its amortized cost at the reversal date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(17) Financial Instruments (Continued)

Available for Sale Financial Assets

When a decline in the fair value of an available for sale financial asset has been recognized directly in equity and there is objective evidence that the asset is impaired the accumulative loss that had been recognized directly in capital surplus are removed from equity and recognized in profit or loss of the current period. The amount of the cumulative loss that is removed from equity and recognized in the income statement is be the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in the income statement.

Impairment losses on debt instruments are reversed through the profits or losses, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment, loss was recognized in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Fair value increase after impairment is recognized in comprehensive income.

Financial Assets Carried at Cost

If there is objective evidence that the financial assets have been impaired, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, and recognized in the income statement of the current year. Such impairment losses are not reversed.

The impairment on long term equity investment which are measured by employing cost method in accordance with *CAS2 Long term equity investments*, have no quoted market price in an active market and the fair value cannot be reliably measured are recorded according to the aforesaid requirements.

Transfers of Financial Assets

If the Group has transferred substantially all the risks and rewards of the asset and waived the control of the asset, the asset is derecognized. If the Group has retained substantially all the risks and rewards of the asset, the assets are not de recognized.

Where the Group has neither transferred nor retained substantially all the risks and rewards of the asset, if the Group waived the control of the assets, the financial assets are derecognized and the assets and liabilities are recognized accordingly; if the Group did not waive the control of the assets, the financial assets are recognized to the extent of the Group's continuing involvement in the asset, and the liabilities are recognized accordingly.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(18) Impairment of Assets

Impairments on assets other than inventories, deferred tax, financial assets and long term equity investments without quoted market price in active market the fair value cannot be reliably measured are determined according to the following methods:

On each balance sheet date, the Group made assessment on whether or not there is any indication of potential asset impairment. If there is any evidence that indicates the possibility of asset impairment, the recoverable amount of the asset is being estimated. Independent of whether there are indication of potential impairment, the goodwill from an enterprise merger and intangible assets whose useful lives are indefinite are subjected to impairment testing each year. Intangible assets which are not ready to use also need perform impairment test every year.

The recoverable amount of an asset is the higher of the asset's or cash generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset. If it is difficult to determine the recoverable amount individually, the recoverable amount is determined for the cash generating unit to which the asset belongs. Cash generating unit is determined as the asset generate cash inflows that are largely independent of those from other assets or groups of assets.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement and provision is made accordingly.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, and not larger than the reportable segment determined by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(18) Impairment of Assets (continued)

When conducting impairment testing on relevant cash generating units or groups of cash generating units that have related goodwill, if there is any evidence indicating that impairment of the cash generating units or groups of units has occurred, the Company first carries out impairment testing on the cash generating units or groups of units excluding goodwill, calculating the recoverable amount, comparing it with the corresponding carrying amount and recognizing any resulting impairment loss. Then impairment testing are conducted on the cash generating units or groups of units with goodwill included, the carrying amount of these cash generating units or combinations of cash generating units (including the carrying amount of the goodwill allocated thereto) compared to the recoverable amount; if the recoverable amount of said cash generating units or groups of units is below the carrying amount thereof, the impairment loss are first deducted from the carrying amount of the corporate assets and goodwill which have been allocated to the cash generating unit or group of units, and then deducted from the carrying amount of the remaining assets pro rata with goodwill excluded from consideration.

After a loss of asset impairment has been recognized, it is not be reversed in future accounting periods.

(19) Contingent Liabilities

Contingent liabilities should be recognized when and only when:

(i) The group has a present obligation as a result of a past event;
(ii) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
(iii) A reliable evaluation can be made of the obligation.

The contingent liabilities are measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date, taking into consideration of the risks, uncertainties and time value of money. The book value of contingent liabilities is reviewed at each balance sheet date. Whether there is any objective evidence indicating that the book value cannot reflect the best estimated amount, adjustments should be make to the book value.

The acquiree's contingent liabilities through business combination is initial recognized at fair value, and its subsequent measurement is recognized at the higher of estimated value and the initial cost less any accumulated amortization.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(20) Revenue

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Revenue from the sale of goods

When the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold, and cost of sales can be measured reliably. The amount of revenue arising on sale of goods is determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable.

Rendering of service

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(i) The amount of revenue can be measured reliably;
(ii) It is probable that the economic benefit associated with the transaction will flow to the entity;
(iii) The stage of completion of the transaction at the reporting date can be measured reliably; and
(iv) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Interest income

Interest income is measured based on the borrowing periods and actual interest rate.

(21) Leases

Leases that substantially transfer all the rewards and risks of ownership of assets are accounted for as finance leases, otherwise are accounted for as operating leases.

As a lessee

Rental expenses under the operating leases are charged to related costs of the assets or the income statement on a straight line basis over the lease period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(22) Employee Benefits

Employee benefits refer to all kinds of remunerations and other relevant reimbursements made by the Group to its employees in exchange for services of employees. During accounting periods wherein an employee renders services to the Group, the Group recognized the benefits payable as a liability. The benefits payable which will be matured over 1 year are discounted when it is material.

Medical insurance, pensions, unemployment insurance, other social insurance and housing fund are recorded as cost of relevant assets or expenses for the relevant period.

If an Group terminates the labor relationship with any employee prior to the expiration of the relevant labor contract or makes a severance package proposal with the purpose of enticing the employees to willingly accept such a termination, the Group recognized the contingent liabilities to be incurred due to severance pay, and recorded them in income statement of the current period.

The treatment for the early retirement planning is on the same basis to that of the termination benefits. The salaries and the social insurance expenses for the periods from the employee's termination of service and the normal retirement of these staffs are recognized as employee benefits payable when meeting the aforesaid retirement benefits recognition requirements, and recognized to income statement of relevant period.

(23) Income Tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement, except for goodwill arises from business combination, or transactions directly recorded in equity of which the related income is recorded in equity.

The Group recognizes the income tax assets or liabilities related to current period and prior period by calculating the expected payable or refundable amount in accordance with the tax law.

Deferred tax is provided on balances sheet approach on all temporary differences between tax basis and accounting basis at each balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(23) Income Tax (Continued)

Deferred tax liabilities are recognized for all taxable temporary difference, except:

(i) Where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) In respect of taxable temporary differences associated with interests in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

(i) Where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(ii) In respect of deductible temporary differences associated with interests in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. At each reporting date, the entity re-assesses unrecognized deferred tax assets. The entity recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(24) Government Grants

Government grants refers to monetary or non monetary assets received by an enterprise from the government, but excludes capital invested in the Group by the government that gives the government ownership rights. Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Monetary grants are measured on the basis of the amount received or the amount receivable. Non monetary grants are measured based on the fair value of relevant assets, where fair value cannot be measure reliably, the grants are measured based on nominal amount. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments. Grant which measured at nominal amount, should be recorded in income statement.

(25) Significant Accounting Judgments and Accounting Estimates

Preparing financial statements requires management make judgment and estimates, which could affect the amount of revenue, expense, asset, liabilities and the disclosure of contingent liabilities. However, those uncertainties of estimate may cause significant adjustment on the book value of assets and liabilities.

Estimation Uncertainty

The following are key assumptions for after balance sheet date event and other factors of uncertain estimation. They may cause material adjustment on balance sheet in following accounting period.

Fair value of equity investment on private company

The evaluation of equity investment is calculated by future cash flow and discount rate of other financial instrument with similar contract terms and risks. This requires the company estimate the future cash flow, credit risk, fluctuation and discount rate, and it contains uncertainty.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Significant Accounting Judgments and Accounting Estimates (Continued)

Depreciation

As set out in No.2 (12), the depreciation is calculated on the straight line basis to write-off the cost of each item of fixed assets to its residual value over its estimated useful life. The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. If the previous estimates have significant changes, and depreciation expenses will be adjusted in the future periods.

Useful life of the intangible assets

The estimated useful lives of the intangible assets are determined based on the historical experience of the actual useful lives of intangible assets of similar nature and functions as well as considering the contractual rights and statutory rights applicable to the intangible assets.

When the estimated useful lives of finite intangible assets are shortened or extended, the amortization periods should be adjusted accordingly. When there is evidence indicating the useful lives of intangible assets with indefinite useful lives becomes finite, the useful lives should be estimated and the intangible assets should be accounted for in accordance with the standards for the intangible assets with finite useful lives.

Impairment of biological assets

As set out in No. 2 (11), the Group examined the consumptive biological assets and productive biological assets at each balance sheet date. If any reliable evidence shows that the realizable net value of any consumptive biological asset or the recoverable amount of any productive biological asset is lower than its book value due to natural disaster, plant diseases and insect pests, animal disease or change of market demand, the Group, on the basis of the difference between the realizable net value or the recoverable amount and the book value, make provision for the loss on decline in value of or for the impairment of the biological asset and are recorded it in the profits and losses of the current period. The aforesaid realizable net value and recoverable amount is determined according to the *CAS 1 Inventories* and *CAS 8 Asset Impairment*, respectively.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(25) Significant Accounting Judgments and Accounting Estimates (Continued)

Impairment of non-current assets

As set out in No.2 (22), the Group assesses whether the recoverable amount is lower than the book value. If there are any indicators that the book value of non current assets cannot be fully recoverable, impairment losses should be recorded.

The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from an asset. As it is difficult for the Group to obtain the quoted market price of the assets (or assts group), the fair value of the assets cannot be reliably estimated. When the management make estimation on the expected future cash flows from the asset or cash generating unit, estimates should be made on choosing a suitable production volume, selling price and related operating costs discount rate in order to calculate the present value of those cash flows. When recoverable amounts are undertaken, management may use all available for use information, including the forecast on production volume, selling price and related operating costs in reasonable and supportable assumptions.

Estimated provision for trade and other receivables

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy are considered indicators that the trade receivable is impaired. The provision is reassessed at the end of each year.

Inventory provision based on net realizable value

The inventory are measured on the lower of carrying value and net realizable value, and provision should be made for impairment on obsolete and slow moving inventories. The group will reassess whether the net realizable value is lower than the carrying cost at the end of each year.

Corporate income tax

The Company and its subsidiaries are required to pay corporate income tax separately for they are located in different provinces. Because certain affairs have not been confirmed by the tax bureau when income tax expenses are provided, the management should make reliable estimates and judgments based on prevailing tax laws and other related policies. If the final results confirmed by the tax bureau are different from the recorded amounts, the difference will have an impact on income tax expenses provided for the current period.

3. TAXES

(1) The main taxes and tax rate are as follows:

Value Added Tax	VAT is levied at 17% on the invoiced amount after deduction of eligible input VAT.
Consumption Tax	Consumption tax of the tonic wine is levied at quantity and certain tax rate of gross turnover, namely levied at 20% of total turnover and RMB 1000 per ton. For all other product, consumption tax is levied on gross revenue at rates ranging from 10% to 20%.
Business Tax	The Group is subject to a business tax of 5% on its taxable revenue.
City Development Tax	Levied at 7% of total business tax payment.
Corporate Income Tax	The Group is subject to a corporate income tax rate of 25% on its taxable income.

(2) Tax incentives and relative permit

According to *Cai Zhu iZi [1994] permit No.1*, a subsidiary of the Company, Huanren Changyu Wine National Wines Sales Co., Ltd., is exempt from corporate income tax from 2007 to 2009 under *Ben Min Wei Fa [2007] permit No. 36*, *Liao Cai Shui [2008] permit No. 636*, and *Liao Guo Shui Han [2008] Permit No. 201*, respectively.

