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 2016

**FINANCIAL HIGHLIGHTS**

- Revenue increased by approximately 28.0% to approximately RMB178.1 million (2015 corresponding period: RMB139.1 million).
- Gross profit increased by approximately 23.9% to approximately RMB62.3 million (2015 corresponding period: RMB50.3 million (restated)).
- Profit and total comprehensive income for the period attributable to owners of the Company rose by approximately 38.4% to approximately RMB13.3 million (2015 corresponding period: RMB9.6 million (restated)).
- Basic and diluted earnings per share rose by approximately 40% to approximately RMB0.7 cents (2015 corresponding period: RMB0.5 cents (restated)).

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 2016 (the "Period" or "period under review"), together with the comparative figures for the six months ended 30 June 2015, as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2016*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2016** | 2015 |
| | | **(unaudited)** | (unaudited) |
| | | | (restated) |
| | *Notes* | ***RMB'000*** | *RMB'000* |
| Revenue | *3* | **178,064** | 139,080 |
| Cost of sales | | **(115,715)** | (88,749) |
| Gross profit | | **62,349** | 50,331 |
| Bank interest income | | **380** | 381 |
| Selling and distribution expenses | | **(18,062)** | (21,052) |
| Administrative expenses | | **(29,356)** | (19,340) |
| Change in fair value of biological assets | | **1,431** | 1,591 |
| Profit before tax | *5* | **16,742** | 11,911 |
| Taxation | *6* | **–** | – |
| Profit and total comprehensive income for the period | | **16,742** | 11,911 |
| Profit and total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | **13,290** | 9,604 |
| Non-controlling interests | | **3,452** | 2,307 |
| | | **16,742** | 11,911 |
| Earnings per share | *7* | | |
| Basic *(RMB cents)* | | **0.7** | 0.5 |
| Diluted *(RMB cents)* | | **0.7** | 0.5 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2016*

| | NOTES | 30 June 2016 (unaudited) RMB'000 | 31 December 2015 (audited) (restated) RMB'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | 9 | **141,830** | 145,381 |
| Prepaid lease payments | | **55,500** | 56,862 |
| Deposits paid for acquisition of property, plant and equipment | | **–** | 7,343 |
| Biological assets | 10 | **4,288** | 2,857 |
| | | **201,618** | 212,443 |
| **Current Assets** | | | |
| Inventories | | **286,569** | 312,719 |
| Trade receivables | 11 | **86,051** | 84,702 |
| Deposits and other receivables | | **12,900** | 12,153 |
| Tax recoverable | | **5,551** | 5,551 |
| Prepaid lease payments | | **2,723** | 2,723 |
| Bank balances and cash | | **285,799** | 201,942 |
| | | **679,593** | 619,790 |
| **Current Liabilities** | | | |
| Trade payables | 12 | **35,906** | 9,307 |
| Other payables and accruals | | **30,933** | 33,363 |
| Tax liabilities | | **10,003** | 9,961 |
| | | **76,842** | 52,631 |
| **Net Current Assets** | | **602,751** | 567,159 |
| **Total Assets Less Current Liabilities** | | **804,369** | 779,602 |
| **Capital and Reserves** | | | |
| Share capital | | **17,624** | 17,624 |
| Reserves | | **709,207** | 687,892 |
| Equity attributable to owners of the Company | | **726,831** | 705,516 |
| Non-controlling interests | | **77,538** | 74,086 |
| **Total Equity** | | **804,369** | 779,602 |

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 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").

## 2. PRINCIPAL ACCOUNTING POLICIES

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards issued by HKICPA that are mandatorily effective for the current interim period.

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 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

**Amendments to HKAS 16 and HKAS 41 *Agriculture: Bearer Plants***

The Group has applied the amendments to HKAS 16 and HKAS 41 *Agriculture: Bearer Plants* for the first time in the current interim period. The Amendments to HKAS 16 *Property, Plant and Equipment* and HKAS 41 *Agriculture* define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

**Summary of the effects of the above change in Amendments to HKAS 16 and HKAS 41**

The effects of the change in Amendments to HKAS 16 and HKAS 41 described above on the results for the current and preceding interim periods by line items presented in the condensed consolidated statement of profit or loss and other comprehensive income are as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* |
| Increase in cost of sales | **(1,245)** | (992) |
| Increase in change in fair value of biological assets | **1,431** | 1,591 |
| Net increase in profit for the period attributable to owners of the Company | **186** | 599 |

The effects of the change in Amendments to HKAS 16 and HKAS 41 described above on the condensed consolidated statement of financial position of the Group as at the end of the immediately preceding financial year, i.e. 31 December 2015, are as follow:

| | **As at 31 December 2015 (originally stated)** | **Adjustments** | **As at 31 December 2015 (restated)** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Property, plant and equipment | 130,686 | 14,695 | 145,381 |
| Biological assets | 7,620 | (4,763) | 2,857 |
| Total effect on net assets | 138,306 | 9,932 | 148,238 |
| Accumulated losses and total effect on equity | (455,474) | 9,932 | (445,542) |

