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 2018

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 98.1% to approximately RMB160.5 million (2017 corresponding period: RMB81.0 million).
- Gross profit increased by approximately 138.7% to approximately RMB60.4 million (2017 corresponding period: RMB25.3 million).
- Profit and total comprehensive income for the period attributable to owners of the Company amounted to approximately RMB18.2 million (2017 corresponding period: loss and total comprehensive expense attributable to owners of the Company of RMB39.6 million).
- Basic and diluted earnings per share were RMB0.9 cent (2017 corresponding period: basic and diluted loss per share of RMB2.0 cents).

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 2018 (the "Period" or "period under review"), together with the comparative figures for the six months ended 30 June 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**160,488**	81,044
Cost of sales		**(100,101)**	(55,775)
Gross profit		**60,387**	25,269
Other income, gains and losses	*5*	**54**	240
Selling and distribution expenses		**(15,796)**	(44,530)
Administrative expenses		**(23,714)**	(23,646)
Finance costs	*6*	**–**	(64)
Change in fair value of biological assets		**1,736**	1,559
Profit (loss) before tax	*7*	**22,667**	(41,172)
Taxation	*8*	**–**	–
Profit (loss) and total comprehensive income (expense) for the period		**22,667**	(41,172)
Profit (loss) and total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**18,211**	(39,592)
Non-controlling interests		**4,456**	(1,580)
		22,667	(41,172)
Earnings (loss) per share	*9*		
Basic (RMB cents)		**0.9**	(2.0)
Diluted (RMB cents)		**0.9**	(2.0)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2018

	Notes	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Non-current Assets			
Property, plant and equipment	11	**149,678**	153,095
Prepaid lease payments		**50,052**	51,414
Biological assets	12	**4,639**	2,903
		204,369	207,412
Current Assets			
Inventories		**246,809**	257,744
Trade receivables	13	**81,757**	85,388
Deposits and prepayments		**14,392**	5,575
Tax recoverable		**5,551**	5,551
Prepaid lease payments		**2,723**	2,723
Bank balances and cash		**160,092**	153,647
		511,324	510,628
Current Liabilities			
Trade payables	14	**6,931**	11,847
Other payables and accruals		**25,155**	44,775
Tax liabilities		**9,961**	9,961
		42,047	66,583
Net Current Assets		**469,277**	444,045
Total Assets Less Current Liabilities		**673,646**	651,457
Capital and Reserves			
Share capital		**17,624**	17,624
Reserves		**580,806**	563,073
Equity attributable to owners of the Company		**598,430**	580,697
Non-controlling interests		**75,216**	70,760
Total Equity		**673,646**	651,457

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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.

2. PRINCIPAL ACCOUNTING POLICIES

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 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments
HK(IFRIC)–Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue,* HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments*

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets and lease receivables) and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

As at 1 January 2018, the Directors of the Company reviewed and assessed the Group's existing financial assets at amortised cost for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with HKFRS 9.

As at 1 January 2018, the additional credit loss allowance of RMB478,000 has been recognised against accumulated losses. The additional loss allowance is charged against the trade receivables.

3. REVENUE

Revenue from sale of goods is recognised at point of time when the customer obtains the control of the goods and the Group has present right to payment and the collection of the consideration is probable.

4. SEGMENT INFORMATION

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

	North-East Region *RMB'000*	Northern Region *RMB'000*	Eastern Region *RMB'000*	South-Central Region *RMB'000*	South-West Region *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2018 (Unaudited)						
Segment revenue from external customers	30,905	26,154	47,961	26,930	28,538	160,488
Segment profit	9,996	7,561	12,668	7,099	7,201	44,525
For the six months ended 30 June 2017 (Unaudited)						
Segment revenue from external customers	16,048	14,085	24,158	12,663	14,090	81,044
Segment loss	(4,386)	(2,443)	(4,581)	(2,938)	(3,354)	(17,702)

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	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Total segment profit (loss)	**44,525**	(17,702)
Unallocated amounts:		
Change in fair value of biological assets	**1,736**	1,559
Other corporate income	**54**	244
Other corporate expenses	**(23,648)**	(25,273)
Consolidated profit (loss) before tax	**22,667**	(41,172)

