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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- Revenue retreated by approximately 7.6% to approximately RMB271.3 million (2015: approximately RMB293.7 million).

- Gross profit decreased approximately 11.0% to RMB84.2 million (2015: approximately RMB94.6 million (restated)).

- Loss and total comprehensive expense for the year attributable to owners of the Company amounted to approximately RMB93.3 million as compared with profit and total comprehensive income attributable to owners of the Company of RMB9.6 million (restated) for the previous year.

- Basic losses per share was RMB4.63 cents as compared with earnings per share of RMB0.48 cent (restated) for the previous year.

The board of directors (the "Board") of China Tontine Wines Group Limited (the "Company") is pleased to announce the consolidated results and financial position of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 (the "Year"), prepared on the basis set out in Note 2.1, together with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTES	**2016** **RMB'000**	2015 *RMB'000* (restated)
Revenue	*3*	**271,333**	293,689
Cost of sales		**(187,164)**	(199,056)
Gross profit		**84,169**	94,633
Other income, gains and losses	*5*	**586**	847
Selling and distribution expenses		**(126,957)**	(41,910)
Administrative expenses		**(60,612)**	(41,089)
Finance costs	*6*	**(21)**	–
Change in fair value of biological assets		**3,759**	3,681
(Loss) profit before tax		**(99,076)**	16,162
Taxation	*7*	**–**	–
(Loss) profit and total comprehensive (expense) income for the year	*8*	**(99,076)**	16,162
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(93,291)**	9,581
Non-controlling interests		**(5,785)**	6,581
		(99,076)	16,162
(Losses) earnings per share	*10*		
Basic *(RMB cents)*		**(4.63)**	0.48
Diluted *(RMB cents)*		**(4.63)**	0.48

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	**31.12.2016** ***RMB'000***	31.12.2015 *RMB'000* (restated)	1.1.2015 *RMB'000* (restated)
Non-current Assets				
Property, plant and equipment		**149,130**	145,381	151,841
Prepaid lease payments		**54,138**	56,862	59,586
Deposits paid for acquisition of property, plant and equipment		–	7,343	7,343
Biological assets		**2,687**	2,857	2,726
		205,955	212,443	221,496
Current Assets				
Inventories		**299,860**	312,719	315,185
Trade receivables	*11*	**27,407**	84,702	97,115
Deposits and other receivables		**14,157**	12,153	12,076
Tax recoverable		**5,551**	5,551	5,551
Prepaid lease payments		**2,723**	2,723	2,723
Bank balances and cash		**181,683**	201,942	172,613
		531,381	619,790	605,263
Current Liabilities				
Trade payables	*12*	**5,857**	9,307	19,317
Other payables and accruals		**25,871**	33,363	34,014
Bank borrowing		**7,096**	–	–
Tax liabilities		**9,961**	9,961	9,988
		48,785	52,631	63,319
Net Current Assets		**482,596**	567,159	541,944
Total Assets less Current Liabilities		**688,551**	779,602	763,440
Capital and Reserves				
Share capital		**17,624**	17,624	17,624
Reserves		**602,626**	687,892	678,311
Equity attributable to owners of the Company		**620,250**	705,516	695,935
Non-controlling interests		**68,301**	74,086	67,505
Total Equity		**688,551**	779,602	763,440

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors consider that the Company's ultimate holding company is Up Mount International Limited, a limited company incorporated in the British Virgin Islands (the "BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" of the annual report.

The consolidated financial statements are presented in Renminbi, which is also the functional currency of the Company.

The company acts as an investment holding company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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 year. 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 years by line items presented in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Increase in cost of sales	**(1,401)**	(1,151)
Increase in change in fair value of biological assets	**3,599**	3,882
Net decrease in loss/increase in profit for the year attributable to owners of the Company	**2,198**	2,731

The effects of the change in Amendments to HKAS 16 and HKAS 41 described above on the 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) *RMB'000*	**Adjustments** *RMB'000*	**As at 31 December 2015 (restated)** *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 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) *RMB'000*	**Adjustments** *RMB'000*	**As at 1 January 2015 (restated)** *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 (losses) earnings per share		Impact on diluted (losses) earnings per share	
	2016	2015	**2016**	2015
	RMB cents	*RMB cents*	***RMB cents***	*RMB cents*
Figures before adjustments	**(4.74)**	0.34	**(4.74)**	0.34
Adjustment arising from change in accounting policy in relation to application of Amendments to HKAS 16 and HKAS 41	**0.11**	0.14	**0.11**	0.14
Figures after adjustments	**(4.63)**	0.48	**(4.63)**	0.48

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

1 *Effective for annual periods beginning on or after 1 January 2018*
2 *Effective for annual periods beginning on or after 1 January 2019*
3 *Effective for annual periods beginning on or after a date to be determined*
4 *Effective for annual periods beginning on or after 1 January 2017*

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent consideration, as well as licensing application guidance.