The effects of the change in Amendments to HKAS 16 and HKAS 41 described above on the condensed consolidated statement of financial position of the Group as at the beginning of the comparative period, i.e. 1 January 2015, are as follows:

| | **As at 1 January 2015 (originally stated)** | **Adjustments** | **As at 1 January 2015 (restated)** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Property, plant and equipment | 139,896 | 11,945 | 151,841 |
| Biological assets | 7,470 | (4,744) | 2,726 |
| Total effect on net assets | 147,366 | 7,201 | 154,567 |
| Accumulated losses and total effect on equity | (464,684) | 7,201 | (457,483) |

| | **Impact on basic earnings per share Six months ended 30 June** | | **Impact on diluted earnings per share Six months ended 30 June** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | ***RMB cents*** | *RMB cents* | ***RMB cents*** | *RMB cents* |
| Figures before adjustments | **0.7** | 0.4 | **0.7** | 0.4 |
| Adjustment arising from change in accounting policy in relation to application of Amendments to HKAS 16 and HKAS 41 | **–** | 0.1 | **–** | 0.1 |
| Figures after adjustments | **0.7** | 0.5 | **0.7** | 0.5 |

## 3. REVENUE

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

## 4. SEGMENT INFORMATION

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

| | North-East Region<br>*RMB'000* | Northern Region<br>*RMB'000* | Eastern Region<br>*RMB'000* | South-Central Region<br>*RMB'000* | South-West Region<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|---|
| **For the six months ended 30 June 2016 (unaudited)** | | | | | | |
| Segment revenue from external customers | **36,736** | **33,580** | **47,160** | **30,732** | **29,856** | **178,064** |
| Segment profit | **10,700** | **10,360** | **10,809** | **7,284** | **6,379** | **45,532** |
| **For the six months ended 30 June 2015 (unaudited) (restated)** | | | | | | |
| Segment revenue from external customers | 23,011 | 28,683 | 39,617 | 22,978 | 24,791 | 139,080 |
| Segment profit | 5,746 | 8,124 | 10,175 | 5,344 | 5,498 | 34,887 |

### 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** | |
|---|---|---|
| | **2016**<br>**(unaudited)**<br><br>***RMB'000*** | 2015<br>(unaudited)<br>(restated)<br>*RMB'000* |
| **Profit** | | |
| Total segment profit | **45,532** | 34,887 |
| Unallocated amounts: | | |
| Bank interest income | **380** | 381 |
| Other corporate expenses | **(29,170)** | (23,357) |
| Consolidated profit before tax | **16,742** | 11,911 |

The following is an analysis of the Group's assets and liabilities 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* |
|---|---|---|---|---|---|---|
| **As at 30 June 2016 (unaudited)** | | | | | | |
| Segment assets | **20,169** | **15,539** | **21,442** | **14,713** | **14,188** | **86,051** |
| Segment liabilities | **1,911** | **1,628** | **2,232** | **1,495** | **1,465** | **8,731** |
| **As at 31 December 2015 (audited)** | | | | | | |
| Segment assets | 9,948 | 18,948 | 26,387 | 12,818 | 16,601 | 84,702 |
| Segment liabilities | 2,007 | 2,653 | 3,688 | 2,164 | 2,469 | 12,981 |

| | **At 30 June 2016 (unaudited)** ***RMB'000*** | At 31 December 2015 (audited) (restated) *RMB'000* |
|---|---|---|
| **Assets** | | |
| Total segment assets | **86,051** | 84,702 |
| Other unallocated amounts | | |
| Property, plant and equipment | **141,830** | 145,381 |
| Prepaid lease payments | **58,223** | 59,585 |
| Deposits paid for acquisition of property, plant and equipment | **–** | 7,343 |
| Biological assets | **4,288** | 2,857 |
| Inventories | **286,569** | 312,719 |
| Deposits and other receivables | **12,900** | 12,153 |
| Tax recoverable | **5,551** | 5,551 |
| Bank balances and cash | **285,799** | 201,942 |
| Consolidated total assets | **881,211** | 832,233 |

| | **At 30 June 2016 (unaudited)** ***RMB'000*** | At 31 December 2015 (audited) *RMB'000* |
|---|---|---|
| **Liabilities** | | |
| Total segment liabilities | **8,731** | 12,981 |
| Other unallocated amounts | | |
| Trade payables | **35,906** | 9,307 |
| Other payables and accruals | **22,202** | 20,382 |
| Tax liabilities | **10,003** | 9,961 |
| Consolidated total liabilities | **76,842** | 52,631 |

## 5. PROFIT BEFORE TAX

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **(unaudited)** | (unaudited) |
| | | (restated) |
| | ***RMB'000*** | *RMB'000* |
| Profit before tax has been arrived at after charging: | | |
| Cost of inventories recognised as an expense | **93,853** | 70,168 |
| Depreciation of property, plant and equipment | **5,882** | 6,290 |
| Amortisation of prepaid lease payments | **1,362** | 1,362 |
| Less: amounts included in property, plant and equipment | **(893)** | (893) |
| | **469** | 469 |
| Net foreign exchange loss | **72** | 6 |
| Share-based payments (included in administrative expenses) | **8,025** | – |
| Advertising and promotion expenses (included in selling and distribution expenses) | **750** | 6,047 |

## 6. TAXATION

At the end of both reporting periods, the Group still has unused tax losses available to offset future profits, no tax provision was provided accordingly during the periods.

## 7. EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **(unaudited)** | (unaudited) |
| | | (restated) |
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Profit for the period attributable to owners of the Company and earnings for the purposes of calculating the basic and diluted earnings per share | **13,290** | 9,604 |

| | At 30 June 2016 & 2015 (unaudited) *Number of shares* |
|---|---|
| **Number of shares** | |
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share | 2,013,018,000 |

For the six months ended 30 June 2016, the computation of diluted earnings 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 from the date of grant to period end date.