A subsidiary of the Company, Liaoning Changyu Ice Wine Chateau Co., Ltd. which is a productive foreign-invested enterprise was incorporated in Huanren Manzu Autonomous County. In accordance with *PRC Income Tax of Foreign Investment* and *Foreign Enterprises* and *Notice of the State Council's Implementation of the Transitionally Preferential Policies (GuoFa [2007] permit No.39)*, the productive foreign-invested company, from the first profit-making year, exempts from corporate income tax in 2007 and 2008, and enjoys a favorable corporate income tax rate of 12.5% from 2009 to 2011.

4. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

(1) Particulars of the subsidiaries

Name	Place and date of registration	Legal representative	Business nature	Registered capital	Principle activities	Incorporate code
Subsidiary acquired from a corporation combination: under non-common control						
Xinjiang Tianzhu Wine Co.,Ltd.,(Xinjiang Tianzhu) (a)	11 April 2006 Shihezi in Xinjiang Province,China	Zhou Hongjiang	Manufactoring	RMB 75,000,000	Production and sales of wine	787 604 261
Subsidiaries acquired by establishment:						
Yantai Changyu Pioneer Vehicular Transport Co., Ltd. ("Vehicular Transportation")	1 December 1992 Yantai in Shandong Province, China	Zhang Lixian	Transportation	RMB 300,000	Transportation service	165 031 729
Beijing Changyu Sales and Distribution Co., Ltd ("Beijing Sales")	14 July 1998 Beijing, China	Sun Liqiang	Sales	RMB 500,000	Sales of wine	634 377 029
Yantai Kylin Packaging Co. Ltd. ("Kylin Packaging") (b)	29 September 1999 Yantai in Shandong Province, China	Yang Ming	Manufactoring	USD 1,400,000	Production of packaging materials	863 052 455
Yantai Changyu-Castel Wine Chateau Co., Ltd. ("Changyu-Castel") (c)	3 September 2001 Yantai in Shandong Province, China	Sun Liqiang	Manufactoring	USD 5,000,000	Production and sales of wine	730 682 613
Changyu (Jingyang) Pioneer Wine Co., Ltd ("Jingyang Wine")	5 December 2001 Jingyang in Shanxi Province, China	Cai Jianshe	Manufactoring	RMB 1,000,000	Production and sales of wine	732 663 643
Yantai Changyu Pioneer Wine Sales Co., Ltd ("Sales Company")	24 December 2001 Yantai in Shandong Province, China	Jiang Hua	Sales	RMB 8,000,000	Sales of wine	746 576 380
Langfang Development Zone Castel-Changyu Wine Co., Ltd ("Langfang Castel") (d)	1 March 2002 Langang in Hebei Province, China	Mige Balu	Manufactoring	USD 3,000,000	Production and sales of wine	735 624 56X
Changyu (Jingyang) Pioneer Wine Sales Co., Ltd ("Jingyang Sales")	8 April 2002 Jingyang in Shanxi Province, China	Zhou Mingqiang	Sales	RMB 1,000,000	Sales of wine	735 379 154

4. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Particulars of the subsidiaries (Continued)

Name	Place and date of registration	Legal represe-ntative	Business nature	Registered capital	Principle activities	Incorporate code
Langfang Changyu Pioneer Wine Sales Co.,Ltd. ("Langfang Sales").	19 April 2002 Langfang in Hebei Province, China	Liu Wanqiang	Sales	RMB 1,000,000	Sales of wine	737 388 150
Shanghai Changyu Sales and Distribution Co., Ltd.("Shanghai Sales")	28 April 2004 Shanghai, China	Zhou Hongjiang	Sales	RMB 1,000,000	Sales of wine	749 571 075
Beijing Changyu AFIP Wine Chateau Co., Ltd ("Beijing Chateau")	27 October 2005 Beijing, China	Sun Liqiang	Manufact oring	RMB 110,000,000	Production and sales of wine	780 953 469
Yantai Changyu Wine Sales Co., Ltd.("Wines Sales")	9 January 2006 Yantai in Shandong Province, China	Jiang Hua	Sales	RMB 5,000,000	Sales of wine	783 487 627
Yantai Changyu Pioneer International Co., Ltd.("Pioneer International")	29 September 2005 Yantai in Shandong Province, China	Zhou Hongjiang	Sales	RMB 5,000,000	Import and export of wine and technology	780 766 161
Hangzhou Changyu Wine Sales Co., Ltd.("Hangzhou Changyu")	14 June 2006 Hangzhou in Zhejinag Province ,China	Jiang Hua	Sales	RMB 500,000	Whole-sale and retail of packaging food	788 283 631
Ningxia Changyu Grape-Growing Co., Ltd.("Ningxia Growing")	16 November 2006 Yinchuang in Ningxia, China	Shao Chunsheng	Planting	RMB 1,000,000	Plant and purchase of grape	788 200 410
Huanren Changyu National Wines Sales Co., Ltd.("National Wines")	16 November 2006 Huanren in Liaoning ,China	Leng Bin	Sales	RMB 2,000,000	Sales of wine, healthy liquor, liqueur，non-alcohol beverages	794 822 179
Liaoning Changyu Ice Wine Chateau Co., Ltd.("Ice Chateau") (e)	20 November 2006 Benxi in Liaoning Province, China	Zhou Hongjiang	Manufact oring	RMB 26,300,000	Production and sales of ice wine	747 128 301
Yantai Development Zone Changyu Trade Co., Ltd.("Development Zone Trade")	4 December 2006 Yantai in Shandong Province, China	Zhou Hongjiang	Sales	RMB 5,000,000	Whole-sale and retail of wine	796 183 411
Shenzhen Changyu Wine Marketing Ltd.("Shenzhen Marketing")	31 July 2007 Futian in Shenzhen Province, China	Lin Pu	Sales	RMB 500,000	Whole-sale and retail of wine	664 195 20X

4. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Particulars of the subsidiaries (Continued)

Name	Place and date of registration	Legal represe-ntative	Business nature	Registered capital	Principle activities	Incorporate code
Yantai Changyu Trading Company ("Changyu Trading")	27 March 2007 Yantai in Shandong Province, China	Zhou Hongjiang	Sales	RMB 5,000,000	Whole-sale and retail of wine	660 176 044
Beijing AFIP Meeting Center ("Meeting Center")	9 October 2007 Miyun in Beijing , China	Sun Hongbo	Services	RMB 500,000	Meeting service, foods, accommodation, tourism and sales of souvenir	669 926 612
Beijing AFIP Tourism and Culture Company ("AFIP Tourism")	4 June 2008 Miyun in Beijing , China	Liu Shilu	Tourism	RMB 500,000	Tourism and culture communication, development of tourist resources, meeting service	676 627 372
Ningxia Changyu Pioneer Wine Co., Ltd. ("Ningxia Wine")	2 April 2008 Yinchuang in Ningxia, China	Li Jiming	Manufactoring	RMB 1,000,000	Manufacturing and sales of wine, packing material, plant, process and purchase of grapes	670 408 275

4. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Particulars of the subsidiaries (Continued)

Name	Paid in capital at 31 December 2009	Equity interest owned by the Company: Direct control	Equity interest owned by the Company: Indirect control	Voting power	Consolidate financial statements	Non-controlling interest
Subsidiary acquired in corporation combination :under non-common control						
Xinjiang Tianzhu (a)	RMB 60,000,000	60%	-	60%	Yes	RMB 42,973,732
Subsidiaries acquired by establishment:						
Vehicular Transportation	RMB 300,000	100%	-	100%	Yes	-
Beijing Sales	RMB 500,000	70%	30%	100%	Yes	-
Kylin Packaging (b)	RMB 5,953,878	50%	-	62.5%	Yes	RMB 22,874,284
Changyu-Castel (c)	RMB 28,968,100	70%	-	100%	Yes	RMB 12,174,645
Jingyang Wine	RMB 1,000,000	90%	10%	100%	Yes	-
Sales Company	RMB 8,000,000	90%	10%	100%	Yes	-
Langfang Castel (d)	RMB 12,142,200	49%	-	100%	Yes	RMB 12,640,000
Jingyang Sales	RMB 1,000,000	10%	90%	100%	Yes	-

4. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Particulars of the subsidiaries (Continued)

Name	Paid in capital at 31 December 2009	Equity interest owned by the Company Direct control	Indirect control	Voting power	Consolidate financial statements	Non-controlling interest
Langfang Sales	RMB 1,000,000	10%	90%	100%	Yes	-
Shanghai Sales	RMB 1,000,000	30%	70%	100%	Yes	-
Beijing Chateau	RMB 77,000,000	70%	-	70%	Yes	RMB 28,256,916
Wines Sales	RMB 5,000,000	90%	10%	100%	Yes	-
Pioneer International	RMB 5,000,000	70%	30%	100%	Yes	-
Hangzhou Changyu	RMB 500,000	-	100%	100%	Yes	-
Ningxia Growing	RMB 1,000,000	100%	-	100%	Yes	-
National Wines	RMB 2,000,000	100%	-	100%	Yes	-
Ice Chateau (e)	RMB 13,413,000	51%	-	100%	Yes	RMB 16,959,292
Development Zone Trade	RMB 5,000,000	-	100%	100%	Yes	-
Shenzhen Marketing	RMB 500,000	-	100%	100%	Yes	-

4. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Particulars of the subsidiaries (Continued)

Name	Paid in capital at 31 December 2009	Equity interest owned by the Company Direct control	Indirect control	Voting power	Consolidate financial statements	Non-controlling interest
Changyu Trading	RMB 5,000,000	-	100%	100%	Yes	-
Meeting Center	RMB 500,000	-	100%	100%	Yes	-
AFIP Tourism	RMB 350,000	70%	-	70%	Yes	RMB 576,179
Ningxia Wine	RMB 1,000,000	100%	-	100%	Yes	-

Note: There was no operating loss attributed to minority interest in 2009.

4. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Particulars of the subsidiaries (Continued)

(a) Xinjiang Tianzhu was acquired from a business acquisition on 31 August 2009. Please refer to note 4 (3) and (4) for details.

(b) Kylin Packaging is a Sino-foreign joint venture. Pursuant to the agreement, the Company has invested USD 700,000 (about RMB 5,794,000), accounting for 50% of Kylin's equity interest. By 31 December 2009, the Company has completed the capital contribution by property, plant and equipment and inventories of RMB 5,953,878. For the Company have over half of the voting power and therefore has the power to control its strategic operating, investing and financing policies, the financial statements of Kylin Packaging are consolidated in the Group's financial statements.

(c) Changyu-Castel is a Sino-foreign joint venture established by the Company and a foreign investor. Pursuant to an operation contract signed by the Company, Changyu-Castel and the foreign investor, the Company is entrusted to manage Changyu-Castel and therefore has the full power to control its strategic operating, investing and financing policies.

(d) Langfang Castel is a Sino-foreign joint venture established by the Company and a foreign investor. Pursuant to the agreement signed by the Company, Langfang Castel and the foreign investor, the Company is entrusted to manage Langfang Castel and therefore has the full power to control its strategic operating, investing and financing policies, therefore the financial statements of Langfang Castel are consolidated in the Group's financial statements.

(e) Ice Chateau is a Sino-foreign joint venture established by the Company and a foreign investor. Pursuant to the agreement signed by the Company, Ice Chateau and the foreign investor, the Company is entrusted to manage Ice Chateau and therefore has the full power to control its strategic operating, investing and financing policies.

4. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Changes in the scope of consolidated financial statement.

Except for acquisition of Xinjiang Tianzhu, the scope of consolidated financial statements was same with last year.

(3) A subsidiary newly included in the scope of consolidation

In 2009, a subsidiary is acquired from a business combination as follows:

	Net assets at 31 December 2009	Net Profit for year 2009
Xinjiang Tianzhu	107,431,839	5,598,201

(4) Business combination under non-common control

The Company obtained 60% equity interest and voting power of Xinjiang Tianzhu through a capital injection of RMB60,000,000 on 31 August 2009 (the "acquisition date"). The fair value of Xinjiang Tianzhu's net asset at the acquisition date was RMB106,010,156. Excess over the cost of business combination was recognized in income statement.

4. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Business combination under non-common control (Continued)

On the acquisition date, the book value and fair value of Xinjiangtianzhu's assets and liabilities are as follows:

	31 August 2009 Fair Value	31 August 2009 Book Value
Cash and Bank	102,851,536	102,851,536
Account Receivable	5,912,843	5,912,843
Advance to Suppliers	6,493,112	6,493,112
Other Receivables	2,955,727	2,955,727
Inventory	8,682,149	8,682,149
Other Current Assets	7,966	7,966
Property, Plant and Equipment	36,116,147	34,375,148
Construction in Progress	5,596,440	5,596,440
Engineering Materials	1,986,830	1,986,830
Intangible Asstes	26,503,277	6,112,655
Total Assets	197,106,027	174,974,406
Advance from Customers	76,725	76,725
Other Payable	70,390,321	70,390,321
Tax Payable	982,724	982,724
Dividend Payable	7,190,000	7,190,000
Long Term Payable	5,000,000	5,000,000
Estimated Liabilities	2,119,987	2,119,987
Deferred Tax Liabilities	5,336,114	-
Total Liabilities	91,095,871	85,759,757

4. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Business combination under non-common control in 2009 (Continued)

	31 August 2009 Fair Value	31 August 2009 Book Value
Net Assets	106,010,156	89,214,649
Minority Interest (40%)	42,404,062	
	63,606,094	
Difference Recognized in Income Statement	3,606,094	
Cost of Combination	60,000,000	

After Acquisition date, Xinjiangtianzhu's profit and cash flow are as follow:

	For the period from 1 September 2009 to 31 December 2009
Revenue	4,469,024
Net Profit	1,424,174
Net Cash Outflow	94,168,395

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash and Bank

	2009	2008
Cash on hand	218,086	129,612
Cash in bank	2,521,339,000	1,745,992,613
Others	23,653,200	2,451,615
	2,545,210,286	1,748,573,840

At 31 December 2009, the balance of cash and bank with its ownership restricted of the Group is RMB 2,449,848 (31 December 2008：RMB 2,449,118).

At 31 December 2009, the Group has no cash and bank overseas deposit (31 December 2008：Nil).

Interest income of current deposit is earned based on bank interest rates. The periods of short-term deposits range from 3 months to 1 year in based on the demands of the Group.

The balance of term deposits over three months as at 31 December 2009 of the Group is RMB 544,079,160 (31 December 2008: RMB 953,400,000) with interest rates ranging from 1.71% to 2.25% , which will mature from 3 months to 1 year.

(2) Bills Receivable

	2009	2008
Bank acceptance bills	38,107,831	13,378,706

At 31 December 2009, there was no pledged bills receivable (31 December 2008: nil), and no bills receivable were reclassified as accounts receivable due to the default of drawer (31 December 2008: Nil).

At 31 December 2009, the notes receivable endorsed to third party but not yet expired is as follows(31 December 2008: Nil):

Drawer	Issuing Date	Maturity Date	Amount
Inner Mongolia Ganglian Co., Ltd.	7/3/2009	1/2/2010	1,000,000

As at 31 December 2009, there was no notes receivable discounted to obtain short-term loan. (31 December 2008: Nil).

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Trade Receivables

The normal credit term of trade receivables is one month, which can be extended to three months for certain major customers. The trade receivables are interest free.

The aged analysis is as follows:

	2009	2008
Within 1 year	98,022,443	82,343,029

At 31 December 2009, there was no bad debt provision for trade receivables (31 December 2008: Nil). There was no bad debt provision made or reversed by the management in 2009 (2008: Nil).

	2009				2008			
	Amount	%	Provision	%	Amount	%	Provision	%
Individually significant	47,841,785	48.8	-	-	41,100,907	49.9	-	-
Others	50,180,658	51.2	-	-	41,242,122	50.1	-	-
	98,022,443	100.0	-	-	82,343,029	100.0	-	-

At 31 December 2009, there was no trade receivable due from the Company's shareholders with voting rights of 5% or above. (31 December 2008: Nil)

At 31 December 2009, the particulars of top 5 trade receivables are as follows:

	Relationship with the group	Amount	Aging	Ratio of total receivables %
First	Third party	8,396,320	Within 1 year	8.6
Second	Third party	7,573,193	Within 1 year	7.7
Third	Third party	7,191,107	Within 1 year	7.3
Fourth	Third party	6,068,277	Within 1 year	6.2
Fifth	Third party	3,790,528	Within 1 year	3.9
		33,019,425		33.7

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Trade Receivables (Continued)

At 31 December 2008, the particulars of top 5 trade receivables are as follows:

	Relationship with the group	Amount	Aging	Ratio of total receivables %
First	Third party	9,920,120	Within 1 year	12.1
Second	Third party	5,047,151	Within 1 year	6.1
Third	Third party	3,351,016	Within 1 year	4.1
Fourth	Third party	3,117,192	Within 1 year	3.8
Fifth	Third party	3,083,544	Within 1 year	3.7
		24,519,023		29.8

At 31 December 2009, there was no trade receivables due from related parties (31 December 2008: Nil).

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(4) Advances to Suppliers

The aged analysis is as follows:

	2009		2008	
	Balance	%	Balance	%
Within 1 year	31,885,027	100.0	5,278,985	100.0

At 31 December 2009, the particulars of top 5 advances to suppliers are as follows:

	Relationship with the Group	Amount	Aging	Ratio of total advances to suppliers %
First	Third party	4,853,239	Within 1 year	15.2
Second	Third party	3,501,650	Within 1 year	11.0
Third	Third party	3,000,000	Within 1 year	9.4
Fourth	Third party	3,000,000	Within 1 year	9.4
Fifth	Third party	2,917,610	Within 1 year	9.2
		17,272,499		54.2

At 31 December 2008, the particulars of top 5 advances to suppliers are as follows:

	Relationship with the group	Amount	Aging	Ratio of total advances to suppliers %
First	Third party	2,508,694	Within 1 year	47.5
Second	Third party	1,740,912	Within 1 year	33.0
Third	Third party	325,440	Within 1 year	6.2
Fourth	Third party	173,321	Within 1 year	3.3
Fifth	Third party	152,000	Within 1 year	2.9
		4,900,367		92.9

At 31 December 2009, there were no advances paid to the shareholders with voting rights of 5% or above (31 December 2008: Nil).

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Interest Receivable

2009

	Opening balance	Increase	Decrease	Closing balance
Bank fixed deposits interest	19,176,250	21,751,738	(31,958,645)	8,969,343

2008

	Opening balance	Increase	Decrease	Closing balance
Bank fixed deposits interest	13,518,196	28,931,326	(23,273,272)	19,176,250

At 31 December 2009, there was no overdue interest (31 December 2008: Nil).

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(6) Other Receivables

The aging analysis is as follows:

	2009			2008		
	Balance	Bad debt Provision	Net Carrying Amount	Balance	Bad debt Provision	Net Carrying Amount
Within 1 year	18,634,887	-	18,634,887	19,813,906	-	19,813,906
1 to 2 years	86,571	-	86,571	3,435,777	-	3,435,777
2 to 3 years	3,238,702	-	3,238,702	8,464,143	8,000,000	464,143
Over 3 years	8,464,143	8,000,000	464,143	-	-	-
	30,424,303	8,000,000	22,424,303	31,713,826	8,000,000	23,713,826

The bad debt provision of other receivables is as follows:

	Opening Balance	Ending Balance
2009	8,000,000	8,000,000
2008	8,000,000	8,000,000

	2009				2008			
	Balance		Bad Debts Provision		Balance		Bad Debts Provision	
	Amount	%	Amount	%	Amount	%	Amount	%
Individually significant	11,584,743	38.1	8,000,000	69.1	15,355,044	48.4	8,000,000	52.1
Others	18,839,560	61.9	-	-	16,358,782	51.6	-	-
	30,424,303	100.0	8,000,000	-	31,713,826	100.0	8,000,000	-

At 31 December 2009, there were no other receivables due from shareholders with voting rights of 5% or above (31 December 2008: Nil).

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(6) Other Receivables (Continued)

At 31 December 2009, the particulars of top 5 other receivables are as follows:

	Relationship with the Group	Amount	Aging	Ratio of total other receivables %
First	Third party	3,120,600	Within 1 year	13.9
Second	Third party	846,762	Within 1 year	3.8
Third	Third party	534,996	Within 1 year	2.4
Fourth	Third party	437,263	Within 1 year	2.0
Fifth	Third party	375,000	Within 1 year	1.7
		5,314,621		23.8

At 31 December 2008, the particulars of top 5 other receivables are as follows:

	Relationship with the Group	Amount	Aging	Ratio of total other receivables %
First	Third party	8,464,143	2-3 years	26.7
Second	Third party	2,468,449	Within 1 year	7.8
Third	Third party	689,023	Within 1 year	2.2
Fourth	Third party	165,567	Within 1 year	0.5
Fifth	Third party	75,000	Within 1 year	0.2
		11,862,182		37.4

At 31 December 2009, there was no other receivable due from related parties (31 December 2008: Nil).

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(7) Inventories

	2009			2008		
	Balance	Provision	Net Carrying Amount	Balance	Provision	Net Carrying Amount
Raw material	78,468,949	-	78,468,949	61,258,927	-	61,258,927
Finished goods	493,924,195	10,274,687	483,649,508	452,646,099	8,817,146	443,828,953
Inventories in progress	569,122,435	-	569,122,435	492,854,720	-	492,854,720
	1,141,515,579	10,274,687	1,131,240,892	1,006,759,746	8,817,146	997,942,600

Analysis of inventory provision is as follows:

2009	Opening Balance	Increase	Decrease	Closing Balance
Inventories	8,817,146	1,457,541	-	10,274,687

2008	Opening Balance	Increase	Decrease	Closing Balance
Inventories	7,182,132	1,635,014	-	8,817,146

At 31December 2009, no ownership of inventory was restricted (31 December 2008: Nil).

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(8) Long-Term Equity Investment

2009

	Initial Cost	Opening Balance	Movement for the year	Closing Balance	Equity Interest %	Voting Power %	Provision
Cost Method:							
Yantai Dingtao Constructi and Development Co., Ltd. ("Yantai Dingtao")	10,000,000	10,000,000	-	10,000,000	18	18	-
	10,000,000	10,000,000	-	10,000,000			-

2008

	Initial Cost	Opening Balance	Movement for the year	Closing Balance	Equity Interest %	Voting Power %	Provision
Cost Method:							
Yantai Dingtao Constructi and Development Co., Ltd.	10,000,000	10,000,000	-	10,000,000	18	18	-
	10,000,000	10,000,000	-	10,000,000			-

At 31 December 2009 and 2008, the initial investment to Yantai Dingtao is RMB10,000,000, and the Group hold 18% of its equity interests.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Property, Plant and Equipment

2009	Opening Balance	Increase	Decrease	Closing Balance
Cost:				
Buildings	495,533,405	203,180,931	-	698,714,336
Machineries an Equipments	619,780,868	117,771,847	(420,632)	737,132,083
Motor Vehicles	14,408,16	3,080,246	-	
	1,129,722,433	324,033,024	(420,632)	1,453,334,825
Accumulated depreciation:				
Buildings	92,094,253	16,432,270	-	108,526,523
Machineries an Equipments	299,734,197	37,436,051	(368,790)	336,801,458
Motor Vehicles	9,664,848	1,549,131	-	11,213,979
	401,493,298	55,417,452	(368,790)	456,541,960
Net carryi amount:				
Buildings	403,439,152	186,748,661	-	590,187,813
Machineries an Equipments	320,046,671	80,335,796	(51,842)	400,330,625
Motor Vehicles	4,743,312	1,531,115	-	6,274,427
	728,229,135	268,615,572	(51,842)	996,792,865

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Property, Plant and Equipment (Continued)

2008	Opening Balance	Increased for the year	Decreased for the year	Closing Balance
Cost:				
Buildings	430,582,587	73,412,261	(8,461,443)	495,533,405
Machineries ar				
Equipments	545,169,393	74,770,506	(159,031)	619,780,868
Motor Vehicles	13,968,034		(372,100)	
	989,720,014	148,994,993	(8,992,574)	1,129,722,433
Accumulated depreciation:				
Buildings	80,510,352	12,592,386	(1,008,485)	92,094,253
Machineries ar				
Equipments	259,869,996	39,943,370	(79,169)	299,734,197
Motor Vehicles	8,629,507	1,388,836	(353,495)	9,664,848
	349,009,855	53,924,592	(1,441,149)	401,493,298
Net carryi amount:				
Buildings	350,072,235	60,819,875	(7,452,958)	403,439,152
Machineries ar				
Equipments	285,299,397	34,827,136	(79,862)	320,046,671
Motor Vehicles	5,338,527	(576,610)	(18,605)	4,743,312
	640,710,159	95,070,401	(7,551,425)	728,229,135

Depreciation for 2009 is RMB 55,417,452 (2008: RMB 53,924,592). In 2009, the value of property, plant and equipment transferred from construction in progress is RMB 248,443,966 (2008: RMB 65,548,005). In 2009, as a result of a business combination, the cost increased by RMB 36,643,143, and accumulated depreciation of RMB526,995, with net value of RMB 35,116,147. Please refer to Notes 4 (4) for details.