The directors of the Company do not anticipate that the application of HKFRS 15 in the future will have a material effect on the Group's consolidated financial statements.

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified assets is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presents as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB1,595,000. A preliminary assessment indicated that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new arrangements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

Except as mentioned above, the directors of the Company do not anticipate that the application of the HKFRSs issued but not yet effective, will have a material effect on the Group's consolidated financial statements.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared on the historical cost basis, except for the biological assets that are measured at fair value less costs to sell at the end of each reporting period, as explained below.

Historical cost is generally based on the fair value of consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of assets*.

3. REVENUE

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

4. SEGMENT INFORMATION

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

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

The Group's reportable and operating segments under HKFRS 8 *Operating Segments* are identified based on different geographical zones of wine products delivered in People's Republic of China ("PRC"): North-East Region, Northern Region, Eastern Region, South-Central Region and South-West Region.

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

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

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

Information about reportable and operating segment revenue, (loss) profit, assets and liabilities

	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*
For the year ended 31 December 2016						
Segment revenue from external customers	**50,800**	**50,355**	**74,545**	**46,918**	**48,715**	**271,333**
Segment loss	**(5,246)**	**(5,505)**	**(12,557)**	**(7,307)**	**(10,696)**	**(41,311)**
For the year ended 31 December 2015						
Segment revenue from external customers	45,401	60,027	83,444	48,950	55,867	293,689
Segment profit	4,151	14,151	19,265	10,934	7,924	56,425
As at 31 December 2016						
Segment assets	**3,052**	**6,930**	**8,397**	**5,751**	**5,762**	**29,892**
Segment liabilities	**1,206**	**1,195**	**1,769**	**1,113**	**1,156**	**6,439**
As at 31 December 2015						
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

Reconciliations of reportable and operating segment revenue, (loss) profit, assets and liabilities

Revenue

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

	2016	2015
	RMB'000	*RMB'000*
		(restated)
Total segment (loss) profit	**(41,311)**	56,425
Unallocated amounts:		
Other corporate income	**760**	847
Other corporate expenses	**(58,525)**	(41,110)
Consolidated (loss) profit before tax	**(99,076)**	16,162

Reportable and operating segment (loss) profit represented the (loss) profit incurred by each segment without allocation of amortisation, depreciation, impairment losses, change in fair value of biological assets, finance costs, other corporate expenses and other corporate income.

	2016	2015
	RMB'000	*RMB'000*
		(restated)
Assets		
Total segment assets	**29,892**	84,702
Other unallocated amounts		
Property, plant and equipment	**149,130**	145,381
Prepaid lease payments	**56,861**	59,585
Deposits paid for acquisition of property, plant and equipment	**–**	7,343
Biological assets	**2,687**	2,857
Inventories	**299,860**	312,719
Deposits and other receivables	**11,672**	12,153
Tax recoverable	**5,551**	5,551
Bank balances and cash	**181,683**	201,942
Consolidated total assets	**737,336**	832,233

Reportable and operating segment assets represent trade receivables and prepaid other taxes.

	2016	2015
	RMB'000	*RMB'000*
Liabilities		
Total segment liabilities	**6,439**	12,981
Other unallocated amounts		
Trade payables	**5,857**	9,307
Other payables and accruals	**19,432**	20,382
Bank borrowing	**7,096**	–
Tax liabilities	**9,961**	9,961
Consolidated total liabilities	**48,785**	52,631

Reportable and operating segment liabilities comprise certain other tax payables and other creditors.

Revenue from major products

The following is an analysis of the Group's revenue from its major products.

