TONTINE

CHINA TONTINE WINES GROUP LIMITED
中國通天酒業集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 389)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 81.9% to approximately RMB68.6 million (2012: RMB379.2 million)

- Gross loss was approximately RMB0.8 million as compared with the gross profit of approximately RMB217.7 million for the same period last year.

- Loss and total comprehensive expense for the period attributable to owners of the Company was approximately RMB85.6 million as compared with the profit and total comprehensive income attributable to owners of the Company of approximately RMB75.5 million for the same period last year.

- Basic loss per share was approximately RMB4.3 cents as compared with a basic earning per share of approximately RMB3.7 cents for the same period last year.

The board (the "Board") of directors (the "Directors") of China Tontine Wines Group Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2013 (the "Period"), together with the comparative figures for the six months ended 30 June 2012, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Six months ended 30 June	
		2013	2012
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**68,559**	379,158
Cost of sales		**(69,324)**	(161,444)
Gross (loss) profit		**(765)**	217,714
Other income	*5*	**4,851**	3,647
Selling and distribution expenses		**(70,811)**	(80,960)
Administrative expenses		**(18,833)**	(26,970)
(Loss) profit before tax	*6*	**(85,558)**	113,431
Income tax expense	*7*	**–**	(37,957)
(Loss) profit and total comprehensive (expense) income for the period attributable to owners of the Company		**(85,558)**	75,474
(Loss) earnings per share	*8*		
Basic (RMB cents)		**(4.3)**	3.7
Diluted (RMB cents)		**(4.3)**	3.7

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2013

	Notes	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Non-current Assets			
Property, plant and equipment	10	**278,330**	287,213
Prepaid lease payments		**71,923**	80,542
Deposits paid for acquisition of property, plant and equipment		**100,580**	17,780
Deposits paid for a potential acquisition	11	**94,618**	94,618
Biological assets	12	**6,681**	5,165
		552,132	485,318
Current Assets			
Inventories		**278,491**	255,374
Trade receivables	13	**20,932**	78,072
Deposits and other receivables		**6,836**	7,655
Prepaid lease payments		**2,825**	2,965
Tax recoverable		**5,547**	–
Bank balances and cash		**974,216**	1,104,903
		1,288,847	1,448,969
Current Liabilities			
Trade payables	14	**6,729**	7,928
Other payables and accruals		**16,943**	23,494
Tax liabilities		**9,600**	9,600
		33,272	41,022
Net Current Assets		**1,255,575**	1,407,947
Total Assets Less Current Liabilities		**1,807,707**	1,893,265
Non-current Liability			
Deferred tax liability		**41,707**	41,707
		1,766,000	1,851,558
Capital and Reserves			
Share capital		**17,624**	17,624
Reserves		**1,748,376**	1,833,934
Total Equity		**1,766,000**	1,851,558

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Share capital (unaudited) *RMB'000*	Share premium (unaudited) *RMB'000*	Special reserve (unaudited) *RMB'000* *(Note a)*	Statutory reserves (unaudited) *RMB'000* *(Note b)*	Share option reserve (unaudited) *RMB'000*	Retained profits (unaudited) *RMB'000*	Total (unaudited) *RMB'000*
At 1 January 2013	**17,624**	**910,541**	**86,360**	**130,634**	**14,978**	**691,421**	**1,851,558**
Total comprehensive expense for the period	**–**	**–**	**–**	**–**	**–**	**(85,558)**	**(85,558)**
At 30 June 2013	**17,624**	**910,541**	**86,360**	**130,634**	**14,978**	**605,863**	**1,766,000**
At 1 January 2012	17,624	910,541	86,360	117,773	27,221	641,973	1,801,492
Total comprehensive income for the period	–	–	–	–	–	75,474	75,474
Recognition of equity – settled share-based payments	–	–	–	–	8,259	–	8,259
Share options lapsed	–	–	–	–	(19,635)	19,635	–
Dividends recognised as distribution *(note 9)*	–	–	–	–	–	(47,061)	(47,061)
At 30 June 2012	17,624	910,541	86,360	117,773	15,845	690,021	1,838,164

Notes:

(a) Special reserve represents the difference between the nominal value of the shares of the Company issued and the aggregate of the nominal value of the issued shares and the share premium of the holding company for which the shares of the Company have been issued in exchange upon the corporate reorganisation to rationalise the Group's structure prior to listing of the Company's share on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
Cash (used in) generated from operations	**(53,391)**	134,856
Income tax paid	**(5,547)**	(50,675)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(58,938)**	84,181
INVESTING ACTIVITIES		
Interest received	**4,051**	3,474
Purchase of property, plant and equipment	**–**	(24,467)
Government subsidy received	**7,000**	–
Deposits paid for acquisition of property, plant and equipment	**(82,800)**	(7,420)
Deposits paid for a potential acquisition	**–**	(16,000)
NET CASH USED IN INVESTING ACTIVITIES	**(71,749)**	(44,413)
CASH USED IN FINANCING ACTIVITY		
Dividend paid	**–**	(47,061)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(130,687)**	(7,293)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,104,903**	1,274,711
CASH AND CASH EQUIVALENTS AT 30 JUNE represented by bank balances and cash	**974,216**	1,267,418

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is a public limited company incorporated in Bermuda and its shares are listed on the Stock Exchange.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised HKSA(s), Hong Kong Financial Reporting Standards ("HKFRS(s)"), amendments and interpretation ("HK(IFRIC) – Int") (hereinafter collectively referred to as the "new and revised HKFRSs") issued by the HKICPA:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Amendments to HKAS 34 Interim Financial Reporting
(as part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle)

The Group has applied the amendments to HKAS 34 Interim Financial Reporting as part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (CODM) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

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

3. REVENUE

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

4. SEGMENT INFORMATION

The Group determines its reportable and operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the Executive Directors) of the Company in order to allocate the resources to the segment and to assess its performance. No operating segments identified by chief operating decision maker have been aggregated in arising at the reportable segments of Group.

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

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

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

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

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

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

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

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

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

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

	North-East Region *RMB'000*	Northern Region *RMB'000*	Eastern Region *RMB'000*	South-Central Region *RMB'000*	South-West Region *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2013 (unaudited)						
Segment revenue from external customers	**11,914**	**14,282**	**18,756**	**11,596**	**12,011**	**68,559**
Segment profit	**2,064**	**1,570**	**2,849**	**2,160**	**1,409**	**10,052**
For the six months ended 30 June 2012 (unaudited)						
Segment revenue from external customers	54,258	80,854	121,804	54,565	67,677	379,158
Segment profit	30,595	42,222	61,365	27,708	33,183	195,073
As at 30 June 2013 (unaudited)						
Segment assets	**4,708**	**2,348**	**5,609**	**5,901**	**6,409**	**24,975**
Segment liabilities	**1,094**	**1,585**	**2,030**	**1,121**	**1,350**	**7,180**
As at 31 December 2012 (audited)						
Segment assets	11,132	8,119	25,022	7,442	31,827	83,542
Segment liabilities	1,020	1,446	2,330	926	1,459	7,181

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

Revenue

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

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
(Loss) profit		
Total segment profit	**10,052**	195,073
Unallocated amounts:		
Other corporate income	**4,851**	3,647
Other corporate expenses	**(100,461)**	(85,289)
Consolidated (loss) profit before tax	**(85,558)**	113,431

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

	At 30 June 2013	At 31 December 2012
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
Assets		
Total segment assets	**24,975**	83,542
Other unallocated amounts		
Property, plant and equipment	**278,330**	287,213
Prepaid lease payments	**74,748**	83,507
Deposits paid for acquisition of property, plant and equipment	**100,580**	17,780
Deposits paid for a potential acquisition	**94,618**	94,618
Biological assets	**6,681**	5,165
Inventories	**278,491**	255,374
Deposits and other receivables	**2,793**	2,185
Tax recoverable	**5,547**	–
Bank balances and cash	**974,216**	1,104,903
Consolidated total assets	**1,840,979**	1,934,287

Reportable and operating segment assets comprise trade receivables and other tax receivables.