At 31 December 2009, the book value of Property, Plant and Equipment with ownership restricted is RMB 1,439,022 (31 December 2008: Nil), which is pledged to obtain a short-term bank loan RMB 4,500,000 and a long term bank loan BMB 10,500,000. Please refer to Note 5 (16) and (23) for details.

At 31December 2009, no property, plant and equipment is idle, held for disposal, or under finance or operating lease (31 December 2008: Nil).

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Property, Plant and Equipment (Continued)

At 31 December 2009, buildings without property certificate are as follow:

	Reason for not receive a property certificate
Ice Wine Chateau Office Tower	waiting for completion report
Ice Wine Chateau Packing Factory	waiting for completion report
Beijing AFIP European Town	waiting for completion report
Beijing AFIP Office Town	waiting for completion report
Beijing AFIP Main Building	waiting for completion report
Beijing AFIP Production Factory	waiting for completion report
Changsha Hunan Representative Office	Processing
Taiyuan Shanxi Representative Office	Processing
Xi'an Shaanxi Representative Office	Processing
Changchun Representative Office	Processing
Harbin Representative Office	Processing
Sales Company Office Tower	Processing

(11) Construction in Progress

	31 December 2009 Book Value	31 December 2008 Book Value
Sparkling wine reconstruction project	2,234,216	8,263,910
Beijing Castel Chateau Project	11,714,331	98,880,689
Plants for Ice Wine in Liaoning	3,119,556	1,754,791
Ningxia united workshop	60,394,418	26,079,028
Ningxia ferment project	-	19,512,297
Plants for Xinjiangtianzhu	9,179,267	-
Plants for Jingyang Wine	9,271,105	-
Vineyard Reconstruction Project	13,459,425	-
	109,372,318	154,490,715

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Construction in Progress (Continued)

2009	Budget	1 January 2009	Addition	Transferred to property, plant and equipment	31December 2009	Financed by	Accumulated expenditure /budget %
Sparkling Wine Reconstruction Project	42,000,000	8,263,910	-	(6,029,694)	2,234,216	Self-raised	129.6
Beijing AFIP Chateau Project	256,250,000	98,880,689	84,275,462	(171,441,820)	11,714,331	Self-raised	132.4
Ice Wine Chateau Workshop Project	24,000,000	1,754,791	21,292,132	(19,927,367)	3,119,556	Self-raised	102.1
Ningxia United Workshop	162,200,000	26,079,028	47,642,850	(13,327,460)	60,394,418	Self-raised	45.5
Ningxia ferment project	29,210,425	19,512,297	9,698,128	(29,210,425)	-	Self-raised	100.0
XinJiangTianZhu Reconstruction project	29,000,000	-	15,004,929	(5,825,662)	9,179,267	Self-raised	51.7
Jingyang Ferment Workshop Reconstruction	23,540,000	-	9,271,105	-	9,271,105	Self-raised	39.4
Vineyard Reconstruction Project	2,681,538	-	2,681,538	(2,681,538)	-	Self-raised	100.0
Sales Company Plant	18,381,767	-	13,459,425	-	13,459,425	Self-raised	73.2
		154,490,715	203,325,569	(248,443,966)	109,372,318		

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Construction in Progress (Continued)

2008	Budget	1 January 2008	Addition	Transferred to property, plant and equipment	31December 2008	Financed by	Accumulated expenditure /budget %
Cabernet Manufacturing Center Reconstruction Project	31,000,000	316,743	1,380,001	(1,696,744)	-	Own Funds	101.5
Wine Lending System Development Project in Brandy Company	4,950,000	1,390,870	487,021	(1,877,891)	-	Own Funds	38.0
Sparkling Wine Reconstruction Project	42,000,000	787,360	23,998,502	(16,521,952)	8,263,910	Own Funds	129.6
Beijing AFIP Chateau Project	230,000,000	30,691,242	97,320,427	(29,130,980)	98,880,689	Own Funds	102.1
Kylin Packaging's Equipments Purchase	3,511,481	3,511,481	124,535	(3,636,016)	-	Own Funds	103.5
Changyu-Castel Construction Project	10,000,000	7,508,224	2,436,522	(9,944,746)	-	Own Funds	99.5
Ice Wine Chateau Workshop Project	5,000,000	3,210,141	-	(1,455,350)	1,754,791	Own Funds	64.2
Video Management System	2,460,000	1,230,000	54,326	(1,284,326)	-	Own Funds	52.2
Ningxia United Workshop	100,000,000	-	26,079,028	-	26,079,028	Own Funds	26.1
Jingyang Ferment Workshop Reconstruction	29,210,425	-	19,512,297	-	19,512,297	Own Funds	66.8
		48,646,061	171,392,659	(65,548,005)	154,490,715		

No interest capitalized in 2009 (in 2008: Nil).

At 31 December 2009, there is no provision was made for the constructions in process (31 December 2008: Nil).

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(12) Intangible Assets

2009	1 January 2009	Increase	Decrease	31 December 2009
Cost:				
Land Use Right	105,515,923	49,928,506	-	155,444,429
Software	3,480,000			3,480,000
	108,995,923	49,928,506	-	158,924,429
Accumulated Amortization				
Land Use Right	6,872,997	3,149,877	-	10,022,874
Software	696,000	696,000	-	1,392,000
	7,568,997	3,845,877	-	11,414,874
Net Carrying Amount:				
Land Use Right	98,642,926	46,778,629	-	145,421,555
Software	2,784,000	(696,000)	-	2,088,000
	101,426,926	46,082,629	-	147,509,555

2008	1 January 2009	Increase	Decrease	31 December 2009
Cost:				
Land Use Right	100,484,337	5,031,586	-	105,515,923
Software	3,480,000			3,480,000
	103,964,337	5,031,586	-	108,995,923
Accumulated Amortization				
Land Use Right	3,371,589	3,501,408	-	6,872,997
Software	-	696,000	-	696,000
	3,371,589	4,197,408	-	7,568,997

Net Carrying Amount:				
Land Use Right	97,112,748	1,530,178	-	98,642,926
Software	3,480,000	(696,000)	-	2,784,000
	100,592,748	834,178	-	101,426,926

The amortization of intangible asset in 2009 is RMB 3,845,877 (in 2008: RMB 4,197,408).

At 31 December 2009, the amount of intangible assets with restricted ownership is RMB 8,882,146 (31 December 2008: Nil). The Group pledged the land use right to obtain a short-term bank loan of RMB 4,500,000 and long-term bank loan of RMB 10,500,000. In 2009, the amortization of this land use right is RMB 83,714 (in 2008: Nil).

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(12) Biological Assets

	2009	2008
Opening Balance	40,675,990	19,821,941
Addition Due to Self-cultivation	59,800	20,854,049
Depreciation	1,018,394	-
Closing Balance	39,717,396	40,675,990

At 31 December 2009, no ownership of the biological asset is restricted (31 December 2008: Nil).

The productive biological assets are vines. The vines may suffer from scourge, plant diseases and insect pests, market demand and other risk factors, which lead to impairment on assets. The Group will adopt effective procedures to prevent plant diseases and insect pests, and strengthen the management of trees and soils to safeguard the biological assets.

All biological assets of the group have reached its intended purpose of production and operation, and have begun this year amortization.

At 31 December 2009, there is no indication that biological assets may be impaired, and no provision was made (31 December 2008: Nil).

(13) Long Term Prepaid Expenses

2009	Opening Balance	Increase	Amortization	Closing balance
Land Lease Prepayments	19,380,988	-	351,500	19,029,488
Land Acquisition Fee	-	18,314,837	393,207	17,921,630
Others	2,071,607	39,088	105,791	2,004,904
	21,452,595	18,353,925	850,498	38,956,022

2009	Opening Balance	Increase	Amortization	Closing balance
Land Lease Prepayments	11,633,293	8,706,071	958,376	19,380,988
Others	174,786	2,000,000	103,179	2,071,607
	11,808,079	10,706,071	1,061,555	21,452,595

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(14) Deferred Tax Assets

Deferred tax assets and liabilities are presented separately.

Deferred tax assets and liabilities recognized:

	2009	2008
Deferred tax assets		
Unrealized profit from intra-company transactions	89,817,849	73,367,762
Unpaid bonus	30,985,074	-
Retirement benefit	11,192,840	13,959,608
Asset impairment provision	4,568,672	4,204,287
Deductable losses	2,423,353	-
Start-up costs	279,486	419,137
	139,267,274	91,950,794
Deferred tax liabilities		
Corporate combination under non common control	5,336,115	-
	5,336,115	-

Deferred tax assets and liabilities not recognized:

Deductable losses	27,938,505
	27,938,505

Deductable losses of deferred tax assets and liabilities not recognized will expire at:

2011	8,710,674
2012	85,340
2013	64,997
2014	19,077,494
	27,938,505

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(15) Provision for Impairment of Assets

2009

	Opening balance	Accrual	Decrease		Closing balance
			Reversal	Write-off	
Bad debt provision	8,000,000	-	-	-	8,000,000
Inventory provision	8,817,146	1,457,541	-	-	10,274,687
	16,817,146	1,457,541	-	-	18,274,687

2008

	Opening balance	Accrual	Decrease		Closing balance
			Reversal	Write-off	
Bad debt provision	8,000,000	-	-	-	8,000,000
Inventory provision	7,182,132	1,635,014	-	-	8,817,146
	15,182,132	1,635,014	-	-	16,817,146

(16) Short-Term Loans

	2009	2008
Guaranteed Loan	4,500,000	-
Credit Loan	220,000,000	-
	224,500,000	-

At 31 December 2009, the interest rates are from 4.78 %-5.4 % (31 December 2008: Nil).

At 31 December 2009, the group obtained a short-term loan of RMB 4,500,000 and a long-term loan of RMB 10,500,000 by pledging a land use right with book value of RMB 8,882,146, and a building with book value of RMB 1,439,022. Meanwhile, a guarantee of RMB 8,000,000 was provided by Shihezi Fort Farm, a minority share holder of a subsidiary.

At 31 December 2009, the Group has no unpaid matured short-term loan. (31 December 2008: Nil).