	2016 *RMB'000*	2015 *RMB'000*
Sweet wines	**144,281**	148,028
Dry wines	**109,566**	113,995
Brandy	**6,010**	7,047
Others	**11,476**	24,619
	271,333	293,689

5. OTHER INCOME, GAINS AND LOSSES

	2016 *RMB'000*	2015 *RMB'000*
Bank interest income	**760**	793
Net foreign exchange (loss) gain	**(155)**	54
Loss on disposal of property, plant and equipment	**(19)**	–
	586	847

6. FINANCE COSTS

	2016 *RMB'000*	2015 *RMB'000*
Interest on bank borrowing	**21**	–

7. TAXATION

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 EIT 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.

The taxation for the year can be reconciled to the (loss) profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 *RMB'000*	2015 *RMB'000* (restated)
(Loss) profit before tax	**(99,076)**	16,162
Tax (credit) charge at income tax rate of 25% (2015: 25%)	**(24,769)**	4,041
Tax effect of income not taxable for tax purpose	**–**	(37)
Tax effect of expenses not deductible for tax purpose	**12,518**	5,764
Tax effect of tax loss not recognised	**12,606**	875
Utilisation of tax losses previously not recognised	**(355)**	(10,643)
Taxation for the year	**–**	–

8. (LOSS) PROFIT AND TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR

	2016	2015
	RMB'000	*RMB'000*
		(restated)
(Loss) profit and total comprehensive (expense) income for the year has been arrived at after (crediting) charging:		
Auditor's remuneration	**1,589**	1,592
Cost of inventories recognised as an expense	**151,553**	157,988
Depreciation of property, plant and equipment	**10,597**	11,746
Amortisation of prepaid lease payments	**2,724**	2,724
Less: amounts included in property, plant and equipment	**(1,786)**	(1,786)
	938	938
Research and development costs recognised as an expense (included in administrative expenses)	**4,100**	–
Staff costs, including directors' remuneration		
– salaries and other benefits costs	**19,307**	16,740
– sales commission	**5,938**	6,815
– retirement benefits schemes contributions	**4,262**	4,302
– share-based payments (included in administrative expenses)	**8,025**	–
	37,532	27,857
Write off of inventories (included in cost of sales)	**1,684**	1,743
Advertising and promotion expenses (included in selling and distribution expenses)	**101,044**	14,001

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

10. (LOSSES) EARNINGS PER SHARE

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

	2016	2015
	RMB'000	*RMB'000*
		(restated)
(Losses) earnings for the year attributable to owners of the Company and (losses) earnings for the purposes of calculating the basic and diluted (losses) earnings per share	**(93,291)**	9,581

	2016 & 2015 *Number of shares*
Number of shares	
Weighted average number of ordinary shares for the purpose of basic and diluted (losses) earnings per share	2,013,018,000

For the year ended 31 December 2015, 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 year end date.

For the year ended 31 December 2016, the computation of diluted losses per share does not assume the exercise of the Company's share options since their exercise would result in a decrease in losses per share.

11. TRADE RECEIVABLES

The Group allows a credit period of 30 to 90 days to its trade customers except for the new customers which payment is made when wine products 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.

	2016 *RMB'000*	2015 *RMB'000*
0 – 30 days	**18,274**	42,484
31 – 60 days	**9,133**	22,001
61 – 90 days	**–**	20,217
	27,407	84,702

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer.

No trade receivable balance is past due at the end of the reporting period.

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:

	2016 *RMB'000*	2015 *RMB'000*
0 – 30 days	**288**	3,706
31 – 60 days	**5,569**	4,221
61 – 90 days	**–**	1,380
	5,857	9,307

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

According to the National Bureau of Statistics of China, the gross domestic product ("GDP") of China grew by 6.7% year-on-year in 2016. This reflected a continued slowdown of China's economy, leading to a record low in economic growth for 26 years. Domestic investment and consumption both displayed sluggish growth during the Year.

The wine market in China underwent severe adjustment for four years, and the business environment did not exhibit any major signs of improvement. The slowdown of economic growth in China led to declining demand for wine products, thereby affecting the sales revenue of industry players. The wine market continued to confront with supply glut in 2016, with the market competition intensifying further. Moreover, overshadowed by the Chinese Government-imposed restrictions on lavish entertainment and hospitality, high-end alcoholic products including wines succumbed to fall in sales. This posed mounting pressure on corporate profitability, and some enterprises even suffered from losses. Over 80% of red wines consumed in China were brewed domestically, thus spearheading China to become the fifth largest wine manufacturer in the world. In recent years, however, imported products have been deepening their penetration into the China market, thereby accentuating the competition among various grades of wine products in the domestic market, and exerting massive impact on the sales of local products.