## 8. DIVIDENDS

No dividends were declared and distributed during the six months period ended 30 June 2016. The directors of the Company have determined that no dividend will be paid in respect of the period.

## 9. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the current interim period are summarised as follows:

| | *RMB'000* |
|---|---|
| At 1 January 2016 (audited) (restated) | 145,381 |
| Additions | 2,331 |
| Depreciation for the period | (5,882) |
| At 30 June 2016 (unaudited) | 141,830 |

## 10. BIOLOGICAL ASSETS

Movements of the vines are summarised as follows during the period:

| | *RMB'000* |
|---|---|
| At 1 January 2016 (audited) (restated) | 2,857 |
| Change in fair value of biological assets | 1,431 |
| At 30 June 2016 (unaudited) | 4,288 |
| At 1 January 2015 (audited) (restated) | 2,726 |
| Change in fair value of biological assets | 1,591 |
| At 30 June 2015 (unaudited) (restated) | 4,317 |

No agricultural produce was harvested for both periods. All grapes are usually harvested annually from August to November of each year. As at the periods ended 30 June 2016 and 2015, the Group has engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the fair values of grapevines.

## 11. TRADE RECEIVABLES

The Group allows a credit period of 90 days to its trade customers except for such new customers which payment is made when goods are delivered. The following is an 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 2016 (unaudited)** ***RMB'000*** | At 31 December 2015 (audited) *RMB'000* |
|---|---|---|
| 0 – 30 days | **25,745** | 42,484 |
| 31 – 60 days | **44,189** | 22,001 |
| 61 – 90 days | **16,117** | 20,217 |
| | **86,051** | 84,702 |

## 12. 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 2016 (unaudited)** ***RMB'000*** | At 31 December 2015 (audited) *RMB'000* |
|---|---|---|
| 0 – 30 days | **9,058** | 3,706 |
| 31 – 60 days | **26,848** | 4,221 |
| 61 – 90 days | **–** | 1,380 |
| | **35,906** | 9,307 |

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

## 13. SHARE-BASED PAYMENT TRANSACTIONS

**Equity-settled share option scheme of the Company:**

The Company's share option scheme (the "Scheme") was adopted by the shareholders of the Company on 19 November 2009 for the primary purpose of providing incentives to eligible participants including directors, employees, supplier of goods and services, consultant, adviser, contractor, business partner or service partner.

The following table discloses movements of the Company's share options granted under the Scheme during the current interim period:

| Category of participant | Date of grant | Outstanding at 1.1.2016 | Granted during the period | Lapsed/ forfeited during the period | Exercised during the period | Outstanding at 30.6.2016 |
|---|---|---|---|---|---|---|
| A director | 9 May 2016 | – | 16,550,000 | – | – | 16,550,000 |
| Employees | 18 May 2012 | 40,000,000 | – | – | – | 40,000,000 |
| | 9 May 2016 | – | 99,300,000 | – | – | 99,300,000 |
| | | 40,000,000 | 99,300,000 | – | – | 139,300,000 |
| Total | | 40,000,000 | 115,850,000 | – | – | 155,850,000 |

On 9 May 2016, the Company granted share options to one of its directors and eligible employees to subscribe for a total of 115,850,000 shares of HK$0.01 each in the Company with exercise price of HK$0.263 per share under the Scheme.

| Date of grant | Number of options | Exercisable period | Exercise price |
|---|---|---|---|
| 18 May 2012 | 40,000,000 (31 December 2015: 40,000,000) | 18 May 2012 to 17 May 2017 | HK$0.71 |
| 9 May 2016 | 115,850,000 (31 December 2015: N/A) | 9 May 2016 to 8 May 2021 | HK$0.263 |

For share options granted during the current interim period, the closing price of the share of the Company was HK$0.255 on the date of grant. Binomial Option Pricing Model had been used to estimate the fair value of the Company's options. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of the Company's option varies with different variables of certain subjective assumptions. The inputs into the model are as follows:

| | |
|---|---|
| Date of grant | 9 May 2016 |
| Share price as at grant date | HK$0.255 |
| Exercise price | HK$0.263 |
| Expected volatility | 48.12% |
| Risk-free rate | 0.96% |
| Expected dividend yield | 0.00% |

The Company recognised the total expense of RMB8,025,000 for the period ended 30 June 2016 (30 June 2015: nil) in relation to share options granted by the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY OVERVIEW

According to the National Bureau of Statistics of China, the gross domestic product ("GDP") of the country recorded a year-on-year growth of approximately 6.7% in the first half of 2016, trailing the slow growth trend of 2015. The low season of the wine market in China began after the Spring Festival, as reflected by the slow and steady market consolidation. Wine manufacturers still faced a rather harsh operating environment in the first half of 2016.

With well-known wine brands in the People's Republic of China (the "PRC" or "China") gradually penetrating all segments of the market, market competition had intensified, eliminating weaker players and leaving room for stronger companies to survive. This process had been conducive to removing excessive capacity and lowering inventory in the wine industry. As a result, the market share of famous brands had kept on expanding, whilst the market space left for small enterprises was gradually narrowed. Stronger brand becoming stronger had become the new norm in the market. Therefore, brand image and product recognition had become more crucial for the sustainable operation of the wine companies.