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(17) Trade Payables

The trade payables are interest free. The Group is normally granted a credit period of not more than three months from its suppliers.

	2009	2008
Within 1 year	343,079,052	220,708,265
	343,079,052	220,708,265

At 31 December 2009, the Group has no outstanding balance is payable to related parties or shareholders who have 5% or above of voting rights (31 December 2008: Nil).

At 31 December 2009, the Group has no significant outstanding balances aged more than one year (31 December 2008: Nil)..

(18) Advances from Customers

	2009	2008
Within 1 year	371,221,002	188,709,167
	371,221,002	188,709,167

As at 31 December 2009, The Group has no outstanding balance is payable to the related parties or shareholders who have 5% or above of voting rights (31 December 2008: Nil).

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Employee Benefit

At 31 December 2009

	Opening Balance	Increase	Decrease	Closing Balance
Salaries and Bonus	53,230,543	278,390,877	(234,576,942)	97,044,478
Staff Benefit	-	8,303,237	(8,303,237)	-
Staff Welfare	7,855,995	11,777,294	(16,737,535)	2,895,754
Includes: Medical insurance	4,447,021	10,009,738	(12,355,179)	2,101,580
Pension	2,730,109	1,469,081	(3,610,413)	588,777
Unemployment Insurance	555,723	193,924	(653,087)	96,560
Injury Insurance	64,628	103,498	(62,258)	105,868
Maternity Insurance	58,514	1,053	(56,598)	2,969
Housing Fund	1,464,029	3,449,836	(4,524,320)	389,545
Union Fee and Education Fee	2,839,358	1,410,718	(1,961,836)	2,288,240
Termination benefits	55,838,433	-	(11,067,070)	44,771,363
Other Allowances	30,621,189	1,466,414	(2,495,984)	29,591,619
	151,849,547	304,798,376	(279,666,924)	176,980,999

31 December 2008

	Opening Balance	Increased for the year	Decreased for the year	Closing Balance
Salaries and Bonus	30,742,836	216,455,419	(193,967,712)	53,230,543
Staff Benefit	-	6,298,968	(6,298,968)	-
Staff Welfare	-	34,985,025	(27,129,030)	7,855,995
Includes: Medical Insurance	-	21,046,564	(16,599,543)	4,447,021
Pension	-	9,838,306	(7,108,197)	2,730,109
Unemployment Insurance	-	2,338,790	(1,783,067)	555,723
Injury Insurance	-	922,745	(858,117)	64,628
Maternity Insurance	-	838,620	(780,106)	58,514
Housing Fund	-	8,275,699	(6,811,670)	1,464,029
Union Fee and Education Fee	-	5,445,098	(2,605,740)	2,839,358
Termination Benefits	65,958,788	-	(10,120,355)	55,838,433
Other Allowances	29,754,615	3,375,555	(2,508,981)	30,621,189
	126,456,239	274,835,764	(249,442,456)	151,849,547

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Employee Benefits (Continued)

At 31 December 2009, no payment of any employee benefits is delayed (December 2008: Nil).

In 2009, the amount union fee and education fee paid is RMB 1,961,836 (in 2008: RMB: 2,605,740), the amount of termination benefit paid is RMB 11,067,070 (in 2008: RMB 10,120,355). No non-monetary benefit was distributed in 2009 (2008: Nil).

(20) Taxes Payable

	2009	2008
Value Added Tax	70,436,105	46,660,776
Consumption Tax	41,009,401	22,164,073
Business Tax	265,448	81,320
Corporation Income Tax	425,211,960	366,301,998
Individual Income Tax	6,570,739	10,752,825
City DevelopmentTax	6,756,307	5,979,432
Others	6,709,487	5,773,830
	556,959,447	457,714,254

(21) Interest Payable

	2009	2008
Interest of short-term Bank Loan	605,030	-
	605,030	-

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(22) Other Payables

	2009	2008
Advertising expenses payable	232,011,818	138,938,687
Distributors deposit payable	126,114,730	188,657,721
Equipment and construction payable	34,987,670	19,605,721
Royalty fee	17,219,809	16,209,426
Supplier deposit payable	6,111,395	19,215,534
Others	60,602,670	30,296,728
	477,048,092	412,923,817

At 31 December 2009, the balance due to the shareholders with voting right of 5% or above is as follows:

	2009	2008
Royalty fee payable to parent company	17,219,809	16,209,426
	17,219,809	16,209,426

At 31 December 2009, significant outstanding balances aged over than one year are as follows:

	Amount payable	Reasons for outstanding
Deposits from suppliers	2,563,120	Deposits
Deposits from distributors	104,160,672	Deposits
	106,723,792	

There was no repayment of the above balances after the balance sheet date.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(23) Long-term Bank Loan

	2009	2008
Guaranteed Loan	3,500,000	-
Credit loan	7,000,000	-
	10,500,000	-

At 31 December 2009, the group obtained a short-term loan (RMB 4,500,000) and a long-term loan (RMB 10,500,000) by pledging a land use right with book value of RMB 8,882,146, and a building with book value of RMB 1,439,022. Meanwhile, a guarantee of RMB8,000,000 was provided by Shihezi Fort Farm, a minority interest holder of a subsidiary.

At 31 December 2009, no matured long-term loan has outstanding balance.

At 31 December 2009, the details of long-term loan are as follows:

Bank	Issuing Date	Mature Date	Currency	Interest Rate (%)	Closing Balance 2009	Closing Balance 2008
National Development Bank	2009-5-31	2012-5-30	RMB	5.40	10,500,000	-

(24) Other Long-Term Liabilities

	2009	2008
Employee Benefit	23,250,000	-

The other long-term liability represented bonus accrued for management based on performance of 2009. According to the bonus payment schedule, the bonus is expected to be paid off in 2011.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(25) Share Capital

	2009	2008
Restricted Shares		
State owned shares	-	-
State owned shares held through legal persons	-	-
Shares held by domestic investors	-	-
Including:	-	-
Shares held by non-state owned legal persons	239,385,120	265,749,120
Domestic individuals	-	-
Shares held by foreign investors	-	-
Including:	-	-
Shares held by foreign legal persons	-	-
Shares held by foreign individuasl	-	-
Total of Restricted Shares	239,385,120	265,749,120
Unrestricted Shares		
A Shares	109,430,880	83,066,880
B Shares	178,464,000	178,464,000
Shares listed in overseas markets	-	-
Others	-	-
Total of Unrestricted Shares	287,894,880	261,530,880
Total shares	527,280,000	527,280,000

Changyu Group Company as a shareholder has been relieved for restriction, with 26,364,000 shares account for 5% of total shares issued. The relieved shares can be traded sine 25 March 2009 (2008: Nil).

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(26) Capital Reserve

2009

	Opening Balance	Increased	Decreased	Closing Balance
Share Premium	557,222,454			557,222,454

2008

	Opening Balance	Increased	Decreased	Closing Balance
Share Premium	557,222,454	-	-	557,222,454

(27) Surplus Reserve

2009

	Opening Balance	Increased	Decreased	Closing Balance
Statutory surplus reserve	295,942,630			295,942,630

2008

	Opening Balance	Increased	Decreased	Closing Balance
Statutory surplus reserve	295,942,630			295,942,630

In accordance with the Company Law of the PRC and the Company's articles of association, the Company is required to appropriate 10% of the net profit reported in the statutory accounts to the statutory surplus reserve fund ("SRF") until the balance of SRF reaches 50% of the Company's share capital.

After fully appropriate SRF, the company is free to appropriate discretionary surplus reserve fund, which can be used to offset prior years' losses, expend company's operating scope or transfer to shares.

Since 31 December 2006, the statutory surplus reserve fund has reached 50% of the issued capital. The board of directors approved that no appropriation of surplus reserve should be appropriated since 2007.

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Retained Profits

	2009	2008
Ending balance of the prior year	1,163,188,086	848,575,292
Add: net profits for the year	1,127,328,843	894,620,794
Less: Final dividends	(632,736,000)	(580,008,000)
Ending balance of retained profits	1,657,780,929	1,163,188,086

Pursuant to the meeting of board of directors held on 14 April 2010, the proposed cash dividend is RMB1.20 per share (based on the total 527,280,000 shares), amounting to a total cash dividend of RMB632,736,000.This dividend distribution plan is subject to approval in the next Annual General Meeting.

(29) Revenue and Cost of Sales

Operating Income is as follows:

	2009	2008
Income from principal operations	4,169,171,608	3,447,556,737
Other operating income	30,231,743	5,885,577
	4,199,403,351	3,453,442,314

	2009	2008
Cost from principal operations	1,182,061,575	1,031,457,939
Other operating cost	9,608,034	4,562,819
	1,191,669,609	1,036,020,758

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(29) Revenue and Cost of Sales (Continued)

In 2009, top 5 customers of operating income are as follows:

	Amount	Percentage of total revenue %
First	39,512,553	0.9
Second	35,932,551	0.9
Third	33,201,687	0.8
Fourth	25,902,916	0.6
Fifth	24,299,141	0.6
	158,848,848	3.8

In 2008, top 5 customers of operating income are as follows:

	Amount	Percentage of total revenue %
First	35,636,948	1.0
Second	31,352,176	0.9
Third	22,396,627	0.6
Fourth	20,367,820	0.6
Fifth	19,180,576	0.6
	128,934,147	3.7

Revenue and cost of sale details are as follows:

	2009	2008
Sales of goods	4,169,171,608	3,447,556,737
Rendering services	30,231,743	5,885,577
	4,199,403,351	3,453,442,314

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(30) Taxes and Surcharges

	2009	2008
Consumption tax	179,231,155	156,696,562
Business Tax	1,269,068	
City construction tax	45,906,636	36,459,414
Education surcharges	26,391,396	20,934,213
land value increment tax	-	197,811
Other	532,859	335,474
	253,331,114	214,623,474

(31) Provision for Impairment of Assets

	2009	2008
Inventory provision	1,457,541	1,635,014

(32) Finance Income

	2009	2008
Interest income	34,344,339	38,399,700
Less: interest cost	(1,005,643)	-
bank charges	(3,106,530)	(3,037,569)
Total	30,232,166	35,362,131

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(33) Investment Income

	2009	2008
Gain on Held to maturity investments	1,050,750	1,026,000
Gain on disposal of trading financial assets	1,556,000	2,936,502
Total	2,606,750	3,962,502

At balance sheet dates, no restriction on collect profit from the investment.

(34) Non-Operation Income

	2009	2008
Gains on disposal of non-current assets	374,118	30,000
Including: disposal of plant property and equipments	374,118	30,000
Government Grant	22,318,815	4,654,572
Gain on Acquisition of Subsidiary	3,606,094	-
Penalty	32,731	291,091
Gain on Inventory stocktake	-	4,331,298
Others	2,465,815	1,181,864
	28,797,573	10,488,825

Detail of government grant is as follows:

	2009	2008
Funding to support major projects	14,831,931	-
Special funds for SME development	3,850,000	-
Tax return	3,240,000	3,640,000
Others	396,884	1,014,572
	22,318,815	4,654,572

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(35) Non-Operation Expenses

	2009	2008
Loss on disposal of non-current assets	5,986	15,664
Including: loss on disposal of property plant and equipments	5,986	-
Donation	55,970	3,037,000
Others	1,537,317	643,581
	1,599,273	3,696,245

(36) Income Tax

	2009	2008
Current income tax	410,585,996	310,886,671
Deferred income tax	(47,316,480)	(22,144,145)
	363,269,516	288,742,526

The calculation of income tax based on profit is as follows:

	2009	2008
Profit before tax	1,499,254,984	1,183,248,986
	25%	25%
Income tax at PRC statutory income tax rate	374,813,746	295,812,246
Subsidiaries are subject to different income tax rates	(13,498,630)	(11,386,107)
Tax losses not recognized	5,388,607	5,848,658
Non taxable income	(4,201,733)	5,262,746)
Expenses not deductible for taxation purpose	4,972,878	3,730,475
Deductable loss	(2,423,353)	-
Effect on deferred tax as a result of change in tax rate	(1,781,999)	-
Tax charge at effective tax rate	363,269,516	288,742,526

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(37) Earnings per Share

	2009	2008
Earnings		
Earnings per share attributable to ordinary shareholders	1,127,328,843	894,620,794
Shares		
Weighted average number of ordinary shares issued	527,280,000	527,280,000
Basic earnings per share	2.14	1.70
Diluted earnings per share	2.14	1.70

The company does not have dilutive potential ordinary shares.