The industry adjustment had led to a change in the consumption pattern. For the Year, wine consumption was concentrated on mid to low-end mass-market products, and shifted primarily to daily casual enjoyment.

Well-known local and imported wine brands have infiltrated across the board on all segments of the market, meanwhile the competition in the mass market turned even fiercer. This has forced inefficient players out of the market and leaving the fittest to survive. As a result, the market share of well-known brands kept on rising, whilst the market space left for small enterprises receded gradually. The continued acceleration of market dominance by leading brands has become the norm in the market. Such market pressure also drove wine manufacturers to increase their outlay in marketing and brand building. The above trends led to increased concentration of the wine industry in China.

FINANCIAL REVIEW

The Group's operations had confronted with significant challenges during the Year, in the wake of declining demand for wine products driven by the slowdown in China's economic growth. As a result, the Group's revenue declined. In addition, the Chinese Government's restriction on extravagant entertainment had dragged down the sales of high-end wine products, thereby affecting the performance of the Group. On the other hand, serious impact of imported products on the wine market in China also affected the sales of local products. In response to the market dynamics, the Group raised its outlay in brand building and marketing in a bid to strengthen its overall sustainable competitive edges during the Year. Such investments led to an upsurge in the Group's expenses. During the Year, the Group maintained its focus on the sales of mass market products, and the management strove to strengthen the sales of low to mid-end wine products so as to appeal to the popular consumption demand of the general public.

For the Year, the Group's revenue retreated by approximately 7.6% year-on-year to approximately RMB271,333,000. Overall gross profit stood at RMB84,169,000 with the Group's gross profit margin adjusting to 31.0%. The loss attributable to the owners of the Company amounted to RMB93,291,000 for the Year, against a profit of RMB9,581,000 (restated) in the same period of the previous year. The basic loss per share during the Year was RMB4.63 cents (the earnings per share was RMB0.48 cent in 2015 (restated)).

For the Year, the total cost of sales of the Group slid to RMB187,164,000, down by 6.0% year-on-year, and was in line with the magnitude of the year-on-year change in revenue. A drop in wine output during the Year brought about a corresponding 6.0% year-on-year retreat in raw material costs.

Major raw materials required for producing wine products of the Group are grapes, grape juice, yeast and additives as well as packaging materials (including bottles, bottle caps, label, corks and packaging boxes). During the Year, the cost of raw materials accounted for approximately 75.1% of the Group's total cost of sales, similar to the weighting in the previous year.

The following table sets forth the breakdown of the costs required for the production of the Group during 2016:

	2016	2015	Change
		(Restated)	
	(RMB'000)	*(RMB'000)*	*%*
Raw materials	**140,497**	149,442	–6.0%
Production overheads	**10,816**	11,488	–5.8%
Consumption tax and other taxes	**35,851**	38,126	–6.0%
Total cost of sales	**187,164**	199,056	–6.0%

The loss for the Year was mainly attributed to decline in the revenue, and upsurge of selling and distribution expenses by 202.9% year-on-year to RMB126,957,000, of which approximately RMB101,044,000 were advertising and promotional expenses, up by 621.7% year-on-year.

Due to the intensified competition of the wine market, the management considered it necessary to step up efforts in brand building and marketing promotion, in order to enhance the competitive edges of the Group against local and imported products in the coming years. These moves were aimed at strengthening the long-term leading industry position of the Group, as well as raising the popularity and penetration of the Group's products. Moreover, the research and development expenditures of the Group amounted to RMB4,100,000 in 2016, and they were mainly used for developing new products and optimizing product portfolio with a view of cultivating the mass consumption market.

During the Year, administrative expenses increased by 47.5% year-on-year to RMB60,612,000. Such increases were mainly due to the one-off non-cash item amounting to approximately RMB8,025,000 incurred by the grant of share options.

OPERATION REVIEW

High-end products were major casualties of the slowdown of China's economy and declined demand for wine products. In response to the situation, the Group placed its emphasis on promoting sweet wine products targeted at the daily consumption needs of the general public.

