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 2014

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 105.3% to approximately RMB140.8 million (2013: RMB68.6 million).
- Gross profit was approximately RMB17.0 million as compared with the gross loss of approximately RMB0.8 million for the same period last year.
- Loss and total comprehensive expense for the period attributable to owners of the Company increased by approximately 54.0% to approximately RMB131.8 million (2013: RMB85.6 million).
- Basic loss per share was approximately RMB6.5 cents as compared with a basic loss per share of approximately RMB4.3 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 2014 (the "Period"), together with the comparative figures for the six months ended 30 June 2013, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
		(unaudited)	(unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	*4*	**140,801**	68,559
Cost of sales		**(123,764)**	(69,324)
Gross profit (loss)		**17,037**	(765)
Other income	*6*	**3,298**	4,851
Selling and distribution expenses		**(106,771)**	(70,811)
Administrative expenses		**(51,444)**	(18,833)
Change in fair value of biological assets		**309**	–
Loss before tax	*7*	**(137,571)**	(85,558)
Income tax credit	*8*	**926**	–
Loss and total comprehensive expense for the period		**(136,645)**	(85,558)
Loss and total comprehensive expense for the period attributable to:			
Owners of the Company		**(131,754)**	(85,558)
Non-controlling interests		**(4,891)**	–
		(136,645)	(85,558)
Losses per share	*9*		
Basic *(RMB cents)*		**(6.5)**	(4.3)
Diluted *(RMB cents)*		**(6.5)**	(4.3)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	**30 June 2014 (unaudited) *RMB'000***	31 December 2013 (audited) *RMB'000*
Non-current Assets			
Property, plant and equipment	*11*	**559,783**	549,693
Prepaid lease payments		**83,250**	84,762
Intangible assets		**23,969**	25,781
Deposits paid for acquisition of property, plant and equipment		**52,309**	48,389
Biological assets	*12*	**7,500**	5,750
		726,811	714,375
Current Assets			
Inventories		**227,561**	258,481
Trade receivables	*13*	**45,787**	59,144
Deposits and other receivables		**3,424**	19,650
Tax recoverable		**5,547**	5,551
Prepaid lease payments		**3,125**	3,125
Bank balances and cash		**459,476**	530,920
		744,920	876,871
Current Liabilities			
Trade payables	*14*	**32,711**	13,084
Other payables and accruals		**46,420**	45,218
Tax liabilities		**9,600**	12,833
		88,731	71,135
Net Current Assets		**656,189**	805,736
Total Assets Less Current Liabilities		**1,383,000**	1,520,111
Non-current Liability			
Deferred tax liabilities		**22,549**	23,015
		1,360,451	1,497,096
Capital and Reserves			
Share capital		**17,624**	17,624
Reserves		**1,198,324**	1,330,078
Equity Attributable to owners of the Company		**1,215,948**	1,347,702
Non-controlling interests		**144,503**	149,394
Total Equity		**1,360,451**	1,497,096

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	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*	Non-controlling interest (unaudited) *RMB'000*	Total (unaudited) *RMB'000*
At 1 January 2014	**17,624**	**910,541**	**86,360**	**130,634**	**8,259**	**194,284**	**1,347,702**	**149,394**	**1,497,096**
Loss and total comprehensive expense for the period	**–**	**–**	**–**	**–**	**–**	**(131,754)**	**(131,754)**	**(4,891)**	**(136,645)**
At 30 June 2014	**17,624**	**910,541**	**86,360**	**130,634**	**8,259**	**62,530**	**1,215,948**	**144,503**	**1,360,451**
At 1 January 2013	17,624	910,541	86,360	130,634	14,978	691,421	1,851,558	–	1,851,558
Loss and total comprehensive expense for the period	–	–	–	–	–	(85,558)	(85,558)	–	(85,558)
At 30 June 2013	17,624	910,541	86,360	130,634	14,978	605,863	1,766,000	–	1,766,000

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 2014

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
Cash used in operations	**(36,526)**	(53,391)
Income tax paid	**(2,769)**	(5,547)
NET CASH USED IN OPERATING ACTIVITIES	**(39,295)**	(58,938)
INVESTING ACTIVITIES		
Interest received	**3,298**	4,051
Purchase of property, plant and equipment	**(31,527)**	–
Government subsidy received	**–**	7,000
Deposits paid for acquisition of property, plant and equipment	**(3,920)**	(82,800)
NET CASH USED IN INVESTING ACTIVITIES	**(32,149)**	(71,749)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(71,444)**	(130,687)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**530,920**	1,104,903
CASH AND CASH EQUIVALENTS AT 30 JUNE represented by bank balances and cash	**459,476**	974,216

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

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 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new Interpretation and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

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

4. REVENUE

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

5. 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.