	At 30 June 2013 (Unaudited) *RMB'000*	At 31 December 2012 (Audited) *RMB'000*
Liabilities		
Total segment liabilities	**7,180**	7,181
Other unallocated amounts		
Trade payables	**6,729**	7,928
Other payables and accruals	**9,763**	16,313
Tax liabilities	**9,600**	9,600
Deferred tax liability	**41,707**	41,707
Consolidated total liabilities	**74,979**	82,729

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

5. OTHER INCOME

	Six months ended 30 June 2013 (Unaudited) *RMB'000*	2012 (Unaudited) *RMB'000*
Interest income from bank deposits	**4,051**	3,474
Rental income	**–**	173
Income on sale of obsolete inventories	**800**	–
	4,851	3,647

6. (LOSS) PROFIT BEFORE TAX

	Six months ended 30 June 2013 (Unaudited) *RMB'000*	2012 (Unaudited) *RMB'000*
(Loss) profit before tax has been arrived at after charging:		
Cost of inventories recognised as an expense	**55,379**	116,584
Depreciation of property, plant and equipment	**8,883**	6,585
Amortisation of prepaid lease payments	**1,759**	355
Less: amounts included in biological assets	**(893)**	(310)
	866	45
Net exchange loss	**294**	312
Write off of inventories	**15,215**	–

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
The charge comprises:		
Current tax		
PRC Enterprise Income tax	**–**	32,957
Deferred tax		
Current period	**–**	5,000
	–	37,957

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

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

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

According to a joint circular of the Ministry of Finance and State Administration of Taxation. Cai Shui 2008 No. 1 dividend distributed out of the profit generated since 1 January 2008 shall be subject to PRC Enterprise Income Tax which is withheld by the PRC subsidiaries. No deferred tax expense on the undistributed earnings of the PRC subsidiaries has been charged to profit or loss for the Period. Deferred tax expense of RMB5,000,000 on the undistributed earnings of the PRC subsidiaries had been charged to profit or loss during the six months ended 30 June 2012.

8. (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
(Loss) earnings		
(Loss) profit for the period attributable to owners of the Company and (loss) earnings for the purposes of basic and diluted (loss) earnings per share	**(85,558)**	75,474

	At 30 June 2013 (Unaudited) *Number of shares*	At 30 June 2013 (Unaudited) *Number of shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**2,013,018,000**	2,013,018,000
Effect of dilutive potential ordinary shares: share options	**–**	346,649
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**2,013,018,000**	2,013,364,649

For the six months ended 30 June 2013, the computation of diluted loss per share does not assume the exercise of the Company's share options as the exercise prices of those options granted during the years ended 31 December 2010 and 2012 were higher than the average market price per share during the Period.

9. DIVIDENDS

No dividends were paid, declared or proposed during the Period. During the six months ended 30 June 2012, HK2.88 cents (equivalent to RMB2.34 cents) per share in respect of the year ended 31 December 2011 was declared and paid to the owners of the Company.

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

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the Period, no acquisition or disposal of property, plant and equipment was made by the Group.

During the six months ended 30 June 2012, the Group acquired property, plant and equipment at a cost of approximately RMB24,467,000.

11. DEPOSITS PAID FOR A POTENTIAL ACQUISITION

The amount at 30 June 2013 represented a deposit of RMB94,618,000 paid to 烟台白洋河酿酒有限责任公司 (Yantai Baiyanghe Winery Co., Ltd.*) (the "Target"), a limited liability company established in the Shandong province of the PRC which is principally engaged in the production and sale of alcoholic beverages, for the possible acquisition of certain equity interest in the Target.

As detailed in the announcement of the Company dated 26 September 2012 (the "Announcement"), a wholly owned subsidiary of the Company has entered into a formal agreement (the "Formal Agreement") with the shareholders of the Target and the Target in relation to the acquisition of certain equity interest and capital injection in the Target (the "Transaction"). Upon completion of the Transaction contemplated under the Formal Agreement, the Group will hold 60% of the enlarged registered capital for the Target, which will become a subsidiary of the Group.

The completion of the Transaction is subject to various conditions, which are already set out in the Announcement (the "Conditions"), to be fulfilled or (if applicable) waived according to the Formal Agreement, which are not yet fully satisfied up to 30 June 2013. As disclosed in the announcement of the Company dated 16 August 2013, the Group had agreed with the shareholders of the Target and the Target to provide them with additional time until 10 December 2013 to fulfill certain agreement/undertaking as contained in the Formal Agreement governing the Transaction before its consummation.

If the Group does not wish to proceed with the Transaction or the Conditions cannot be fulfilled or (if applicable) waived at the pre-determined date, the deposits paid will be refunded in full to the Group. Barring any unforeseen circumstances, the Company expects the Transaction to be completed on or before 10 January 2014. Pursuant to the Formal Agreement, the total consideration of the Transaction is RMB225,120,000.