In the PRC, both sales volume and prices of high-end wines have decreased since 2012, thereby posing significant challenges for the high-end wine products. After years of adjustment, the consumption structure of wine has changed. Wine consumption is now dominated by low to mid end mass-market products, and the consumption market has returned to rationality.

In terms of sales outlet, although the traditional distribution model remains the mainstream channel, new sales models with multi-channel network and online-to-offline ("O2O") platform, such as online shopping, chain store and franchise, have also gained increasing attention from wine manufacturers. E-commerce and O2O platforms are mainly targeted at individual customers, and thus were not affected by the restriction on consumption by government officials in China. Moreover, these e-commerce enterprises had also capitalized on their online platforms to strengthen penetration into second and third-tier cities, as well as rural towns. This had helped further unleash the sales potential of the wine market. In addition, wine manufacturers valued highly the education and cultural promotion of wine, in a bid to enhance customer loyalty.

## FINANCIAL REVIEW

During the six months ended 30 June 2016, the Group's revenue increased by approximately 28.0% from the corresponding period of last year to approximately RMB178,064,000. The profit and the total comprehensive income attributable to the owners of the Company for the Period amounted to approximately RMB13,290,000, up by approximately 38.4% from RMB9,604,000 (restated) as recorded in the corresponding period of last year. Basic earnings per share during the Period was approximately RMB0.7 cent, up by approximately 40.0% from RMB0.5 cent (restated) as reported in the corresponding period of last year.

During the Period, the Group remained focused on mass-market products. The management strove to raise the production and sales of low to mid end wine products to meet the popular demand from the general public. The Group continued to optimize operations and realign business deployment and product mix targeting at its key customer base. In line with the mass market approach, the Group had adopted a sales-oriented marketing strategy, raising sales volume through broadening product mix and streamlining distribution channels.

The aforesaid keynotes on operations contributed to an increase in revenue during the Period. However, there was a slight retreat in the gross profit margin. Meanwhile, due to an effective reduction of selling and distribution expenses, the EBITDA margin and net profit margin increased by approximately 1.1 percentage points and 0.8 percentage points respectively to 13% and 9.4% from the corresponding period of last year.

**Revenue performance**

For the six months ended 30 June 2016, the Group recorded a revenue of approximately RMB178,064,000, representing a year-on-year increase of 28.0%. Against the backdrop of the Chinese Government's continued anti-corruption efforts and call on thrift consumption, as well as the consumption shift to those wine products matching the affordability of the general public, the Group's revenue of popular sweet wine products increased significantly during the period under review; revenue contribution from these products thus substantially increased to approximately 56.8%.

Sales of the Group's high-end dry wine products also increased, but at a rate lower than that of sweet wine products. As such, their revenue contribution dropped slightly to approximately 37.2%.

In addition, the Group's sales of ice wines and white wines both recorded strong growth, whereas the sales of brandy decreased substantially. Together these product lines accounted for only approximately 6.0% of the Group's total revenue.

**Cost of sales**

The following table sets forth the costs required for production of the Group for the six months ended 30 June 2016:

| | **Six months ended 30 June** | | |
|---|---|---|---|
| | **2016** | 2015 | Change % |
| | ***(RMB'000)*** | *(RMB'000)* | |
| Raw materials | | | |
| – Grapes and grape juice | **46,512** | 33,698 | 38.0% |
| – Yeast and other additives | **6,169** | 2,902 | 112.6% |
| – Packaging materials | **36,005** | 28,536 | 26.2% |
| – Others | **195** | 305 | –36.1% |
| Total raw material cost | **88,881** | 65,441 | 35.8% |
| Production overheads | **4,441** | 5,719 | –22.3% |
| Consumption tax and other taxes | **22,393** | 17,589 | 27.3% |
| **Total cost of sales** | **115,715** | 88,749 | 30.4% |

For the period under review, the Group's total cost of sales amounted to approximately RMB115,715,000, representing a year-on-year increase of 30.4%, which was slightly higher than the 28.0% increase in revenue.

Major raw materials required for producing wine products of the Group are grapes, grape juice, yeast and additives and packaging materials, such as bottles, bottle caps, label, corks and packaging boxes. During the period under review, the cost of raw materials accounted for approximately 76.8% of the Group's cost of sales, representing an increase of approximately 3.1 percentage points from the same period of last year.

Among raw materials with relative high weighting in cost of sales, the cost of grapes and grape juice increased by 38.0% year-on-year to approximately RMB46,512,000. In addition to an increase in the consumption quantity driven by rising sales, the year-on-year price surge of grapes and grape juice also contributed to the significant increase in the cost of grapes and grape juice. During the period under review, the weighting of grapes and grape juice in the total cost of sales also rose from 38.0% for the same period of last year to 40.2%, representing an increase of approximately 2.2 percentage points.

**Supply of grapes**

Production of quality wine products is highly dependent upon sufficient supply of quality grapes and grape juice. The Group currently sources 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. The Group has entered into a 20 year long-term contract with each of its grape farmer suppliers in order to secure reliable and stable supply of quality grapes to meet its needs. To enhance quality management, the Group's vineyard management team supervises the planting, nurturing and harvesting of the grapevines.