- North-East Region includes the Provinces of Heilongjiang, Jilin, and Liaoning.
- Northern Region includes the Provinces of Gansu, Hebei, Shaanxi, Shanxi, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, city of Beijing and city of Tianjin.
- Eastern Region includes the Provinces of Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Zhejiang and city of Shanghai.
- South-Central Region includes the Provinces of Guangdong, Hainan, Henan, Hubei and Hunan.
- South-West Region includes the Provinces of Guizhou, Qinghai, Sichuan, Yunnan, Guangxi Zhuang Autonomous Region and city of Chongqing.

The following is an analysis of the Group's revenue and results by reportable and operating segments.

	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 2014 (unaudited)						
Segment revenue from external customers	**16,490**	**29,316**	**45,204**	**22,256**	**27,535**	**140,801**
Segment profit	**7,253**	**11,648**	**16,568**	**9,917**	**12,007**	**57,393**
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

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	
	2014	2013
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Loss		
Total segment profit	**(57,393)**	10,052
Unallocated amounts:		
Other corporate income	**3,298**	4,851
Other corporate expenses	**(83,476)**	(100,461)
Consolidated loss before tax	**(137,571)**	(85,558)

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	North-East Region	**Northern Region**	**Eastern Region**	**South-Central Region**	**South-West Region**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 30 June 2014 (unaudited)						
Segment assets	**7,585**	**10,037**	**15,139**	**6,637**	**6,389**	**45,787**
Segment liabilities	**740**	**1,203**	**1,730**	**894**	**1,141**	**5,708**
As at 31 December 2013 (audited)						
Segment assets	5,611	11,955	17,714	7,778	16,216	59,274
Segment liabilities	1,966	2,415	3,575	1,689	2,399	12,044

	At 30 June 2014 (unaudited) *RMB'000*	At 31 December 2013 (audited) *RMB'000*
Assets		
Total segment assets	**45,787**	59,274
Other unallocated amounts		
Property, plant and equipment	**559,783**	549,693
Prepaid lease payments	**86,375**	87,887
Intangible assets	**23,969**	25,781
Deposits paid for acquisition of property, plant and equipment	**52,309**	48,389
Biological assets	**7,500**	5,750
Inventories	**227,561**	258,481
Deposits and other receivables	**3,424**	19,520
Tax recoverable	**5,547**	5,551
Bank balances and cash	**459,476**	530,920
Consolidated total assets	**1,471,731**	1,591,246

	At 30 June 2014 (unaudited) *RMB'000*	At 31 December 2013 (audited) *RMB'000*
Liabilities		
Total segment liabilities	**5,708**	12,044
Other unallocated amounts		
Trade payables	**32,711**	13,084
Other payables and accruals	**40,712**	33,174
Tax liabilities	**9,600**	12,833
Deferred tax liabilities	**22,549**	23,015
Consolidated total liabilities	**111,280**	94,150

6. OTHER INCOME

	Six months ended 30 June 2014 (unaudited) *RMB'000*	2013 (unaudited) *RMB'000*
Interest income from bank deposits	**3,298**	4,051
Income on sale of obsolete inventories	**–**	800
	3,298	4,851

7. LOSS BEFORE TAX

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Loss before tax has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	**105,634**	55,379
Depreciation of property, plant and equipment	**22,459**	8,883
Amortization of intangible assets	**1,812**	–
Amortisation of prepaid lease payments	**1,512**	1,759
Less: amounts included in biological assets	**(893)**	(893)
	619	866
Net foreign exchange (gain) loss	**(77)**	294
Write off of inventories	**–**	27,437

8. INCOME TAX CREDIT

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
The credit comprises:		
Over provision in prior year:		
PRC Enterprise Income tax	**460**	–
Deferred tax		
Current period	**466**	–
	926	–

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.