* *For identification purpose only*

12. BIOLOGICAL ASSETS

The Group is primarily engaged in manufacturing and sale of grape wine products. The biological assets represent grapevines located in PRC which can produce grapes and grape juice is then produced from grapes after further processing. Movements of biological asset are summarised as follows:

	Vines
	RMB'000
At 1 January 2012	1,544
Increase due to cultivation (planting and other capitalised costs)	459
At 30 June 2012	2,003
Increase due to cultivation (planting and other capitalised costs)	4,224
Write off	(1,062)
At 31 December 2012	5,165
Increase due to cultivation (planting and other capitalised costs)	1,516
At 30 June 2013	6,681

The immature grapevines have transformed to infant grapevines during the six months ended 30 June 2013 and the Group has engaged an independent valuer (Savills Valuation and Professional Services Limited) to determine the fair value of infant grapevines as at 30 June 2013.

The fair value of grapevines is calculated using a discounted cash flow technique by discounting the future cash flows of grapevines into their present values. In estimating the fair value of the grapevines, the key assumptions relate to a) the estimated selling prices of grapes which are assumed to be increased by 3% per annum, and b) the direct production costs, which have taken into account the projected long term inflation rate and production quantities. The calculation uses cash flow projection at discount rate of 17%.

No significant agricultural produce was harvested during the six months ended 30 June 2013.

13. TRADE RECEIVABLES

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

	At 30 June 2013 (Unaudited)	At 31 December 2012 (Audited)
	RMB'000	*RMB'000*
0 – 30 days	**4,912**	41,768
31 – 60 days	**10,304**	32,669
61 – 90 days	**5,716**	3,635
	20,932	78,072

14. TRADE PAYABLES

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

	At 30 June 2013 (Unaudited) *RMB'000*	At 31 December 2012 (Audited) *RMB'000*
0 – 30 days	**318**	481
31 – 60 days	**6,411**	2,507
61 – 90 days	**–**	4,940
	6,729	7,928

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

The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group's revenue for the six months ended 30 June 2013 amounted to approximately RMB68.6 million (2012: RMB379.2 million), representing a decrease of approximately 81.9% as compared with the same period last year and the Group's loss and total comprehensive expense for the period attributable to owners of the Company was approximately RMB85.6 million as compared with the profit and total comprehensive income attributable to owners of the Company of approximately RMB75.5 million for the same period last year.

The Company's basic loss per share for the Period was approximately RMB4.3 cents, as compared with a basic earning per share of approximately RMB3.7 cents for the same period last year.

BUSINESS REVIEW

For the six months ended 30 June 2013, the business environment was indeed extremely bleak, the Euro crisis lingered stubbornly, recovery of major economies such as the United States and Japan was still a distant prospect, while the economic growth in the BRIC countries (including Brazil, Russia, India and China) stayed sluggish. The situation was compounded by the fact that the PRC, as the locomotive for global economic growth, was still dragged down by the global economic downturn, so much so that both exports and inward investments dropped sharply. On the other hand, as the domestic market was hampered by a slump in real estates and the PRC Government's various counter-inflation measures, consumer confidence remained listless. This fusion of factors presents a challenging year to both the retail market and grape wine industry in China.

During the Period, the operating environment of grape wine industry in China was difficult. Affected by China's economic slowdown and measures introduced to restrict government spending on overseas travels, coupled with the impact of imported wines on domestic market, entertainment and hospitality as part of its anti-corruption drive, the market demand for grape wine products (especially high-end products) shrank significantly. The sales of grape wines products (as well as the overall gross margin of the Group's product mix and its operating profits) of the Group was thus weakened throughout the Period.

Facing the challenging market, the Group actively adjusts its marketing strategy in response to changes in market and customer demand. In addition to integrating the existing marketing resources, the Group also proactively expands its middle to low-end products in response to the structural changes of the grape wine market. Moreover, the Group continues to refine and optimise its distribution network. On the one hand, the Group strove to further develop its existing distribution networks and explore new markets and new channels to increase market share; on the other hand, the Group continues to enhance its business development in the second and third tier cities, and streamline its existing sales channels to expand market coverage.

Sales and distribution network

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

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

The Group constantly reviews the performance of the distributors within its sales and distribution network. During the Period, 15 new distributors were appointed, and co-operation with 3 distributors was terminated by the Group after careful selection and evaluation. As at 30 June 2013, the Group's products were sold through 84 distributors in 19 provinces and 3 municipal cities in the PRC. All distributors are independent third parties and are generally engaged in the business of distributing and selling of grape wine products.