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 2018 (Unaudited)						
Segment assets	16,991	13,183	27,277	9,578	14,728	81,757
Segment liabilities	4,578	4,019	7,613	4,244	4,476	24,930
As at 31 December 2017 (Audited)						
Segment assets	20,720	11,726	23,764	9,493	19,685	85,388
Segment liabilities	4,955	4,020	7,931	3,831	4,814	25,551

	At 30 June 2018 (Unaudited) ***RMB'000***	At 31 December 2017 (Audited) *RMB'000*
Assets		
Total segment assets	**81,757**	85,388
Other unallocated amounts		
Property, plant and equipment	**149,678**	153,095
Prepaid lease payments	**52,775**	54,137
Biological assets	**4,639**	2,903
Inventories	**246,809**	257,744
Deposits and prepayments	**14,392**	5,575
Tax recoverable	**5,551**	5,551
Bank balances and cash	**160,092**	153,647
Consolidated total assets	**715,693**	718,040
Liabilities		
Total segment liabilities	**24,930**	25,551
Other unallocated amounts		
Trade payables	**6,931**	11,847
Other payables and accruals	**225**	19,224
Tax liabilities	**9,961**	9,961
Consolidated total liabilities	**42,047**	66,583

Revenue from major products

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Sweet wines	**87,264**	47,886
Dry wines	**65,581**	28,103
Brandy	**3,786**	2,839
Others	**3,857**	2,216
	160,488	81,044

5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Bank interest income	**54**	244
Loss on write-off of property, plant and equipment	**–**	(4)
	54	240

6. FINANCE COSTS

The costs represent the interest on bank borrowing.

7. PROFIT (LOSS) BEFORE TAX

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Profit (loss) before tax has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	**79,170**	45,238
Write-off of inventories (included in cost of sales)	**–**	804
Depreciation of property, plant and equipment	**5,393**	5,673
Amortisation of prepaid lease payments	**1,362**	1,362
Less: amounts included in property, plant and equipment	**(893)**	(893)
	469	469
Advertising and promotion expenses (included in selling and distribution expenses)	**2,048**	36,661

8. TAXATION

During the six months ended 30 June 2018 and 2017, the Group had utilised certain unused tax losses to offset against the current tax charges. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

9. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings (loss)		
Earnings (loss) for the period attributable to owners of the Company and earnings (loss) for the purposes of calculating the basic and diluted earnings (loss) per share	**18,211**	(39,592)

	At 30 June 2018 & 2017 (Unaudited) Number of shares
Number of shares	
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	2,013,018,000

For the six months ended 30 June 2017, the computation of diluted loss per share does not assume the exercise of the Company's share options since the exercise would result in a decrease in loss per share.

For the six months ended 30 June 2018, the computation of diluted earnings per share does not assume the exercise of the Company's share options as the exercise price of the options was higher than the average market price per share during the six months ended 30 June 2018.

10. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the periods ended 30 June 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

11. 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 2018 (Audited)	153,095
Additions	1,976
Depreciation for the period	(5,393)
At 30 June 2018 (Unaudited)	149,678

12. BIOLOGICAL ASSETS

Movements of biological assets, representing grapes growing on bearer plants are summarised as follows during the periods:

	RMB'000
At 1 January 2018 (Audited)	2,903
Change in fair value of biological assets	1,736
At 30 June 2018 (Unaudited)	4,639
At 1 January 2017 (Audited)	2,687
Change in fair value of biological assets	1,559
At 30 June 2017 (Unaudited)	4,246

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 2018 and 2017, the Group has engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the fair values of grapevines.

13. 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.

	At 30 June 2018 (Unaudited) ***RMB'000***	At 31 December 2017 (Audited) *RMB'000*
0–30 days	27,528	56,001
31–60 days	29,710	29,387
61–90 days	24,519	–
	81,757	85,388

Details of the impairment assessment are set out in Note 14.