9. LOSSES PER SHARE

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

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Losses		
Loss for the period attributable to owners of the Company and losses for the purposes of basic and diluted losses per share	**(131,754)**	(85,558)

	At 30 June 2014 (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 and diluted losses per share	**2,013,018,000**	2,013,018,000

For the six months ended 30 June 2014, the computation of diluted losses per share does not assume the exercise of the Company's share options as the exercise prices of the options were higher than the average market price per share during the Period.

10. DIVIDENDS

No dividends were declared and distributed during the six months period ended 30 June 2014 (2013: nil). The directors of the Company have determined that no dividend will be paid in respect of the Period.

11. PROPERTY, PLANT AND EQUIPMENT

During the Period, addition in property, plant and equipment of RMB32,549,000 (2013: nil) and depreciation of RMB22,459,000 (2013: RMB8,883,000) were made by the Group respectively.

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 assets are summarised as follows during the Period:

	Vines
	RMB'000
At 1 January 2014	5,750
Increase due to cultivation (planting and other capitalised costs)	1,441
Change in fair value of biological assets	309
At 30 June 2014	7,500

No significant agricultural produce was harvested during the Period.

Fair value measurements and valuation processes

The fair value of grapevines as at 30 June 2014 has been arrived at on the basis of valuations carried out by Savills Valuation and Professional Services Limited, a firm of independent qualified professional valuers not connected with the Group. The valuation was calculated using a discounted cash flow technique by discounting the future cash flows of grapevine into their present values.

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 aged 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 2014 (unaudited) ***RMB'000***	At 31 December 2013 (audited) *RMB'000*
0 – 30 days	**19,098**	35,926
31 – 60 days	**15,258**	13,299
61 – 90 days	**11,431**	9,919
	45,787	59,144

14. TRADE PAYABLES

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

	At 30 June 2014 (unaudited) ***RMB'000***	At 31 December 2013 (audited) *RMB'000*
0 – 30 days	**23,680**	2,594
31 – 60 days	**5,839**	4,337
61 – 90 days	**3,192**	6,153
	32,711	13,084

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group's revenue for the Period amounted to approximately RMB140.8 million (2013: RMB68.6 million), representing an increase of approximately 105.3% 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 increased by approximately 54.0% to approximately RMB131.8 million (2013: RMB85.6 million).

The Company's basic loss per share for the Period was approximately RMB6.5 cents (2013: RMB4.3 cents) based on the weighted average numbers of shares in issue during the Period.

BUSINESS REVIEW

2014 is still an extremely challenging year for the China grape wine industry. Affected by the structural changes of the domestic consumption due to the strategic slowdown of China's economic growth, and the government policies introduced to promote frugality, the domestic high-end retail market has been continuously impacted during the Period. As a result, the development of high-end grape wine industry is still in a phase of in-depth adjustment, and sales stayed stagnant even in the traditional high seasons such as the Chinese Lunar New Year. The in-depth adjustment of the grape wine industry and in particular, the high-end grape wine sector, together with the rapid change in the grape wine consumption patterns have not only brought huge impact to the grape wine distribution industry, but also made significant adverse effects on the Group's operating performance during the Period.

Despite the rapid downturn of the grape wine market had brought unprecedented challenges to the industry, the development of the entire grape wine market became more rational. The mass and commercial consumptions have gradually replaced the government consumption to become the major support of the grape wine market. The middle and low-end grape wine markets in mass consumption have shown great potential and started to become the primary long-term growth momentum of the grape wine industry.

In response to the current adjustment of the grape wine market, the Group has, on the one hand, been proactively implementing diversification strategies with a particular focus on developing its middle and low-end products which have high consumer awareness and quality assurance, in order to increase market share in the mass and commercial markets. On the other hand, the Group has streamlined its existing channels to the third- and fourth-tier cities to support the sale strategy of its middle and low-end products. The Board believes that the Group's efforts and proactive measures in optimizing the profitability of its products are expected to take more time to emerge.