During the period under review, the Group's grape juice supplies came from the PRC and France, and the Group also imported wines from France (e.g. "Cordes"「卡圖磨坊」, "Falyia"「法萊雅」, etc.). The Group has kept identifying new grape farmers, grape juice and imported wine suppliers that meet the Group's quality requirements. This approach strengthens the quality and stability of the supply chain, thereby meeting the production needs of the Group.

The Group conducts thorough tests on the grapes, grape juice and imported wines from suppliers. These procedures can ensure that all raw materials which the Group procures are from quality grape farmers and suppliers of grape juice and imported wine that meet the Group's quality requirements.

**Gross profit and gross profit margin and EBITDA**

During the period under review, the Group's gross profit continued to record a year-on-year growth of approximately 23.9% to approximately RMB62,349,000. The increase was mainly attributable to a rise in overall revenue. However, the gross profit margin during the period under review fell by 1.2 percentage points year-on-year to 35.0%, as the cost of sales grew faster than the revenue. However, it represented a slight improvement as compared to the gross profit margin of 32.2% for the full year of 2015.

The following table sets forth the details of gross profit and gross profit margin of the Group during the period under review and their comparison with the same period last year:

| | For the six months ended 30 June | | Compared with the corresponding period of last year |
|---|---|---|---|
| | **2016** | 2015 | |
| Overall gross profit *(RMB'000)* | **62,349** | 50,331 | 23.9% |
| Overall gross profit margin | **35.0%** | 36.2% | –1.2 percentage points |

**Earnings before interest, tax, depreciation and amortisation (EBITDA)**

The following table sets forth the details of EBITDA and its comparison with the same period last year:

| | For the six months ended 30 June | | Compared with the corresponding period of last year |
|---|---|---|---|
| | **2016** | 2015 | |
| EBITDA *(RMB'000)* | **23,093** | 16,591 | 39.2% |
| EBITDA Margin | **13.0%** | 11.9% | 1.1 percentage points |

EBITDA, which reflects the Group's cash flow during the period under review, was approximately RMB23,093,000, representing an increase of 39.2% year-on-year. This was mainly attributable to the increase in revenue and gross profit, and the decrease in selling and distribution expenses, offsetting the negative impact from the increase in administrative expenses. The EBITDA margin increased by 1.1 percentage points year-on-year to 13.0%.

Selling and distribution expenses decreased by 14.2% year-on-year to approximately RMB18,062,000. Selling and distribution expenses mainly comprise of advertising and promotional expenses, transportation costs, sales commission and miscellaneous expenditures related to sales and marketing personnel.

The Group adjusted its advertisement strategies from 2015 onwards by focusing on appropriate market exposure. During the period under review, the Group continued to reduce advertising expenditures to approximately RMB750,000, down by approximately 87.6% year-on-year from approximately RMB6,047,000 in the corresponding period of last year.

During the period under review, administrative expenses recorded a year-on-year increase of 51.8% to approximately RMB29,356,000. Such increases were mainly due to the one-off expense amounting to approximately RMB8,025,000 incurred by the grant of share options. Excluding this expense, the administrative expenses of the Group during the period under review increased by approximately 10% when compared with the same period last year, which was lower than the growth rate of the revenue for the period under review.

**Profit attributable to owners of the Company**

During the period under review, profit attributable to owners of the Company was approximately RMB13,920,000, up 38.4% from the same period last year. This was mainly due to growth in revenue and gross profit, as well as a decline in selling and distribution expenses during the period under review. In turn, the Group's net profit margin rose by 0.8 percentage points to 9.4%.

## OPERATION REVIEW

The following table shows the Group's revenue of various products for the period under review:

| | **Six months ended 30 June** | | | | |
|---|---|---|---|---|---|
| | **2016** | | 2015 | | |
| | **Revenue *(RMB'000)*** | **Percentage of total revenue** | Revenue *(RMB'000)* | Percentage of total revenue | Percentage change in revenue |
| Sweet wines | **101,197** | **56.8%** | 75,143 | 54.0% | 34.7% |
| Dry wines | **66,296** | **37.2%** | 55,654 | 40.0% | 19.1% |
| Ice wines | **7,258** | **4.1%** | 4,649 | 3.4% | 56.1% |
| Brandy | **2,371** | **1.4%** | 3,354 | 2.4% | –29.3% |
| White wines | **942** | **0.5%** | 280 | 0.2% | 236.4% |
| **Total** | **178,064** | **100.0%** | 139,080 | 100.0% | 28.0% |

In view of the continuing consolidation of the wine market, the Group further adjusted its marketing strategies in the first half of 2016, but its focus was still on promoting sweet wine products to suit the consumption preferences of the general public.

The low-margin sweet wine products accounted for 56.8% of the total revenue of the Group in the first half of 2016, while the high-end dry wine products accounted for 37.2%. These two wine products accounted for 94.0% of the total revenue for the period under review. Ice wines, brandy and white wines accounted for 4.1%, 1.4% and 0.5% of the total revenue for the period under review respectively.

During the period under review, there were significant increases in the revenue and gross profit of sweet wines, dry wines, white wines and ice wines. However, the revenue and gross profit of brandy declined, reflecting unstable consumer demand for this product, and the brandy market has yet to be cultivated and fortified.

During the period under review, the Group launched 8 new products, among which seven were sweet wines and one was dry wine. They accounted for approximately 0.4% of the total revenue for the first half of 2016. Although the weighting was not high, it reflected the Group's determination to adopt an innovative business approach. Diversified product range has enabled the Group to satisfy various consumer tastes and demand.