14. TRADE PAYABLES

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

	At 30 June 2018 (Unaudited) ***RMB'000***	At 31 December 2017 (Audited) *RMB'000*
0–30 days	**4,094**	9,171
31–60 days	**2,837**	2,676
	6,931	11,847

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

15. 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, consultants, advisers, contractors, business or service partners.

Date of grant	Number of outstanding options as at 30 June 2018	Exercisable period	Exercise price
9 May 2016	99,300,000 (31 December 2017: 99,300,000)	9 May 2016 to 8 May 2021	HK$0.263

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

Category of participant	Date of grant	Outstanding at 1.1.2018	Granted during the period	Lapsed/ cancelled during the period	Exercised during the period	Outstanding at 30.6.2018
A director	9 May 2016	16,550,000	–	–	–	16,550,000
Employees	9 May 2016	82,750,000	–	–	–	82,750,000
Total		99,300,000	–	–	–	99,300,000

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

According to the National Bureau of Statistics of China, the gross domestic product (GDP) of China grew by 6.8% year-on-year in the first half of 2018[1]. The Chinese economy has continued to maintain its stable performance with good momentum for growth, which is in line with the market expectation. Due to the accelerated consumption upgrade in the economic sector of China, the consumption structure of the country is shifting towards a higher level. For the wine market, the consumption upgrade means that consumers are calling for wines with better quality and higher price.

At present, it is estimated that there are nearly 40 million habitual wine-drinkers in China[2]. With the trend of lowering age of domestic consumers and the expanding base of middle class and well-to-do class, habitual wine-drinkers remain on the rise. Chinese consumers are quickly maturing. Awareness and popularization of wine among the middle class and well-to-do class have improved, and the attitude of these two classes towards wine has also somewhat shifted. In the past, they drank wine mainly on business or social occasions, and now, they gradually drink wine to benefit their health, with an increasing brand awareness among consumers.

According to the data in the white paper for China's wine market, affected by the wine imports, domestic wine saw a decline of output of domestic wine as at the end of 2017, indicating a decline of output for 5 consecutive years since 2013[3]. Subject to year-on-year increase in the total volume of wine imports and the cutting of value-added tax (VAT) rate on imported goods by the Chinese government from 1 May 2018, domestic wine producers have to withstand certain pressure in the domestic market. In recent years, wine imports have gradually shifted their target to mid to low end market, intensifying their competition with domestic wine. Some domestic wine producers have targeted their products at mid to high end market in order to avoid cutting prices to compete with low-end wine imports. In addition, the shift towards mid to high end market is also useful for domestic wine producers to enhance their operating profit ratio.

In the first half of 2018, the volume of wine products imported by China reached 1,336,000 kiloliters, representing an increase of 38.1% year-on-year[4]. China's wine consumer market is still dominated by red grape wine as sales of red grape wine account for more than 90% of the total sales of wine. That is different from mature wine markets such as the European market as red grape wine consumption in those countries approximately accounts for 54% of their static wines[5]. With the improving standard of living and the rise of the middle class, consumer groups and consumptions of wine also expand progressively in China. As estimated by Vinexpo and IWSR (International Wine & Spirits Research)[6], China's wine market is expected to grow by 30% in average yearly within the next 5 years.

1 http://www.stats.gov.cn/tjsj/zxfb/201807t20180717_1610160.html
2 http://www.lookvin.com/article/news/detail-48518.html
3 http://epaper.21jingji.com/html/2018-03/20/content_82209.htm
4 http://s.askci.com/news/chanxiao/20180726/1503201126858.shtml
5 http://www.winechina.com/html/2018/02/201802293722.html
6 http://www.lookvin.com/article/news/detail-47668.html

FINANCIAL REVIEW

For the six months ended 30 June 2018, the performance of the Group experienced obvious improvement, and even the Group achieved a surplus on a year-on-year basis. The satisfactory result of the Group was mainly attributable to the significant increase in the sales volume and revenue of sweet wines and dry wines. Overall gross profit of the Group registered a notable growth thanks to the remarkable year-on-year increase in the gross profit margin of sweet wines. On the other hand, the Group continued its efforts to enhance cost control and improve operating efficiency, allowing the Group to earn net profits during the period under review.