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. As at 30 June 2014, the Group's products were sold through 145 distributors (including 84 distributors of 烟台白洋河酿酒有限责任公司 (Yantai Baiyanghe Winery Co., Ltd.*) ("Yantai Baiyanghe"), of which the Group became a 60% stakeholder following the acquisition completed in December 2013) in 22 provinces, 3 autonomous regions and 4 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 of its 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			
	2014		2013	
	RMB'000	*%*	*RMB'000*	*%*
North-East Region *(Note 1)*	**16,490**	**11.7**	11,914	17.4
Northern Region *(Note 2)*	**29,316**	**20.8**	14,282	20.8
Eastern Region *(Note 3)*	**45,204**	**32.1**	18,756	27.4
South-Central Region *(Note 4)*	**22,256**	**15.8**	11,596	16.9
South-West Region *(Note 5)*	**27,535**	**19.6**	12,011	17.5
Total	**140,801**	**100.0**	68,559	100.0

Notes:

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

2. Northern Region includes the Provinces of Gansu, Hebei, Shaanxi, Shanxi, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, city of Beijing and city of Tianjin.

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

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

5. South-West Region includes the Provinces of Guizhou, Qinghai, Sichuan, Yunnan, Guangxi Zhuang Autonomous Region and city of Chongqing.

* *for identification purpose only*

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 the Changbai mountain range on the banks of the Yalu river. In order to maintain reliable and stable supplies of quality grapes to meet our needs, we have entered into a 20 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

The PRC grape wine industry is going through the most difficult adjustment period; distributors remain extremely conservative when making procurement of the high-end products. Although the high-end grape wine market will remain to be challenging in the near future, the market demand of middle and low-end grape wine will continue to grow. The operating environment of the grape wine market is expected to be improved gradually in the next two years in conjunction with the increasing income levels and stronger purchasing power of Chinese citizens, growing popularity of grape wine culture, more rational grape wine consumption, and the price of high-end grape wine having fallen to a level acceptable to customers. The current adjustment of the grape wine industry will not only enable the grape wine market to achieve a steady development in the long run, but also create new business opportunities for the market.

In response to the industry adjustment and market changes, the Group will strive to improve its operational performance by actively adjusting and optimizing its products and channel strategies, while continue to enhance the capabilities of its sales team. In respect of the products, the Group will further enhance the product structure by speeding up the introduction of the new middle and low-end products to the market while promoting and enhancing its existing products. As for sales channels, with continuous efforts in maintaining and developing its existing channels, the Group will further penetrate into downward distribution channels and streamline the multi-layered sales channels in order to improve operational efficiency and reduce operating costs, with a view to improving product competitiveness in the end market. Meanwhile, the Group will further expand the e-commerce sales channels to better supplement its traditional sales channels. Furthermore, the Group will allocate resources in a more targeted and prudent manner, adopt more conservative financial management and more stringent costs control policies, strive for the best practice in every aspect of management, in order to grasp new development opportunities of the grape wine industry.

FINANCIAL REVIEW

Revenue

Revenue represents proceeds from the sale of grape wine and brandy products. Our revenue increased by approximately 105.3% to approximately RMB140.8 million for the six months ended 30 June 2014 from approximately RMB68.6 million over the same period last year. The growth in revenue was mainly due to a satisfactory increase in sales volume and the inclusion for the first time of the revenue generated from Yantai Baiyanghe. Our customers mainly comprised regional distributors in the PRC and we sold our products to our distributors at prices ranging from approximately RMB5.1 to RMB410.3 per bottle. The following table sets forth a breakdown of the Group's revenue for the Period:

	Six months ended 30 June				
	2014		2013		Growth in
		% of total		% of total	revenues
	RMB'000	**revenues**	*RMB'000*	revenues	*(%)*
Sweet wines	**78,775**	**55.9**	49,550	72.3	59.0
Dry wines	**59,825**	**42.5**	19,009	27.7	214.7
Others[1]	**2,201**	**1.6**	–	–	N/A
Total	**140,801**	**100.0**	68,559	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			
	2014		2013	
	Total units sold	**Average[2] selling price**	Total units sold	Average[2] selling price
		RMB'000		*RMB'000*
	tonnes	***per tonne***	*tonnes*	*per tonne*
Sweet wines	**5,085**	**19.5**	3,059	16.2
Dry wines	**2,462**	**24.3**	803	23.7
Others[1]	**159**	**13.8**	–	–
Total	**7,706**	**18.3**	3,862	17.8

The growth in sales volume was due to satisfactory increase in revenue.