**Sales volume and average selling price performance**

| | **Six months ended 30 June** | | | | |
|---|---|---|---|---|---|
| | **2016** | | 2015 | | |
| | **Total sales volume** ***(tonne)*** | **Average selling price per tonne** ***(RMB'000/ tonne)*** | Total sales volume *(tonne)* | Average selling price per tonne *(RMB'000/ tonne)* | Percentage change in average selling price per tonne |
| Sweet wines | **6,978** | **14.5** | 4,985 | 15.1 | –3.8% |
| Dry wines | **2,903** | **22.8** | 2,394 | 23.2 | –1.8% |
| Ice wines | **48** | **151.2** | 48.5 | 95.9 | 57.7% |
| Brandy | **162** | **14.6** | 215 | 15.6 | –6.2% |
| White wines | **2** | **470.8** | 0.5 | 559.6 | –15.9% |
| **Total** | **10,093** | **17.6** | 7,643 | 18.2 | –3.0% |

In view of the dominance of medium to low-end products in the marketplace, the Group continued adjusting product prices during the period under review to cater for the demand of mainstream customer groups. During the period under review, the Group's total sales volume increased by 32.1% year-on-year to 10,093 tonnes, among which sweet wines rose by 40.0%, dry wine 21.3% and white wines 300.0%. However, the sales volume of brandy and ice wines decreased by 24.7% and 1.0% respectively.

As the Group's product portfolio moved further in line with the popular consumption demand, the average selling price per tonne declined by 3.0% year-on-year to RMB17,642.

The average selling price per tonne of sweet wines, dry wines, brandy and white wines eased year-on-year during the period under review, and the price per tonne of white wines even declined by 15.9%. This reflected that the Group had further adjusted its high, medium and low-end products towards mass consumption. However, the average selling price per tonne of ice wines recorded a year-on-year increase during the period under review.

**Selling and distribution network**

The Group sells most of its products to distributors, who distribute and sell such 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. These distributors also sell directly to end-consumers, while selling and distributing to other sub-distributors. All distributors are independent third parties and are generally engaged in the business of distributing and selling of wine products.

The Group constantly reviews the performance of its distributors. As at 30 June 2016, the Group's products were sold through 122 distributors in 22 provinces, 3 autonomous regions and 4 direct-controlled municipalities in the PRC. The number of distributors decreased by 13 when compared with that of the corresponding period of 2015, reflecting the strenuous efforts made by the management in streamlining the structure of its selling and distribution network, so as to eliminate distributors with poor sales records. During the period under review, the average sales revenue generated from the Group's nationwide distributors increased by 41.7% year-on-year to approximately RMB1,460,000. This proved the positive effect of streamlining selling and distribution network, and brought about significant improvement of sales efficiency.

The Group enters into a standard distribution agreement with each of its selected distributors for a period of one year (subject to annual renewal following successful negotiation between the parties upon the expiry of the existing distribution agreement). 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 various targeted advertising strategies to emphasize the health benefits of moderate consumption of wines in order to establish consumer loyalty and strengthen the popularity of its products.

For online sales, the proportion of revenue generated from this segment was not high during the period under review, but the Group considered online sales as a channel of huge potential. This would be advantageous for the Group to promote diversified distribution channel and enlarge its marketing coverage.

**Production output**

During the period under review, the Group's production facilities in Tonghua, Jilin and Yantai Baiyanghe, Shandong produced a total of 10,275 tonnes of wine products, of which the output of Tonghua, Jilin accounted for 8,068 tonnes while Yantai Baiyanghe 2,207 tonnes. The sales-output ratio (defined as the comparison between output and sales) was 98.2% in the first half of 2016, reflecting equilibrium in production and sales.

**Regional market performance**

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

| | **Six months ended 30 June** | | | | |
|---|---|---|---|---|---|
| | **2016** | | 2015 | | |
| | ***RMB'000*** | **Percentage of total revenue** | *RMB'000* | Percentage of total revenue | Revenue Change % |
| North-East Region | **36,736** | **20.5%** | 23,011 | 16.6% | 59.6% |
| Northern Region | **33,580** | **18.9%** | 28,683 | 20.6% | 17.1% |
| Eastern Region | **47,160** | **26.5%** | 39,617 | 28.5% | 19.0% |
| South-Central Region | **30,732** | **17.3%** | 22,978 | 16.5% | 33.7% |
| South-West Region | **29,856** | **16.8%** | 24,791 | 17.8% | 20.4% |
| **Total** | **178,064** | **100.0%** | 139,080 | 100.0% | 28.0% |

In terms of regional revenue, the Eastern region remains the largest market of the Group, the revenue from which increased by 19.0% year-on-year, accounting for 26.5% of the total revenue. Wine products are generally well received in this region, as it covers those prosperous provinces in the PRC and maintains a relatively high per-capita income level. During the period under review, the number of distributors of the Group in this region decreased by 6 to 36. However, it remained as having the largest number of distributors among the Group's major sales regions. The average sales per distributor in this region increased by 38.9% year-on-year to approximately RMB1,310,000, being the lowest average sales per distributor across the PRC, reflecting intensive competition in this region.