For the six months ended 30 June 2018, the Group's revenue increased by approximately 98% year-on-year to RMB160,488,000. Overall gross profit stood at RMB60,387,000 with the Group's gross profit margin adjusted to approximately 37.6% due to an increase in revenue. The profit attributable to the owners of the Company amounted to RMB18,211,000 for the period under review against a loss of RMB39,592,000 in the corresponding period last year. The basic and diluted earnings per share for the period under review was RMB0.9 cents (2017 corresponding period: basic and diluted loss per share of RMB2.0 cents).

The following table shows gross profit, gross profit margin and year-on-year comparison of the Group during the Period:

	Six months ended 30 June		**Increase**
	2018	2017	**year-on-year**
Overall gross profit *(RMB'000)*	**60,387**	25,269	+139.0%
Overall gross profit margin	**37.6%**	31.2%	+6.4 percentage points

During the period under review, selling and distribution expenses of the Group dramatically decreased by 65% year-on-year to RMB15,796,000, and advertising and promotion expenses even declined by 94% year-on-year to RMB2,048,000. Dramatic decline of these two expenses contributed to enhance overall operating efficiency of the Group, thus enabling the Group to record profits during the period under review.

For the six months ended 30 June 2018, the two production bases of the Group produced a total of 7,032 tonnes of various products, representing a year-on-year increase of 75%. As a result of the increase in output, the Group's total cost of sales during the period under review was RMB 100,101,000, representing an increase of approximately 79.5% over the corresponding period last year of the Group, of which raw material costs representing maximum proportion in total cost of sales increased by approximately 78.7% to RMB71,908,000.

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 period under review, the cost of raw materials accounted for approximately 72% of the Group's total cost of sales.

The following table sets forth the breakdown of the costs required for production of the Group for the six months ended 30 June 2018:

	Six months ended 30 June		
	2018	2017	**Change %**
	RMB'000	*RMB'000*	
Raw materials	**71,908**	40,241	79%
Production overheads	**8,011**	4,998	60%
Consumption tax and other taxes	**20,182**	10,536	92%
Total cost of sales	**100,101**	55,775	79%

OPERATION REVIEW

The stable development of domestic economy and the rapid rise of China's middle class allow greater access to wines, making wine-related consumption a part of the lifestyle. In terms of domestic wine consumption pattern, wine consumption has become more common and affordable and there is shift away from consumption of high-end, expensive and luxurious hospitality brands. The Group placed its emphasis on promoting mid to low end wine products targeted at the daily consumption needs of the general public during the period under review, and intensified online promotion and personalized marketing pattern catering to young consumers. Different from the past promotion practices such as engaging ambassador with high pay and placement on traditional advertising platform, such innovative sales mode can not only greatly save market promotion costs for the Group, but also can effectively drive growth of sales of main products of the Group, which can be demonstrated by the strong performance of the Group.

As one of the Top 10 Chinese Wine Industry Brands, the Group is widely recognized among the industry and consumers. During the period under review, the Group's product quality was further recognized in the industry. In May 2018, Tontine White Ice Wine 2015 won a silver medal for China wine production region in CMB (Concours Mondial de Bruxelles) following its gold award received in 2017 in the International PAR Organic Wine Award with the highest score and the silver award received in the First China Tonghua Cup • International Sweet Wine Competition.

During the period under review, the Group continued re-deploying its resources to wine products with mid and low prices, and targeting sales of those products at the mass market. Besides that, the Group also doubled its efforts to promote its mid-end dry wine products which were well-received by the market.

The Group recorded a significant increase in the gross profit margin of its sweet wines during the period under review as the margin was raised by almost 10 percentage points year-on-year to 34.9%. Sweet wine products accounted for 54.4% of the total revenue of the Group in the first half of 2018. During the period under review, gross profit margin of dry wine products of the Group was 41.3%, a slight increase year on year. Dry wine products accounted for 40.9% of total sales of the Group in the first half of 2018. These two products accounted for 95.3% of the total revenue in the first half of 2018, a slight growth occurred as compared with the corresponding period of the previous year. During the period under review, revenues from brandy and other products such as white wine and ice wine respectively accounted for approximate 2.3% and 2.4% of total revenues of the Group in the first half of 2018. As at the end of the period under review, the Group offered a total of 145 types of wine products.