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

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

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

	Six months ended 30 June			
	2013		2012	
	RMB'000	***%***	*RMB'000*	*%*
North-East Region *(Note 1)*	**11,914**	**17.4**	54,258	14.3
Northern Region *(Note 2)*	**14,282**	**20.8**	80,854	21.3
Eastern Region *(Note 3)*	**18,756**	**27.4**	121,804	32.1
South-Central Region *(Note 4)*	**11,596**	**16.9**	54,565	14.4
South-West Region *(Note 5)*	**12,011**	**17.5**	67,677	17.9
Total	**68,559**	**100.0**	379,158	100.0

Notes:

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

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

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

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

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

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

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

Supply of grapes

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

Business outlook

In 2013, the Group expects that the Chinese and global economy will continue to be overshadowed by uncertainties and the Chinese retail market and high-end spending will continue to face severe challenges in this year.

Facing the weak consumption power in the short run and gradual structural changes of the grape wine market, the Group will continue to be market-oriented. The Group will further optimise its strategic planning, integrating existing resources and further enhance its marketing team to increase corporate values, so as to create the most favourable environment for the Group to achieve sustainable growth.

The Group will closely monitor market changes and adopt measures to reduce and eliminate adverse effects to its business. The Group will further promote and enhance its existing brands while speed up the development of its middle and low-end products to fulfill demands of the market. This would help the Group to diversify its sources of revenue and profit model and reduce the negative impact from market volatility. In addition, the Group will streamline its existing channels into third- and fourth-tier cities to further enhance its sales network, in order to support its sales strategy for middle and low-end products and strengthen its leading market position.

The business development plans and strategies of the Group as disclosed below are set for the coming years:

Develop Tontine wine estate

The Group plans to develop a wine estate in Ji'An City, Jilin Province, to produce a premium range of our estate bottle wines from high quality grapes. Wines produced by the wine estate, which will be labelled as "Estate Bottled", will be produced from high quality grapes grown in our self-operated vineyards within our wine estate. Our wine estate, with vineyards covering a total area of approximately 2,000 mu#, will be installed with wine production and wine cellaring facilities and is expected to have an annual yield of around 500 tonnes (approximately 600,000 bottles (750 ml)). At 30 June 2013, vineyards in the region that covers a total area of approximately 887 mu has been set up and planted with different types of high quality grapes including Beibinghong (北冰紅) and Vidal (威代爾).

\#   1 mu equals to approximately 667 square metres.

Develop Tontine wine cellar

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

Expand and develop distribution network

The Group plans to enhance its current sales and distribution network throughout the PRC by establishing not less than 20 Tontine retail shops in certain selected markets in the PRC. As at the date of this announcement, 8 retail shops were launched in 8 cities (Beijing, Chengdu, Dengfeng, Jian, Shanghai, Shenyang, Wuhan and Xiangtan). The Group plans to establish not less than 5 retail shops in 2013. These retail shops will serve as sales and marketing platforms for Tontine brand products, and provide marketing support to its distributors.

Explore opportunities to expand our market share

The Group adopts a proactive but prudent approach in pursuing business opportunities with growth potentials which the Board believes would bring synergy or be complementary to achieving the Group's long-term goal in taking a leadership role in the wine industry in the PRC. The Group's proposed acquisition of and investment in 烟台白洋河釀酒有限责任公司 (Yantai Baiyanghe Winery Co., Ltd.*) (the "Target") as announced by the Company on 26 September 2012, which is principally engaged in the production and sale of alcoholic beverages with wine portfolio containing approximately 80 types of wine products, would be expected to enable the Group to upgrade the Group's wine making technology, enhance the level of its product quality, increase its production capacities, benefit from synergies, access new markets, broaden customer base and achieve economies of scale in the long run. All these factors are instrumental to the business growth and development of the Group. As announced by the Company on 16 August 2013, the Group had agreed with the sellers and the Target to provide them with additional time until 10 December 2013 to fulfil certain agreement/undertaking as contained in the agreement dated 26 September 2012 governing the transaction before its consummation. All the governmental and/or regulatory consents, approvals and/or waivers (if applicable) necessary for the implementation of the transaction had been obtained as at the date of this announcement. Barring any unforeseen circumstances, the Company expects the transaction to be completed before 10 January 2014. The transaction, if consummated, would represent an important milestone in the development of the business of the Group.