The low-margin sweet wine products accounted for 53.2% of the total revenue of the Group in 2016, while the high-margin dry wine products accounted for 40.4%. These two wine products accounted for 93.6% of the total revenue in 2016, similar to the weighting of the previous year. Due to weakening market demand, brandy only accounted for 2.2% of the total revenue. Other wine products such as white wines and ice wines accounted for 4.2% of the overall revenue.

During the Year, the management adopted the business strategy of replacing obsolete products with newly developed ones. As such, the Group removed those products with lukewarm consumer acceptance from the market, and reallocated resources to those well-received mass-market items. In response to market changes, the Group optimized the product portfolio by reducing the product range of high-end wines and bringing in new sweet wine products geared to popular consumption. This approach enabled the Group to meet the diverse demand from different consumer segments. As at the end of the Year, the Group offered a total of 137 types of products.

Output Volume and Sales

During the Year, the Group's production facilities in Tonghua, Jilin Province and Yantai Baiyanghe, Shandong Province produced a total of 15,445 tonnes of wine products. The output retreated from the previous year, mainly due to easing market demand and dampening impact of imported products.

During the Year, the total sales volume of the Group decreased by 7.3% year-on-year to 15,632 tonnes, and the average selling price per tonne stood at RMB17,358, similar to the level of the previous year.

The Group sells the majority of its products to distributors, who distribute 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 and other sub-distributors for further sales distribution.

As at 31 December 2016, the Group's products were sold through 129 distributors in 21 provinces, 3 autonomous regions and 4 direct-controlled municipalities of China. During the Year, the Group was determined to streamline the structure of its selling and distribution network, by conducting rigorous distributors' performance audit and eliminating underperformed distributors.

Regarding online sales, the Group continued to explore this sales channel and study its earnings model. Although the proportion of revenue generated from online sales was not significant during the Year, the Group considered the development of online sales channels could match the changing consumption pattern of consumers. This would also place the Group in an advantageous position to diversify its distribution channels and enlarge its sales coverage.

Regional market performance

In terms of regional revenue, the Eastern region remained the largest market of the Group during the Year, but revenue from the region decreased by 10.7% year-on-year. The region's contribution accounted for 27.5% of the total revenue, representing a slight decline of 0.9 percentage point from that of the previous year. Wine products were generally well received in this region, as it covered those prosperous provinces in China with a relatively high per-capita income level. However, the competition in this region was more severe than others.

Benefiting from its adjacency to the Group's production base in Tonghua, Jilin, the North-East region commands geographical advantages. The revenue of this region increased by 11.9% year-on-year, and it emerged as the only region that achieved growth among five sales regions. Sales from the region accounted for 18.7% of the total revenue, up by 3.2 percentage points year-on-year. The North-East region and the Northern region were both ranked the second largest markets of the Group. The steady performance of the North-East region was mainly attributable to high acceptance and favorable brand recognition of the Group's products in the locality.

The revenue in the Northern region recorded a year-on-year retreat of 16.1%, accounting for 18.6% of the total revenue. The revenue in the South-West region recorded a year-on-year decline of 12.8%, accounting for 17.9% of the total revenue. The revenue in the South-Central region recorded a year-on-year decrease of 4.2%, accounting for 17.3% of the total revenue.

BUSINESS INDICATOR REVIEW

Inventory turnover days:

The inventory turnover days of the Group during the Year stood at 739 days, representing a slight increase as compared to that as at the end of 2015. This was attributable to a slight drop in sale during the Year as compared to that of 2015.

Trade account receivables turnover days:

The trade account receivables turnover days of the Group during the Year stood at 75 days, down by 38 days year-on-year. Trade account receivables decreased from RMB84,702,000 as at the end of the previous year to RMB27,407,000 as at the end of the Year, mainly due to lowering sales in November and December of the Year as compared to that of the previous year. This in turn shortened the trade account receivables turnover days.

OPERATION ANALYSIS BY PRODUCT

Sweet wines

Sweet wines contributed the most to the Group's output and sales during the Year. Its revenue for the Year amounted to RMB144,281,000, representing a year-on-year decrease of 2.5%. Dampened by weakened overall demand for wine products and impact of imported products, its gross profit declined to RMB36,008,000 with the gross profit margin staying at 25%, close to the level of the previous year. Sweet wines accounted for 42.8% of the overall gross profit of the Group in 2016, representing a year-on-year increase of 2.3 percentage points.