After balance sheet date to the reporting date, no subsequent events took place which affects the number of the issued ordinary shares or potential ordinary shares.

(38) Notes to Subjects in Cash flow statement

Other cash received related to operation:

	2009	2008
Government Grant	19,078,631	1,014,572
Dealers deposit	-	126,202,604
Others	6,739,088	4,376,060
	25,817,719	131,593,236

Other cash paid related to operation:

	2009	2008
Selling Expense	913,414,232	681,344,221
G&A Expense	101,670,230	85,231,124
Others	47,082,5	3,938,825
	1,062,167,011	770,514,170

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(39) Supplemental Material to Cash flow Statement

(i) Supplemental Material to Cash flow Statements

Reconciled the net profit to Cash flow from operating activities

	2009	2008
Net profit	1,135,985,468	894,506,460
Less: Gain on acquisition of subsidiary	3,606,094	-
Add: Provision for impairment of assets	1,457,541	1,635,014
Depreciation	54,890,457	53,924,592
Intangible assets amortization	3,737,791	4,197,409
Biological assets amortization	1,018,394	-
Amortization of long term prepaid expenses	850,498	968,074
Losses on disposal of property, plant and equipments	(368,132)	-
Finance costs	(33,338,696)	(39,968,711)
Investment income	(2,606,750)	3,962,502)
Increase in deferred tax assets	(47,316,480)	(22,144,145)
Increase in inventories	(126,073,684)	(162,130,841)
Increase in operating receivables	(49,620,254)	27,289,518
Increase in operating payables	424,577,456	496,731,662
Net cash flows from operating activities	1,359,587,515	1,251,046,530

(2) Information of Subsidiary acquired (continued)

	2009	2008
Consideration value of the acquisition	60,000,000	-
Cash and cash equivalents paid	60,000,000	-
Less：Cash and cash equivalents owned by the subsidiary	102,851,536	-
Net cash acquired of the subsidiary	42,851,536	-
Net asset acquired of the subsidiary	106,010,156	-
Current assets	126,903,333	-
Non-current assets	70,202,694	-
Current liabilities	78,639,770	-
Non-current liabilities	12,456,101	-

5. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(39) Supplemental Material to Cash flow Statement (Continued)

(3) Cash and Cash Equivalents

	2009	2008
Cash	1,998,681,278	792,724,722
Including：		
Petty cash	218,086	129,612
Bank deposit that can be immediately used to pay	1,977,259,840	792,592,613
Other monetary capital that can be immediately used to pay	21,203,352	2,497
Closing balance of cash and cash equivalents	1,998,681,278	792,724,722

6. RELATED PARTY AND RELATED PARTY TRANSACTIONS

(1) Parent Company

Name of Parent Company	Type of Enterprise	Place of Registration	Legal Representative	Scope of business	Registered Capital	Percentage of Shares	Percentage of Voting Rights	Code of the Organization
Changyu Group Company	Limited Company	Yantai	Sun Liqiang	Manufacturing	50,000,000	50.4%	50.4%	265 645 824

During the year ended 31 December 2009, there is no change in parent company's registered capital, holding shares or voting rights.

(2) Subsidiaries

Please refer to Note 4 (1).

(3) Other Related Parties

	Nature of related parties	Code of the organization
Yantai Changyu Travelling Company Limited	Fellow subsidiary	258 258 654
Yantai Changyu International Window of the Wine City Company Limited	Fellow subsidiary	672 208 146

(4) Significant related party transactions

(i) Sales to Related Party

	2009	2008
Yantai Changyu Travelling Co. Ltd.	6,547,801	5,104,530
Yantai Changyu International Window of the Wine City Company Limited	1,897,582	549,564
	8,445,383	5,654,094

All related party transactions are based on the negotiated price.

Till 31 December 2009, sales to related parties are account for less than 1% of the Group's total sales (for 2008: less than 1%).

6. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Significant related party transactions (Continued)

(ii) Purchases from Related Party

	2009	2008
Yantai Changyu Travelling Co. Ltd.	3,616,396	-
Yantai Changyu International Window of the Wine City Company Limited	148,440	-
	3,764,836	-

All related party transactions are based on the negotiated price.

Till 31 December 2009, sales to related parties are account for less than 1% of the Group's total sales (for 2008: less than 1%).

(iii) Property leasing agreements

2009	Note	lessee	Assets leased	Amount of assets leased	Beginning Date	Ending Date	Contract Amount
Changyu Group Company	(a)	Yantai Changyu Pioneer Wine Company Limited	Warehouse and Office building	6,383,000	2007/1/1	2011/12/31	6,383,000

2008	Note	lessee	Assets leased	Amount of assets leased	Beginning Date	Ending Date	Contract Amount
Changyu Group Company	(a)	Yantai Changyu Pioneer Wine Company Limited	Warehouse and Office building	6,383,000	2007/1/1	2011/12/31	6,383,000

(a) Pursuant to a patents implementation license dated 28 November 2006, starting from 1 January 2007, the Company may rent properties from Changyu Group Company for operation purposes at a basic annual rental of RMB 6,383,000, and the expired date is 31 December 2011. For the year ended 31 December 2009, the rental expenses payable to Changyu Group Company amounted to RMB 6,383,000 (2008: RMB 6,383,000).

During 2009, leasing expenses paid to related company are account for 18.4% of the Group (during 2008: 23.6%).

6. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(iv) Other Significant Related Party Transactions

	Note	2009 Amount	2008 Amount
Trademark license fee	（a）	83,387,685	69,068,846
Patent fee	（b）	50,000	50,000

All related party transactions are based on the negotiated price.

(a) Trademarks License

Pursuant to a trademark's license agreement dated 18 May 1997, starting from 18 September 1997, the Company may use certain trademarks of Changyu Group Company, which have been registered with the PRC Trademark Office. An annual fee at 2% of the Group's annual sales is payable to Changyu Group Company. The license is effective until the expiry of the registration of the trademarks.

During 2009, trademark license fee paid to related company are account for 100% of the Group (during 2008: 100%).

(b) Patents

Pursuant to a patents implementation license dated 18 May 1997, starting from 18 September 1997, the Company may use the patents of Changyu Group Company. The annual patents usage fee payable by the Company to Changyu Group Company is RMB 50,000. The contract was expired on 20 December 2005. The Company renewed the contract on 20 August 2006 for 10 years, the annual patents usage fee payable by the Company to Changyu Group Company is still RMB 50,000. For the year ended 31 December 2009, the patents usage fee payable to Changyu Group Company amounted to RMB 50,000 (2008: RMB 50,000).

During 2009, patent fee paid to related company are account for 100% of the Group (during 2008: 100%).

(v) Payroll to the Management by the Board of directors

	2009	2008
Payroll to the management	7,980,000	7,055,900

6. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Balance of account receivable/other payable of the related parties

	2009	2008
Account payable		
Yantai Changyu Travelling Co. Ltd.	114,900	663,143
Yantai Changyu International Window of the Wine City Company Limited	-	66,915
Other payable		
Trademark license paid to parent company	16,224 ,881	16,209,426

These balances are from daily operating activities, and interest free, no determined repayment date.

7. CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities as at balance sheet date.

8. COMMITMENT

	2009	2008
Capital Commitments		
Authorized by the board of directors but not contracted	17,030,443	179,400,760

At 31 December 2009, the Company fulfilled capital commitments in 2008.

9. POST BALANCE SHEET DATE EVENTS

On 14 April 2010, the board of the directors proposed a cash dividend in respect of 2009 issued shares of 527,280,000 of RMB12 per 10 shares, amounting to a total cash dividend of RMB 632,736,000. The proposed dividend is subject to the approval from the Annual General Meeting.

10. OTHER SIGNIFICANT EVENTS

(1) Business Combination

For details, please refer to Note 4 (4).

(2) Lease

As Lessee

Significant operating lease: the company has total future minimal lease payments under non-cancelable contract with leasor are as follow:

	31 Dec 2009	31 Dec 2008
Within One Year	20,454,169	14,235,372
One Year to Two Years	15,468,241	11,204,647
Two Years to Three Years	3,562,622	9,590,248
Three Years and above	12,258,047	15,464,635
	51,743,079	50,494,902

(3) Segment Report

Over 99% of the Group's revenue is generated from domestic customers, and 100% assets of the Group are located in mainland China. Since the major customers and operating activities are located in mainland China, it is not necessary to disclose detailed geographical segment information. The business of the Group is all related to the manufacturing and sales of wines, so it is not necessary to disclose business segment information.

10. OTHER SIGNIFICANT EVENTS (CONTINUED)

(4) Financial Instrument and related risks

The Group's instruments are aggregated with cash and bank, trade receivables, hold-to-maturity investments and so on, which is mainly use to gain the working capital for the company through the investment activities. The group has a series of other financial instruments and liabilities due to the diversification, such as trade receivables, other receivables, trade payables and other payables.

The financial instruments cause the Company exposure to credit risk, liquidity risk and market risk.

CLASSIFICATION FOR FINANCIAL INSTRUMENT

On balance sheet date, Company's financial instruments have following book value:

2009

Financial Assets

	Loan and Receivable	Total
Cash and Bank	2,545,210,286	2,545,210,286
Bills Receivable	38,107,831	38,107,831
Trade Receivables	98,022,443	98,022,443
Other Receivables	22,424,303	22,424,303
Interest Receivables	8,969,343	8,969,343
	2,712,734,206	2,712,734,206

Financial Liabilities

	Other Financial Liability	Total
Trade Payables	343,079,052	343,079,052
Other Payables	477,048,092	477,048,092
Short-Term Loan	224,500,000	224,500,000
Long-Term Loan	10,500,000	10,500,000
	1,055,127,144	1,055,127,144

10. OTHER SIGNIFICANT EVENTS (CONTINUED)

(4) Financial Instrument and risk analysis (Continued)

CLASSIFICATION FOR FINANCIAL INSTRUMENT (Continued)

2008

Financial Assets

	Hold to Maturity	Loan and Receivable	Total
Cash and Bank	-	1,748,573,840	1,748,573,840
Bills Receivable	-	13,378,706	13,378,706
Trade Receivables	-	82,343,029	82,343,029
Other Receivables	-	23,713,826	23,713,826
Interest Receivables	-	19,176,250	19,176,250
Long-Term Debts Investment	15,000,000	-	15,000,000
	15,000,000	1,887,185,651	1,902,185,651

Financial Liabilities

	Other Financial Liability	Total
Trade Payables	220,708,265	220,708,265
Other Payables	412,923,817	412,923,817
	633,632,082	633,632,082

CREDIT RISK

Credit risk arises mainly from the risk that counterparties defaulting on the terms of their agreements.

The Group only conducts transactions with being authorized and good credit third parties. In according with Group's policy, the Group requires sales on credit term only apply to those third parties who satisfy the credit assessment. In addition, the Group keeps continuing control on trade receivables and other receivables to ensure that the Group will not face significant credit risk. For those not using the entity's functional currency transactions, unless the Group's Credit Control Department approval, they are not offered the credit term of trade.