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

* *For identification purpose only.*

FINANCIAL REVIEW

Revenue

Revenue represents proceeds from the sale of grape wine products. During the Period, the Chinese liquor industry was generally hard hit by the crack down by the Central Government of Mainland China on lavish liquor-fueled banquets, and the sales of the Group's grape wine products were adversely affected. As a result of the downward adjustment in the grape wine market, our revenue decreased by approximately 81.9% to approximately RMB68.6 million for the six months ended 30 June 2013 from approximately RMB379.2 million over the same period last year. Our customers mainly comprised regional distributors in the PRC and we sold our products to our distributors at prices ranging from approximately RMB5.9 to RMB100.9 per bottle. The following table sets forth a breakdown of the Group's revenue for the Period:

	Six months ended 30 June				
	2013		2012		Decline in
		% of total		% of total	Revenues
	RMB'000	**revenues**	*RMB'000*	revenues	(%)
Sweet wines	**49,550**	**72.3**	259,438	68.4	80.9
Dry wines	**19,009**	**27.7**	119,720	31.6	84.1
Total	**68,559**	**100.0**	379,158	100.0	

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

	Six months ended 30 June			
	2013		2012	
	Total units sold	**Average[1] selling price**	Total units sold	Average[1] selling price
		RMB'000		*RMB'000*
	tonnes	***per tonne***	*tonnes*	*per tonne*
Sweet wines	**3,059**	**16.2**	6,263	41.4
Dry wines	**803**	**23.7**	4,179	28.7
Total	**3,862**	**17.8**	10,442	36.3

During the Period, the overall average selling prices of our sweet and dry wine products have decreased due to poor market condition in the grape wine industry, and less high-end and mid-range products were sold, which are generally products with higher selling prices.

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

Cost of sales

	Six months ended 30 June			
	2013		2012	
	RMB'000	*%*	*RMB'000*	*%*
Raw materials				
– Grapes and grape juice	**36,076**	**52.0**	65,340	40.5
– Yeast and other additives	**880**	**1.3**	4,415	2.7
– Packaging materials	**16,142**	**23.3**	40,577	25.1
– Others	**109**	**0.2**	352	0.2
Total raw material cost	**53,207**	**76.8**	110,684	68.5
Production overheads	**2,172**	**3.1**	5,900	3.7
Consumption tax and other taxes	**13,945**	**20.1**	44,860	27.8
Total cost of sales	**69,324**	**100.0**	161,444	100.0

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, label, corks and packing boxes. During the Period, the cost of grapes and grape juice were the key component of cost of sales and accounted for approximately 52.0% of the Group's total cost of sales.

During the Chinese Lunar New Year, the sales of grape wine products (especially the high-end products) was not as robust as expected. This created pressure on distributors and the distributors requested to reduce selling prices of grape wine products to lower their inventory level. In order to stabilise the market, maintain stable product prices and prevent distributors from price-cutting activities and maintain a long-term relationship with the distributors, the Group had decisively taken an one-time inventory buy-back of certain grape wine products from the distributors. Provision of grape wine product buy-back and packaging materials of approximately RMB15.2 million were included in the cost of sales for the Period.

The percentage of the total cost of raw material to total cost of sales increased approximately 8.3% from approximately 68.5% to approximately 76.8% primarily due to the reasons stated above.

Production overheads primarily consist of depreciation, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses for production. The percentage of production overheads to total cost of sales remained stable compared with the same period of last year.

The consumption tax and other taxes decreased approximately 7.7% from approximately 27.8% to approximately 20.1%, which was mainly attributable to the decline in revenue due to poor market condition in the grape wine industry.

Gross (loss) profit and gross (loss) profit margin

Gross (loss) profit is calculated based on the Group's revenue less cost of sales. During the Period, the gross loss of the Group was approximately RMB0.8 million as compared with the gross profit of approximately RMB217.7 million for the same period last year.

Our gross loss margin was approximately 1.1% as compared with the gross profit margin of approximately 57.4% for the same period last year.

Reasons for recording in gross loss and gross loss margin are explained in the above paragraphs headed Revenue and Cost of Sales.