Benefiting from its adjacency to the Group's production base in Tonghua, Jilin, the North-East region enjoys home market advantage with revenue increasing by 59.6% year-on-year, and accounting for 20.5% of the Group's total revenue. This enabled the North-East region to outshine the Northern region, and became the second largest market of the Group. The remarkable performance of the North-East region was mainly attributable to high recognition and favourable brand effect of the Group's products in the region. During the period under review, being the only region recording an increase in the number of distributors, the Group commanded 21 distributors in the North-East region, representing an increase of 2 distributors from the year-ago period. In addition, the average sales per distributor in the region increased by 44.4% year-on-year to approximately RMB1,750,000, being the highest average sales per distributor among regions across the PRC.

Northern region recorded a year-on-year increase of 17.1% in revenue, accounting for 18.9% of the Group's total revenue. During the period under review, the number of distributors of the Group in this region decreased by 6 to 24. The average sales per distributor increased by 46.3% year-on-year to approximately RMB1,400,000.

South-Central region recorded a year-on-year increase of 33.7% in revenue, accounting for 17.3% of the Group's total revenue. During the period under review, the number of distributors of the Group in this region decreased by 1 to 21, and the average sales per distributor increased by 40.1% year-on-year to approximately RMB1,460,000.

South-West region recorded a year-on-year increase of 20.4% in revenue, accounting for 16.8% of the Group's total revenue. The number of distributors of the Group in this region decreased by 2 to 20. The average sales per distributors increased by 32.5% year-on-year to approximately RMB1,490,000.

The respective proportion of total revenue of these regions demonstrated a more balanced development of the Group's regional sales. This has enabled the Group to diversify its business risks, and broadened its revenue and profit bases. Meanwhile, the management will further explore the sales potential of wine products among second and third-tier cities across the PRC.

## BUSINESS INDICATOR REVIEW

### Inventory turnover days:

The inventory of the Group amounted to approximately RMB286,569,000 as at 30 June 2016, representing a slight decrease as compared to approximately RMB312,719,000 as at the end of 2015. This was because part of the Group's high-end grape juice was used for the production of ice wine, thereby activating asset utilization. As at the end of the period under review, approximately 41% of the Group's inventories were provided for high-end products, and the remaining 59% for medium-and-low-end products. In terms of the nature of the inventory, approximately 14.8% was raw materials, 76.5% work in progress and 8.7% finished goods. The inventory turnover days on average during the period under review decreased to 584 days, representing a significant improvement as compared to 792 days and 717 days in the corresponding period of and in 2015, respectively. This was attributable to a drop in inventory level as at the end of the period under review.

### Trade account receivables analysis:

The trade account receivables turnover days of the Group during the period under review was 87.5 days. This was in line with the 88 days during the corresponding period last year and improved slightly from 113 days in 2015. The trade account receivables turnover days of 87.5 days was slightly better than the credit period of 90 days granted to customers of the Group.

### Trade account payables analysis:

The trade account payables turnover days of the Group during the period under review stood at 44 days. This was slightly higher than 36 days during the corresponding period last year and 33 days in 2015. The increase was mainly due to the purchase of large stocks of packaging materials in May and June for wine production during July and August.

## OPERATION ANALYSIS BY PRODUCT

The following table sets forth the Group's gross profit distribution by product line and their respective gross profit margin for the Period:

| | As a percentage of total gross profit for the six months ended 30 June 2016 | Percentage point changes as compared with the same period of the previous year | Gross profit margin for the six months ended 30 June 2016 | Percentage point changes as compared with the same period of the previous year |
|---|---|---|---|---|
| Sweet wines | 48.1% | 2.5 | 29.6% | –0.9 |
| Dry wines | 45.3% | –1.8 | 42.6% | 0.0 |
| Ice wines | 4.5% | –0.2 | 38.6% | –12.2 |
| Brandy | 1.1% | –1.1 | 30.1% | –3.2 |
| White wines | 1.0% | 0.6 | 65.3% | –0.4 |
| **Total** | N/A | N/A | 35.0% | –1.2 |

## Sweet wines

Sweet wines represented the product line contributing the most to sales and gross profit of the Group during the period under review. Its revenue amounted to approximately RMB101,197,000, representing an increase of 34.7% from the same period of last year, reflecting keen demands for popular products. Its gross profit was approximately RMB29,991,000, representing a year-on-year increase of 30.5%. During the period under review, sweet wines business accounted for 48.1% of the overall gross profit of the Group. This outpaced dry wines and became the largest gross profit contributor of the Group.

As this product line was targeted at the popular market, its gross profit margin was relatively lower than the other products of the Group, standing at approximately 29.6%, which decreased by 0.9 percentage point compared with the same period of the previous year. However, it improved significantly from the 2015 full-year gross profit margin of 22.1%.

During the period under review, the Group launched 7 types of new sweet wines in total in order to meet the growing market demands for popular products.

Product diversification is one of the Group's distinctive strengths. During the period under review, the Group marketed 48 types of sweet wines in total, in line with that of 46 in 2015.

## Dry wines

During the period under review, revenue from dry wines was approximately RMB66,296,000, representing a year-on-year increase of 19.1%, This reflected rising market acceptance of high-end products but its sales growth rate was relatively lower than that of the medium and low end products. Gross profit margin of dry wines remained flat at 42.6% when compared with the same period of last year, indicating stable market demand and firm consumer acceptance. Like its revenue, dry wine business' gross profit also recorded a similar growth rate of approximately 19.1% from the same period of last year to approximately RMB28,226,000. Due to a significant increase in sweet wines' weighting, dry wines' percentage of overall gross profit of the Group slightly decreased from 47.1% for the same period of last year to 45.3% for the period under review.