During the Year, the Group launched 8 types of new sweet wines in total in order to satisfy the market demands for popular products.

As of the end of the Year, the Group marketed 53 types of sweet wines in total, representing an increase of 7 types from that of the previous year.

Dry wines

The sales revenue from dry wines amounted to RMB109,566,000 during the Year, down by 3.9% year-on-year. This reflected the impact of the Chinese Government's restriction on extravagant entertainment and hospitality. Its gross profit also decreased by 14.0% year-on-year to RMB42,815,000, and its proportion to the overall gross profit of the Group slid to 50.9%. The gross profit margin of this product line retreated to 39.1% due to negative factors mentioned above.

The Group marketed 68 types of dry wines as at the end of the Year. In response to changing market demands, the Group shifted its strategic focus to products appealing to preferences of mass consumers. It had, thus, reduced 24 types of dry wines during the Year with a view of enhancing the efficiency of resource utilization.

Brandy

During the Year, the Group's revenue from brandy decreased by 14.7% year-on-year to approximately RMB6,010,000. This product line contributed a gross profit of approximately RMB699,000, representing a year-on-year drop of 64.4%. Its gross profit margin also eased to 11.6%. Its weighting to the overall gross profit was less than 1.0%.

Other products

Other products of the Group, including high-end ice wines and white wines, were also impacted by the Chinese Government's urge for thrift consumption during the Year. As a result, revenue from this segment of products decreased by 53.4% year-on-year to RMB11,476,000, with the segment's gross profit increasing by 2.0% year-on-year to RMB4,647,000. During the Year, other products only accounted for a small proportion of the Group's overall gross profit of just about 5.5%.

BUSINESS PROSPECTS

In the wake of the drastic changes in the global political and economic landscapes in the second half of 2016, as well as the new normal of lower single-digit growth rate in China's economy, domestic consumers have taken a cautious attitude towards consumption. Domestic alcoholic products, especially wines, will continue to see a debubbling process in sales prices, as the price competition in the market is expected to remain intense. Meanwhile, the on-going market consolidation will oust those inefficient wine manufacturers and distributors.

The chase for branded wine products has turned more pronounced among Chinese consumers, especially amid the shifting of consumption from high-end products driven by public/corporate-financed banqueting to mid to low end products targeted at middle class and younger generation of the 80s. This trend will trigger suppliers to increase the outlay in brand building. In addition, the distribution channels of China's wine market are undergoing changes, as distributors focus more on innovative channels such as specialized chain stores and hypermarkets. These venues will erode the market share of traditional sales channels. E-commerce will become an increasingly crucial platform for wine sales.

In response to the macro trend in the market, the Group began to increase its investment in market promotion and brand building from 2016 onwards. The management believes that only household brands with high credibility can support the Group's foothold in China's fiercely competitive wine market. Systematic brand building and promotion can enhance the target consumer group's recognition and identification of the Group's products. This in turn will help maintaining consumers' loyalty in the Group's products, and consolidate the Group's competitive edges and share in the complicated and fast-changing market.

Jilin Tongtian Winery, established by the Group for the development of high-end products, is approaching the final stage of calibration. It is expected to commence initial production in the second half of 2017. The annual capacity of the winery is about 500 tonnes. Leveraging on the principal strengths of the winery, the Group plans to produce its own high and mid-end products with fully integrated operation all the way from grape farming to wine brewing. The winery with proprietary high and mid-end wines would also be advantageous to deepening the Group's brand building efforts.

In order to weather the competition of imported products and cater for the preferences of domestic consumers, the Group is considering establishing a trading company in Hong Kong. This entity is geared to importing overseas wines into domestic market and broaden the Group's source of revenue. In addition, the planned trading company can also promote the sales of China-produced wine products to overseas markets. The management expects the establishment of this trading company can provide a platform for the Group to set its first step in the international market. This would also help to enhance the networking with famous wineries and traders abroad, thus building the foundation for future business expansion.

The Group is also exploring the feasibility of merger and acquisition in different markets, with an aim of optimizing the Group's product portfolio and catering for the tastes and needs of various customers. The Board will adopt a cautious approach in evaluating such investments. The management will carry out detailed research on the prospective project's operations, product quality, target market, development prospects, as well as the synergy brought forth to the existing business of the Group, before making any final decision.