1 *Others include brandy products.*

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

Cost of sales

	Six months ended 30 June			
	2014		2013	
	RMB'000	*%*	*RMB'000*	*%*
Raw materials				
– Grapes and grape juice	**44,071**	**35.6**	36,076	52.0
– Yeast and other additives	**4,113**	**3.3**	880	1.3
– Packaging materials	**39,681**	**32.1**	16,142	23.3
– Others	**461**	**0.4**	109	0.2
Total raw material cost	**88,326**	**71.4**	53,207	76.8
Production overheads	**17,308**	**14.0**	2,172	3.1
Consumption tax and other taxes	**18,130**	**14.6**	13,945	20.1
Total cost of sales	**123,764**	**100.0**	69,324	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 35.6% of the Group's total cost of sales, representing a decrease of 16.4% from approximately 52.0% last year, due to the tight control of the average cost of grapes and grape juice.

The percentage of packaging materials increased from approximately 23.3% to approximately 32.1% due to the increase in the cost of packaging material.

Production overheads primarily consist of depreciation, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses for production. The percentage of production overheads to total cost of sales increased from approximately 3.1% to approximately 14.0% was primarily attributable to (i) an increase in labour costs and (ii) an increase in depreciation and other overheads as a result of the completion of the Tontine Wine Estate and the Tontine wine cellar in last year.

The percentage of the total cost of raw material to total cost of sales decreased from approximately 76.8% to approximately 71.4% primarily attributable to the change of cost of sales structure due to the reasons stated above.

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

Gross profit (loss) is calculated based on the Group's revenue less cost of sales. During the Period, the gross profit of the Group was approximately RMB17.0 million as compared with the gross loss of approximately RMB0.8 million for the same period last year.

Our gross profit margin was approximately 12.1% as compared with the gross loss margin of approximately 1.1% for the same period last year.

Reasons for recorded in gross profit and gross profit 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 75.8% (2013: 103.3%) of the Group's revenue. The increase was primarily attributable to (i) an increase in sales commissions as a result of the higher revenue achieved for the Period; (ii) a corresponding increase in transportation costs as a result of the increase in sales; (iii) an increase in advertising and promotional charges of approximately 39.3% to approximately RMB84.0 million (2013: RMB60.3 million) as we continue to engage in brand building activities, such as mass media advertising and (iv) the inclusion for the first time of the selling and distribution expenses generated from Yantai Baiyanghe. 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 increased to approximately RMB51.4 million from RMB18.8 million last year. The increase was mainly attributable to (i) an incurred approximately RMB8.3 million in research and development expenses; (ii) additional depreciation incurred following the construction of the Tontine Wine Estate and the Tontine Wine Cellar completed last year; and (iii) the inclusion for the first time of the administrative expenses generated from Yantai Baiyanghe.

Income tax expense

Tax represents amounts of PRC enterprise income tax charged at the applicable tax rates in accordance with the relevant law and regulations in the PRC. Pursuant to the PRC enterprise income tax law passed by the Tenth National People's Congress on 16 March 2007, the enterprise income tax rate of the 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 2014, the effective tax rate of the Group is nil (2013: nil) because the Group recorded a loss during the Period.

Loss and total comprehensive expense 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 increased from approximately RMB85.6 million to approximately RMB131.8 million, representing an increase of approximately 54.0%.

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 Company pays dividends in Hong Kong dollars when dividends are declared. The Directors consider that the Group has limited foreign currency exposure because its operations are conducted in the PRC. Sales and purchases are mainly denominated in RMB. In view of the minimal foreign currency exchange risk, the Directors 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, the Group 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 2014, the Group's cash and cash equivalents amounted to approximately RMB459.5 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 2014, the Group employed a work force of 588 (including Directors and 202 staff of Yantai Baiyanghe) in Hong Kong and in the PRC (31 December 2013: 392). The total salaries and related costs (including the Directors' fee) for the Period amounted to approximately RMB14.0 million (2013: RMB8.6 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 RMB78.2 million that was authorised but not contracted for and approximately RMB55.0 million contracted but not provided for in the condensed consolidated financial statements as at 30 June 2014. These commitments were required mainly to support the Group's production capacity expansion.

As at 30 June 2014, none of the Group's assets was pledged (2013: nil).

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2014 (2013: 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 of conduct for directors' securities transactions. All Directors, after specific enquiries by the Company, confirmed their compliance with the required standards set out in the Model Code throughout the Period.

CORPORATE GOVERNANCE

Throughout the Period, the Company had applied the principles in the Corporate Governance Code (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. The audit committee of the Company (comprised all the independent non-executive Directors) had 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 2014 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, 26 August 2014

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.