10. OTHER SIGNIFICANT EVENTS (CONTINUED)

(4) Financial Instrument and risk analysis (Continued)

CREDIT RISK (Continued)

The Group's instruments includes cash and bank, trade receivables, other receivables and hold-to-maturity investments, which their credit risk derived from impairment of their values caused by counterpart default or poor management of counterpart. The greatest risk that exposes to the Group is equivalent to these financial assets' book value.

The Group only conducts transactions with being authorized and good credit third parties, therefore there is no guaranty for the third parties. Credit risk management focuses on different clients, geographic areas and industries. Base on nature of the Group's business, the credit risk has been spread to a large number of customers therefore the Company has no significant credit risk.

The Group's credit risk caused by trade receivables and other receivables are measured in No.5 (3) and (6).

As at 31 December 2009, the financial assets aging analysis is as follows:

2009

	Total	Not Overdue	Overdue			
		Not Impairment	Within 1 Month	1 to 3 Months	3 to 6 Months	Over 6 Months
Trade Receivables	98,022,443	98,022,443	-	-	-	-
Other Receivables	22,424,303	22,424,303	-	-	-	-
Bills Receivable	38,107,831	38,107,831	-	-	-	-
Interest Receivables	8,969,343	8,969,343	-	-	-	-
	167,523,920	167,523,920	-	-	-	-

10. OTHER SIGNIFICANT EVENTS (CONTINUED)

(4) Financial Instrument and risk analysis (Continued)

CREDIT RISK (Contined)

2008

	Total	Not Overdue Not Impairment	Overdue			
			Within 1 Month	1 to 3 Months	3 to 6 Months	Over 6 Months
Trade ss	82,343,029	82,343,029	-	-	-	-
Other Receivables	23,713,826	23,249,683	-	-	-	464,143
Bills Receivable	13,378,706	13,378,706	-	-	-	-
Interest Receivables	19,176,250	19,176,250	-	-	-	-
Long Term Debts Investment	15,000,000	15,000,000	-	-	-	-
	153,611,811	153,147,668	-	-	-	464,143

LIQUIDITY RISK

Liquidity risk represents the risk for shortage of fund to repay financial liabilities, which may arise from failure to sell the financial assets at fair value timely, default on counterparties to pay its liabilities, repay the liabilities in advance or no projected cash flows from operations can be generated.

The following summarized financial assets and financial liabilities' aging analysis:

2009

Financial Assets

	1 to 3 Months	3 to 12 Months	1 to 5 Years	Total
Cash and Bank	2,319,258,085	225,952,201	-	2,545,210,286
Trade Receivables	10,942,889	27,164,942	-	38,107,831
Bills Receivable	98,022,443	-	-	98,022,443
Other Receivables	19,099,030	-	3,325,273	22,424,303
	2,447,322,447	253,117,143	3,325,273	2,703,764,863

10. OTHER SIGNIFICANT EVENTS (CONTINUED)

(4) Financial Instrument and risk analysis (Continued)

LIQUIDITY RISK (Continued)

Financial Liability

	1 to 3 Months	3 to 12 Months	1 to 5 Years	Total
Trade Payables	-	235,259,000	-	235,259,000
Other Payables	-	-	11,958,000	11,958,000
Short Term Loan	343,079,052	-	-	343,079,052
Long Term Loan	350,933,362	126,114,730	-	477,048,092
	694,012,414	361,373,730	11,958,000	1,067,344,144

The Group raise fund mainly through increase shares. The Group's financial liabilities are mainly arisen from advance from customers directly form operation, trade payables, and other payables due in 3 months (except deposit). The financial liabilities' book value is equal to their fair value. The Group believes that the Group could cash the financial liabilities to generate funds to pay off matured financial liabilities. Therefore, there is no significant liquidity risk.

2008

Financial Assets

	1 to 3 Months	3 to 12 Months	1 to 5 Years	Total
Cash and Bank	370,000,000	1,378,573,840	-	1,748,573,840
Trade Receivables	13,378,706	-	-	13,378,706
Bills Receivable	82,343,029	-	-	82,343,029
Other Receivables	19,813,906	-	3,899,920	23,713,826
Held-to-Maturity Investment	-	15,000,000	-	15,000,000
	485,535,641	1,393,573,840	3,899,920	1,883,009,401

Financial Liability

	1 to 3 Months	3 to 12 Months	1 to 5 Years	Total
Trade Payables	215,645,069	-	5,063,196	220,708,265
Other Payables	331,506,683	-	81,417,134	412,923,817
	547,151,752	-	86,480,330	633,632,082

10. OTHER SIGNIFICANT EVENTS (CONTINUED)

(4) Financial Instrument and risk analysis (Continued)

MARKET RISK

Market risk represents the fair value of financial instruments or the present value of future cash flows may vary by the market price. Market risk includes interest rate risk, foreign currency risk and other pricing risk.

INTEREST RATE RISK

Interest rate risk represents the fair value of financial instruments of the present value cash flows may vary by the change of interest rate.

The earnings and cash flow from operating activities are generally independent with fluctuation of market interest rate, and there were no significant interest bearing assets and liabilities except for cash in bank. The company believes that the Group has no significant concentration of interest rate risks, and no interest rate swaps are designated to hedge against interest rate risks.

FOREIGN CURRENCY RISK

Foreign currency risk represents the risks on fluctuation of fair value of financial instruments or the future cash flow as a result of the fluctuation in foreign exchange.

The group has no significant concentration of foreign currency risk because its business is principally conducted in PRC and all transactions are denominated in RMB.

FAIR VALUE

The Group’s instruments are aggregated with cash and bank, trade receivables, other receivables and hold-to-maturity investments, where their book value equivalent to their fair value. On 31 December 2009, except restricted bank deposit, the Company states that the Group has no other restricted for cashing financial instrument. The Group has no other financial instrument should be impaired or accrued provision, except those have been impaired or accrued provision.

11. NOTES TO COMPANY FINANCIAL STATEMENTS

(1) Trade Receivables

The normal credit term of trade receivables is one month, which can be extended to three months for certain major customers. The trade receivables are interest free.

The ageing analysis is as follows:

	2009	2008
Within 1 year	13,163,722	13,271,136

At 31 December 2009, there was no account receivable provision (31 December 2008: Nil).There was no bad debt provision accrued or reversed by the management in 2009 (31 December 2008: Nil)

	2009			2008		
	Amount	%	Provision	Amount	%	Provision
Individually significant	13,163,722	100.0	-	13,271,136	100.0	-
Others	-	-	-	-	-	-
	13,163,722	100.0	-	13,271,136	100.0	-

As at 31 December 2009, there was no account receivable due from the Company's shareholders with voting rights of 5% or above. (31 December 2008: Nil)

As at 31 December 2009, summary of top 5 account receivables amount is as follows:

	Relationship with the group	Amount	Aging	Ratio of total receivables %
First	Third party	7,573,194	Within 1 year	57.5
Second	Third party	3,790,528	Within 1 year	28.8
Third	Third party	1,800,000	Within 1 year	13.7
		13,163,722		100.0

11. NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

(1) Trade Receivables (continued)

As 31 December 2008, summary of top 5 account receivable amount is as follows:

	Relationship with the group	Amount	Aging	Ratio of total receivables %
First	Third party	9,920,120	Within 1 year	74.8
Second	Third party	3,351,016	Within 1 year	25.2
		13,271,136		100.0

At 31 December 2009, no outstanding balance was received from related parties (31 December 2008: Nil).

(2) Other Receivables

The aging analysis is as follows:

	2009			2008		
	Book Value	Bad debt Provision	Account Balance	Book Value	Bad debt Provision	Account Balance
Within 1 year	303,587,507	-	303,587,507	357,013,168	-	357,013,168
1 to 2 years	325,731,990	-	325,731,990	3,828,069	-	3,828,069
2 to 3 years	3,632,994	-	3,632,994	8,464,143	8,000,000	464,143
Over 3 years	8,464,143	8,000,000	464,143	-	-	-
	641,416,634	8,000,000	633,416,634	369,305,380	8,000,000	361,305,380

	2009				2008			
	Amount	%	Bed debt provision	%	Amount	%	Bed debt provision	%
Individually significant	610,311,334	95.1	8,000,000	1.3	362,947,856	98.3	8,000,000	2.2
Others	31,105,300	4.9	-	-	6,357,524	1.7	-	-
	641,416,634	100.0	-	-	369,305,380	100.0	8,000,000	-

11. NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

(2) Other Receivables (continued)

The movement of bad debt provision of other receivables is as follows:

	At beginning of year	At end of year
2009	8,000,000	8,000,000
2008	8,000,000	8,000,000

As at 31 December 2009, there was no other receivable due from the shareholders with voting rights of 5% or above. (31 December 2008: Nil)

As at 31 December 2009, summary of top 5 other receivables amount is as follows:

	Relationship with the group	Amount	Aging	Ratio of total advances to suppliers %
First	related party	324,566,508	Within 1 year	50.6
Second	related party	150,658,194	Within 1 year	23.4
Third	related party	50,283,910	Within 1 year	7.9
Fourth	related party	37,644,733	Within 1 year	5.9
Fifth	related party	35,573,246	Within 1 year	5.6
		598,726,591		93.4

As at 31 December 2008, summary of top 5 other receivables amount is as follows:

	Relationship with the group	Amount	Aging	Ratio of total advances to suppliers %
First	related party	218,827,621	Within 1 year	59.2
Second	related party	52,432,295	Within 1 year	14.2
Third	related party	35,270,498	Within 1 year	9.5
Fourth	related party	16,978,245	Within 1 year	4.5
Fifth	third party	8,464,143	Within 1 year	2.7
		331,972,802		90.1

At 31 December 2009, the balance of other receivable from related parties is RMB 598,726,591.about 93.4% of total other receivables. These were all from subsidiaries of the Company (2008: the balance of other receivable from related parties is RMB 325,731,990, about 88.2% of total other receivables).

11. NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

(3) Long-Term Equity Investment

	Initial Cost	Opening Balance	Movement for the year	Closing Balance	Share Holding %	Voting Right %	Cash Dividends for the year
Cost Method:							
Xinjiang Tianzhu	60,000,000	-	60,000,000	60,000,000	60	60	-
Vehicular Transportation	300,000	300,000	-	300,000	100	100	-
Kylin Packaging	5,953,878	5,953,878	-	5,953,878	50	62.5	-
Changyu-Castel	28,968,100	28,968,100	-	28,968,100	70	100	-
AFIP Tourism	350,000	350,000	-	350,000	70	70	-
Pioneer International	3,500,000	3,500,000	-	3,500,000	70	100	-
Ningxia Growing	1,000,000	1,000,000	-	1,000,000	100	100	-
National Wines	2,000,000	2,000,000	-	2,000,000	100	100	-
Ice Chateau	13,413,000	13,413,000	-	13,413,000	51	100	-
Beijing Chateau	77,000,000	77,000,000	-	77,000,000	70	70	-
Sales Company	7,200,000	7,200,000	-	7,200,000	90	100	1,150,000,000
Langfang Sales	100,000	100,000	-	100,000	10	100	-
Langfang Castel	12,142,200	12,142,200	-	12,142,200	49	100	-
Wines Sales	4,500,000	4,500,000	-	4,500,000	90	100	-
Shanghai Sales	300,000	300,000	-	300,000	30	100	-
Beijing Sales	350,000	350,000	-	350,000	70	100	-
Jingyang Sales	100,000	100,000	-	100,000	10	100	-
Jingyang Wine	900,000	900,000	-	900,000	90	100	-
Ningxia Wine	1,000,000	1,000,000	-	1,000,000	100	100	-
Yantai Dingtao	10,000,000	10,000,000	-	10,000,000	18	18	-
	229,077,178	169,077,178	60,000,000	229,077,178			1,150,000,000

During 2009, the ability of transfer of funds from the invested subsidiaries and joint ventures to the Company was not restricted.