During the period under review, the Group marketed 65 types of dry wines in total, down by 24 types from that of 2015. This was mainly attributable to the Group's focus on products appealing to consumers' preference in its marketing strategy with a view of maintaining high gross profit margin.

## Ice wines

During the period under review, revenue from ice wines was approximately RMB7,258,000, representing an increase of 56.1% from the same period of last year. Gross profit of ice wines increased by 18.8% year-on-year to approximately RMB2,804,000 during the period under review, while gross profit margin decreased by 12.2 percentage points year-on-year to 38.6%. As ice wines require costly grape juice as raw materials for brewing, this product line faced pressure on gross profit margin. During the period under review, ice wines' weighting in overall gross profit of the Group was 4.5%. Ice wine represents a flagship product for the Group to tap into the high-end market.

### Brandy

During the period under review, the Group's revenue from brandy decreased by 29.3% from the same period of last year to approximately RMB2,371,000, reflecting unstable market demand for brandy. This product line contributed gross profit of approximately RMB713,000, representing a decrease of 36.1% from the same period of last year. Its gross profit margin eased 3.2 percentage points to 30.1%. Its proportion to the overall gross profit was approximately 1.1%.

### White wines

During the period under review, the revenue from white wines totaled approximately RMB942,000, representing a significant increase of 236.4% from the same period of last year. The Group's white wines business contributed gross profit of approximately RMB615,000, representing an increase of 234.2% from the same period of last year. The gross profit margin slightly decreased by 0.4 percentage point from the same period of last year to 65.3%. During the period under review, white wines products accounted for 1.0% of the overall gross profit of the Group.

## BUSINESS PROSPECTS

In view of uncertain global economic outlook and continuous slowdown of China's economy, it is expected that the China's wine market would still be undergoing a process of slow and deep adjustment in the short to medium term.

The Company now enjoys a strong financial position. As at 30 June 2016, the Group owned bank balances and cash of approximately RMB285,799,000 and without bank borrowings. As such, the Group commands sufficient financial resources to capture investment opportunities with ample flexibility.

The Group plans to establish a trading company in Hong Kong in the second half of this year in a bid to conduct two-way wine trading activities. On one hand, this trading company is geared to introducing imported wine to China's domestic market, and on the other hand promoting wine produced in China to overseas market. The management expects this trading company to help expand the business scope of the Group and enhance its profitability.

The Board also considers merger and acquisition of high quality vineyards in overseas market, with an aim to enrich the Group's product portfolio and cater for the tastes and needs of different customers. However, such a move will be conducted in a prudent manner. The Board will carry out detailed research on the operation, product quality and target markets of the possible vineyards to be merged or acquired, before making the final decision.

The Group plans to develop its own high end brand winery, namely Jilin Tongtian Winery, which is expected to obtain business license from the Government in the second half of this year. This winery is equipped with an annual capacity of approximately 500 tons. Leverage on the advantages of our own vineyard, the Group intends to produce high and mid-end products with fully integrated production all the way from growing grapes to brewing wine. Apart from extending production line, the Group also expects to deepen brand building and gradually establish a unique brand in the industry, thus supporting the sustainable development of the Group's business.

As for online sales platform, the Group is considering strategic cooperation with different enterprises, to develop a comprehensive online sales platform of wine products, putting great efforts to promote its own products while selling other brands.

It is expected that the market will still be full of challenges in the second half of this year, but the management will endeavor to explore market opportunities with a proactive attitude. Based on past experiences, the second half of a year tends to be the traditional peak season for wine products. Distributors normally purchase large quantities of wine before December-end to be prepared for the upcoming Spring Festival sales. Therefore, the management expects the sales of the second half of the year to be higher than that of the first half. The Group will continue to strictly control the cost, so as to provide stable return to shareholders.

## 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.

In view of the minimal foreign currency exchange risk, the Directors will 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 strong cash and bank balances, the Group is in a net cash position and is thus exposed to minimal financial risk on interest rate fluctuation.

## LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group's working capital was healthy and positive and we generally financed the Group's operation with internal cash flows generated from operations for the past years. As at 30 June 2016, the Group's cash and cash equivalents amounted to approximately RMB285,799,000. The Group has sufficient financial resources and a strong cash position for satisfying working capital requirements of business development, operations and capital expenditures.

## INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2016 (2015 corresponding period: 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 the 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 AND REVIEW OF FINANCIAL STATEMENTS

The Company has established an audit committee in compliance with Rules 3.21 and 3.22 of the Listing Rules with specific written terms of reference in compliance with the CG Code. The audit committee of the Company currently comprises three independent non-executive Directors, including Mr. Sih Wai Kin, Daniel, Mr. Lai Chi Keung, Albert and Mr. Yang Qiang, while Mr. Sih is the chairman of the audit committee. The audit committee is responsible for reviewing the Group's financial information, overseeing the Group's financial reporting system, internal control and risk management procedures, and reviewing the Group's financial and accounting policies and practices. The audit committee together with the management of the Company had reviewed the accounting policies and practices adopted by the Group and discussed, among other things, the internal controls and financial reporting matters including a review of the Group's unaudited interim results 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 2016 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, 23 August 2016

*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. Yang Qiang.*

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.