In the face of intensified adjustment of China's wine industry and greater pressure from imported products, the management believes that it is necessary to actively explore diversified business development, so as to establish a broader and more balanced sources of revenue via business connections of the Group in related fields. The Group is currently making initial exploration in investment in agriculture-related industries.

Although China's wine market is forecasted to maintain its growth momentum in 2017, the phenomenon of replacing inefficient players by leading enterprises is becoming more visible amidst the fierce competition. Moreover, the market share of imported wines is expected to rise further. More and more overseas wineries and professional distributors are going to sell directly to the China market. Facing such severe market situation, the management will uphold the strategy of maintaining a strong financial position, and adopt a pragmatic stance in exploring a stable and diversified development trail for the Group. The Group will maintain sufficient cash on hand to capture market opportunities.

FINANCIAL MANAGEMENT AND TREASURY POLICY

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

Our working capital was healthy and positive and we generally financed our operation with internal cash flows generated from operations for the past years. The Company raised an unsecured and unguaranteed short term bank borrowing during the Year amounting to RMB7,096,000 with interest rate of 2.25% below the Hong Kong Dollar Prime rate and effective interest rate carried at 3% per annum. As at 31 December 2016, the Group's cash and cash equivalents amounted to approximately RMB181,683,000. The Group has sufficient financial resources and a strong cash position for satisfying working capital requirements of business development, operations and capital expenditures.

CAPITAL COMMITMENTS AND CHARGES ON ASSETS

As at 31 December 2016, the Group made capital expenditure commitments including approximately RMB89,692,000 that was authorised but not contracted for and approximately RMB7,686,000 contracted but not provided in the consolidated financial statements. These capital commitments were provided by cash generated from operations. As at 31 December 2016, none of the Group's assets was pledged (2015: nil).

REMUNERATION POLICY, EMPLOYMENT BENEFITS AND SHARE OPTION SCHEME

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. A share option scheme has also been adopted with a primary purpose of motivating our employees to optimize their contributions to the Group and to reward them for their performance and dedications. 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 (including Directors). As at 31 December 2016, the Group employed a work force of 572 (including Directors) in Hong Kong and in the PRC (2015: 559). The total salaries and related costs (including the Directors' fee) for the Year amounted to approximately RMB37,532,000 (included one off share option expenses of RMB8,025,000 (2015: nil)) (2015: RMB27,857,000).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2016 (2015: Nil).

DIVIDEND

The Directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2016 (2015: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 10 April 2017 to Wednesday, 12 April 2017 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting (the "AGM") of the Company to be held on Wednesday, 12 April 2017. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Friday, 7 April 2017.

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 Year.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code for securities transactions by Directors and relevant employees of the Group who, because of office or employment, are likely to be in possession of unpublished inside information in relation to the Group’s securities. The Directors and such relevant employees are required to strictly follow the Model Code when dealing in the securities of the Company. The Directors and such relevant employees, after specific enquiries by the Company, confirmed their compliance with the required standards set out in the Model Code throughout the Year.

CORPORATE GOVERNANCE

Throughout the Year, the Company had applied the principles and complied with the code provisions (the “Code Provisions”) set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules, save for the deviation from Code Provision A.2.1, which states that the responsibilities between the chairman and the chief executive officer (“CEO”) should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and CEO and Mr. Wang Guangyuan (“Mr. Wang”) currently performs these two roles. Mr. Wang is responsible for the overall business strategy and development and management of the Group. The Board considers that Mr. Wang, by serving as 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 decisions 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 CEO of the Company notwithstanding the aforementioned deviation.

AUDIT COMMITTEE

The audit committee of the Company (comprising all the independent non-executive Directors) has reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the Group’s risk management and internal controls systems, as well as reviewed the Group’s audited annual results for the Year.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the Year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.tontine-wines.com.hk). The annual report for the year ended 31 December 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 gratitude to our management and all our staff for their continuous efforts and whole-hearted devotion. We are also truly grateful to our shareholders, investors, business partners and customers for their enormous support and trust.

By order of the Board
Wang Guangyuan
Chairman and Executive Director

Hong Kong, 27 February 2017

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. Lai Chi Keung, Albert, Mr. Lam Yiu Por 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.