Selling and distribution expenses

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

During the Period, the selling and distribution expenses accounted for approximately 103.3% (2012: 21.4%) of the Group's revenue. The increase was primarily attributable to (i) incurred rebate expenses (based on 5% of the revenue) from April 2013 for enhancing more existing and new distributors cooperation to further develop the existing distribution networks and explore new markets; and (ii) an increase in advertising and promotional charges of approximately 3.4% to approximately RMB60.3 million (2012: RMB58.3 million) as we continue to engage in brand building activities, such as mass media advertising. The Group will ensure that its promotion strategy is responsive to market dynamics and competition.

Administrative expenses

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

During the Period, administrative expenses represented 27.5% of the Group's revenue and decreased by approximately RMB8.2 million to approximately RMB18.8 million (2012: RMB27.0 million) for the Period. The decrease was mainly attributable to the fact that no share option expense was incurred during the Period.

Income tax expense

Tax represents amount of PRC enterprise income tax charged at the applicable tax rates in accordance with the relevant law and regulations in the PRC. Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the enterprise income tax rate of the subsidiaries of the Company incorporated in the PRC had changed to 25% with effect from 1 January 2008. For the six months ended 30 June 2013, the effective tax rate of the Group is nil (2012: 33.5%) because the Group recorded a loss during the Period.

(Loss) profit and total comprehensive (expense) income for the period attributable to owners of the Company

Taking into account of the aforementioned, the loss and total comprehensive expense attributable to owners of the Company for the six months ended 30 June 2013 amounted to approximately RMB85.6 million, as compared to a profit and total comprehensive income attributable to owners of the Company of approximately RMB75.5 million for the same period in 2012.

Financial management and treasury policy

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

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

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

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

Liquidity and financial resources

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

As at 30 June 2013, the Group recorded a net current assets position of approximately RMB1,256 million (31 December 2012: RMB1,408 million). The Group has sufficient financial resources and a strong cash position for satisfying working capital requirements of business development, operations and capital expenditures.

Employment and remuneration policy

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

As at 30 June 2013, the Group employed a work force of 394 (including Directors) in Hong Kong and in the PRC (31 December 2012: 425). The total salaries and related costs (including the Directors' fee) for the Period amounted to approximately RMB8.6 million (2012: RMB11.9 million).

Share option scheme

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

Capital commitments and charges on assets

The Group made capital expenditure commitments including approximately RMB80.1 million that was authorised but not contracted for and approximately RMB245.9 million contracted but not provided for in the condensed consolidated financial statements as at 30 June 2013. These commitments were required mainly to support the Group's production capacity expansion.

As at 30 June 2013, none of the Group's assets was pledged (2012: nil).

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2013 (2012: nil).

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Period.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

Throughout the Period, the Company had applied the principles of the Corporate Governance Code which became effective on 1 April 2012 (the "CG Code") contained in Appendix 14 to the Listing Rules and complied with the code provisions and certain recommended best practices set out in the CG Code, save for the deviation from code provision A.2.1 of the CG Code, which states that the roles of chairman and the chief executive officer ("CEO") should be segregated and should not be performed by the same individual. Mr. Wang Guangyuan ("Mr. Wang") is responsible for the overall business strategy and development and management of our Group. The Board considers Mr. Wang, the chairman of the Board and the CEO of the Company, is able to lead the Board in major business decision making for the Group and enables the Board's decision to be effectively made, which is beneficial to the management and the development of the Group's business. Therefore, Mr. Wang assumes the dual roles of being the chairman of the Board and the CEO of the Company notwithstanding the deviation.

AUDIT COMMITTEE REVIEW

The interim results for the Period are unaudited and have not been reviewed by the auditor of the Company. The audit committee of the Company (comprised all the independent non-executive Directors) has reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the internal controls, as well as reviewed the Group's unaudited condensed consolidated interim financial statements for the Period.

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

This interim results announcement is published on the websites of the Stock Exchange (http://www.hkex.com.hk) and the Company (http://www.tontine-wines.com.hk). The interim report for the six months ended 30 June 2013 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

ACKNOWLEDGEMENT

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

By order of the Board
Wang Guangyuan
Chairman and Executive Director

Hong Kong, 28 August 2013

As at the date of this announcement, the Executive Directors are Mr. Wang Guangyuan, Mr. Zhang Hebin and Ms. Wang Lijuan and the Independent Non-executive Directors are Mr. Sih Wai Kin, Daniel, Mr. Lai Chi Keung, Albert and Mr. Li Changgao.

This document is prepared in both English and Chinese. In the event of inconsistency, the English text of this document shall prevail over the Chinese text.