At 31 December, there was no impairment provision accrued for these long-term equity investments (31 December 2008: Nil).

11. NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

(4) Revenue and Cost of Sales

Revenue is as follows:

	2009	2008
Income from principal activities	1,280,473,503	1,203,589,401
Other operating income	2,309,383	4,948,121
	1,282,782,886	1,208,537,522

Cost of sales is as follows:

	2009	2008
Cost from principal activities	955,688,175	943,134,502
Other operating cost	1,396,406	3,935,634
	957,084,581	947,070,136

In 2009, top 5 customers are as follows:

	Amount	Percentage of total revenue %
First	1,241,670,695	96.8
Second	13,438,739	1.0
Third	10,438,913	0.8
Fourth	9,942,227	0.8
Fifth	3,368,185	0.3
	1,278,858,759	99.7

In 2009, top 5 customers of the Company are all subsidiaries.

11. NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

(4) Revenue and Cost of Sales (Continued)

In 2008, top 5 customers are as follows:

	Amount	Percentage of total revenue %
First	1,112,777,644	92.1
Second	31,813,646	2.6
Third	7,678,181	0.6
Fourth	6,402,472	0.5
Fifth	5,995,524	0.5
	1,164,667,467	96.3

In 2008, top 5 customers of the Company are all subsidiaries.

Revenue and Cost of Sales are as follows:

	2009	2008
Sales of goods	1,280,473,503	1,203,589,401
Rendering services	2,309,383	4,948,121
	1,282,782,886	1,208,537,522

(5) Gain on Investment

	2009	2008
Gain on equity investment under cost method	1,150,000,000	969,848,968
Gain on held to maturity invest	1,050,750	1,026,000
Gain on disposal of trading financial assets	1,556,000	2,936,501
	1,152,606,750	973,811,469

Of all equity investment under cost method, subsidiaries and joint ventures on which investment gain excess 5% of total profit is as follows:

Invested subsidiaries and joint ventures	2009	2008
Sales company	1,150,000,000	969,848,968

At 31 December 2009, collecting profit from the investment has no restriction.

11. NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

(6) Supplemental Material to Cash flow Statements

Reconciled the net profit to Cash flow from operating activities

	2009	2008
Net profit	1,209,691,757	992,829,006
Add: Depreciation	32,473,315	37,444,665
Intangible assets amortization	3,069,076	3,069,076
Biological assets amortization	293,452	-
Losses on disposal of property, plant and equipments	(331,688)	-
Finance costs	(35,242,044)	(36,639,174)
Investment income	(1,152,606,750)	(973,811,469)
Increase in deferred tax assets	(11,365,115)	2,138,914
Increase in inventories	(28,465,549)	(5,887,970)
Increase in operating receivables	(293,343,206)	(205,124,744)
Increase in operating payables	84,522,466	238,313,338
Net cash flows from operating activities	(191,304,286)	52,331,642

(7) Cash and Cash Equivalents

	2009	2008
Cash and bank	1,159,666,918	265,694,858
Including: Petty Cash	46,731	43,844
Bank that can be readily used to pay	1,138,420,187	265,651,014
Other monetary capital that can be readily used to pay	21,200,000	-
Cash and cash equivalents at end of year	1,159,666,918	265,694,858

1. DETAILS OF NON-CURRING PROFIT AND LOSS

	2009
Gain on disposal of non-current assets, including the reversal of accrued impairment provision	368,132
Tax return or relief ultra vires approved, without formal documented or occasionally happened	3,240,000
Government grant accounted in profit and loss this year (except for those that closely related to the operation, under national laws or in accordance with certain criteria)	19,078,631
Gain on negative goodwill when acquiring subsidiaries, joint ventures or consortium ventures	3,606,094
Gain on fair value change of trading financial assets, Trading financial liabilities except for effective hedges that closely related to the operation and gain on disposal of trading financial assets, trading financial liabilities and available for sale financial assets	1,556,000
Other non-operating income	905,443
	28,754,300
Amount affected on CIT	(7,188,575)
Amount affected on non-controlling interest	(1,032,161)
	20,533,564

2. RETRUN ON NET ASSETS AND EARNINGS PRE SHARE

2009	Weighted Average return on net assets (%)	Basic earnings per share (RMB)
Net profit attributable to shareholders of the Company	41.17	2.14
Net profit attributable to shareholders of the Company deduct Non-incidental profits	40.42	2.10

There are no potential dilutive shares outstanding.

2008	Weighted Average return on net assets (%)	Basic earnings per share (RMB)
Net profit attributable to shareholders of the Company	38.26	1.70
Net profit attributable to shareholders of the Company deduct Non-incidental profits	37.95	1.68

There is no potential dilutive share outstanding.

3. VARIANCE ANALYSIS

Analysis on items with fluctuation more than 30% (inclusive) in consolidated financial statements or balance greater than 5% (inclusive) of the total assets at the balance sheet date or amount greater than 10% (inclusive)of gross profit of the reporting period.

(1) The balance of cash and bank as at 31 December 2009 was RMB 2,545,210,286, which increased of RMB 796,636,446 compared with the balance at 31 December 2008. The increase was due to the increased cash inflow from operating activities in line with the sales expansion.

(2) The balance of bills receivable as at 31 December 2009 was RMB 38,107,831, which increased RMB 24,729,125 compared with the balance at 31 December 2008. The increase was mainly due to the sale increased rapidly in current year.

(3) The balance of advance to suppliers as at 31 December 2009 was RMB 31,885,027, which increased RMB 26,606,042 compared with the balance at 31 December 2008. The increase was due to the increased productivities.

(4) The balance of interest receivable as at 31 December 2009 was RMB 8,969,343, which decreased RMB 10,206,907 compared with the balance at 31 December 2008. The decrease was due to the decreased term deposit balance and decreased interest rate.

(5) The balance of inventory as at 31 December 2009 was RMB 1,131,240,892, which increased by 13.4% as compared with that of 31 December 2008. The increase was mainly due to the increase in purchase of semi-products and raw materials as a result of the sales expansion and more stock of finish good in the year end due to the sales of the sales company increased rapidly in current year.

(6) The balance of long term debt investments due within one year as at 31 December 2009 was nil, which decreased RMB 15,000,000 compared with the balance at 31 December 2008. The decrease was due to the 5 years bond was due in current year.

(7) The balance of property, plant and equipment as at 31 December 2009 was RMB 996,792,865, increasing by 36.9% as compared with that of 31 December 2008. The increase was mainly due to many projects in progress were completed and transferred to property, plant and equipment, and the Group made significant investment in machineries to keep up with the development in production capability during current year.

(8) The balance of biological assets as at 31 December 2009 was RMB 147,509,555, increasing by 45.4% as compared with that of 31 December 2008, which was mainly due to the addition of land use right in subsidiaries.

(9) The balance of long-term prepaid expenses was RMB 38,956,022 as at 31 December 2009 which increased more than 81.6% compared with that of 31 December 2008. The increase was mainly due to the increased land expropriation fee of Beijing AFIP chateau.

3. VARIANCE ANALYSIS (CONTINUED)

(10) The balance of deferred tax assets as at 31 December 2009 was RMB 139,267,274, which increased RMB 47,316,480 compared with the balance at 31 December 2008. The increase was due to the accrued but not paid bonus and non-realized profit from inter-group sales.

(11) The balance of short term loan as at 31 December 2009 was RMB 224,500,000, which increased by 100% compared with the nil balance at 31 December 2008. short term loan was mainly due to the operating needs of the company.

(12) The balance of trade payables was RMB 343,079,052 as at 31 December 2009, increasing by 55.4% as compared with that of 31 December 2008. The increase was mainly due to the increased storage of the raw wine and blended wine and the production dimension and volume enlargement as a result of several new production lines was put into operation during current year.

(13) The balance of advance from customers as at 31 December 2009 was RMB 371,221,002, which increased RMB 182,511,835 compared with the balance at 31 December 2008. The increase was mainly due to the increased selling agencies and the increased revenue.

(14) The balance of taxes payable was RMB 556,959,447 as at 31 December 2009, increasing by 21.7% as compared with that of 31 December 2008. The increase was mainly attributable to income taxes payable in line with the increase in gross profit and value added tax increased for the selling peak season in end of 2009.

(15) The balance of other payables was RMB 477,048,092 as at 31 December 2009, increasing about 15.5% as compared with that of 31 December 2008. The increase was mainly contributed by more propaganda of advertising expense payable. In 2009, there were an increasing number of new selling agencies, so deposition of selling agencies increased accordingly.

(16) The balance of long term loan was RMB 10,500,000 as at 31 December 2009, increasing 100% as compared with nil balance 31 December 2008. The company's subsidiary use long term loan to meet its operating needs.

(17) The balance of other long term liabilities was RMB 23,250,000 as at 31 December 2009, increasing 100% as compared with nil balance 31 December 2008. The company accrued extra bonus based on operating performace.

(18) The balance of issued capital was RMB 527,280,000 as at 31 December 2008 with no fluctuation as compared with that of 31 December 2008.

(19) The balance of capital surplus was RMB 557,222,454 as at 31 December 2008, with no fluctuation as compared with that of 31 December 2008.

(20) The balance of surplus reserve was RMB 295,942,629 as at 31 December 2008, and no fluctuation as compared with that of 31 December 2007. As at 31 December 2006, the statutory surplus reserve fund has accounted to the 50% of the issued capital, so no appropriation of net profit is made to surplus reserve.

3. VARIANCE ANALYSIS (CONTINUED)

(21) The balance of retain earning was RMB 1,657,780,929 at 31 December 2009, increasing by 42.5% as compared with that of the year 2008.

(22) The balance of minority interests at the end of 2009 was RMB 136,455,048, increasing by 59.8% as compared with that of the year 2008. The increase was mainly due to the acquisition of new subsidiary, Xinjiang tianzhu, which increase minority interest by RMB 42,404,062. Meantime, the share of profits attributable to the minority shareholders was RMB 8,656,625.

(23) The operating income for the year ended 31 December 2009 was RMB 4,199,403,351, increasing by 21.6% as compared with that of the year 2008. The increase was mainly contributed by the continuously stable growth in sales of wine, champagne and brandy. The operating cost the year ended 31 December 2009 was RMB 1,191,669,609, increasing by about 15.0% as compared with that of year 2008. The increase was mainly due to the increase in sales revenue.

(24) The tax surcharges for the year ended 31 December 2009 was RMB 253,331,114, increasing 18.0% as compared with that of year 2008. The increase mainly contributes by the increasing of advertising fee, transportation fee, and salary of sales clerk.

(25) The selling expense for the year ended 31 December 2009 was RMB 1,093,674,541, increasing by 25.7 % as compared with that of the year 2008. The increase was mainly due to the operating scale enlargement, the increase in promotion fee together with the increase in salary and bonus of sales clerk.

(26) The administrative expense for the year ended 31 December 2009 was RMB 220,052,778, increasing by 13.3 % as compared with that of the year 2008. The increase was mainly due to the increase of depreciation and the staff welfare.

(27) The non-operating income for the year ended 31 December 2009 was RMB 28,797,573, increasing by RMB 18,308,748 as compared with year 2008. The increase was mainly due to the addition of governmental grant.

XII. Reference Documents

(1)The original of annual report autographed by the chairman.

(2)The financial statements autographed and signed by the chairman, chief accountant and accountants in charge.

(3)The Prospectus and Public Offering Announcement for Stock B in 1997, the Prospectus and The Shares' Change & Public Offering Announcment for Stock A in 2000.

(4) The originals of all documents and announcements that the company made public during the report period in the newspapers designated by China Securities Regulatory Commission.

Yantai Changyu Pioneer Wine Company Limited
Board of Directors
April 16th, 2010