Output Volume and Sales

During the period under review, the Group's production facilities in Tonghua, Jilin Province and Yantai Baiyanghe, Shandong Province produced a total of 4,897 and 2,135 tonnes of wine products respectively.

During the period under review, the total sales volume of the Group increased by approximately 63.4% to 7,938 tonnes, and the overall output of the Group increased significantly from the corresponding period of last year. Given the trend of rejuvenation of the wine industry at the end of 2017, and as part of its greater efforts to publicize its products and raise awareness of its products among consumers, the Group had launched a marketing campaign in which any buyer of our products can get free products, which campaign stimulated consumer spending. Thanks to the promotional activities conducted in the second half of 2017, products of the Group have been recognized by consumers, contributing to notable increase in the sales during the period under review. Average selling price per tonne was raised by approximate 21.2% to RMB20,219 as compared with the corresponding period of last year, which is also one of the driving forces of the overall gross profit growth of the Group. The average selling price of other products including white wine and ice wine reached its highest, amounting to RMB70,204 per tonne; while the average selling price per tonne of sweet wine and dry wine with the most sales volume was RMB16,743 and RMB 26,778 per tonne respectively.

The Group sells the majority of its 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 30 June 2018, the Group's products were sold through 107 distributors in 20 provinces, 3 autonomous regions and 3 direct-controlled municipalities of China, a slight increase as compared with last year. During the Period, the Group conducted stringent distributors' performance audit and eliminated underperformed distributors and at the same time increased the number of distributors to optimise its distribution network.

Regional market performance

The following table sets forth the breakdown of revenues from different regional markets of the Group in the first half of 2018 and the first half of 2017:

	The first half of 2018	The first half of 2017
North-East Region	**19%**	20%
Northern Region	**16%**	17%
Eastern Region	**30%**	30%
South-West Region	**18%**	17%
South-Central Region	**17%**	16%

In terms of regional revenue, the Eastern region remained the largest market of the Group during the period under review, with revenue amounting to RMB47,961,000, representing 30% of the total revenue, up by approximately 99% year-on-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 due to its consumption concentration.

During the period under review, the revenue of North-East region, as the production base of Tonghua, Jilin, reached RMB30,905,000, accounting for 19% of the total revenue up by approximately 93% as compared with the corresponding period last year. This region was ranked the second largest market of the Group. The market performance of the North-East region was relatively steady, which was mainly attributable to high acceptance and favorable brand recognition of the Group's products in the locality.

During the period under review, the revenue in the Northern region recorded RMB26,154,000, accounting for 16% of the total revenue. The revenue in the South-West region recorded RMB28,538,000, accounting for 18% of the total revenue. The revenue in the South-Central region recorded RMB26,930,000, accounting for 17% of the total revenue.

BUSINESS INDICATOR REVIEW

Inventory turnover days

The inventory turnover days of the Group as at the end of the period under review stood at 571 days, decreased sharply from 1,161 days in the corresponding period last year, mainly due to sales growth in the first half of 2018, which reduced inventory turnover.

Trade account receivables turnover days

As at 30 June 2018, the trade account receivables turnover days of the Group stood at 94 days. Trade account receivables slightly decreased to RMB81,757,000 as compared with the beginning of the Period.

OPERATION ANALYSIS BY PRODUCT

The following table shows the breakdown of revenue from different wine products of the Group in the first half of 2018 and the first half of 2017:

	For the six months ended 30 June 2018		For the six months ended 30 June 2017		
	Revenue RMB'000	***% of total revenue***	*Revenue RMB'000*	*% of total revenue*	**Change %**
Sweet Wines	**87,264**	**54%**	47,886	59%	82%
Dry Wines	**65,581**	**41%**	28,103	35%	133%
Brandy	**3,786**	**2%**	2,839	3%	33%
Others	**3,857**	**3%**	2,216	3%	74%
Total	**160,488**	**100%**	81,044	100%	98%

Sweet wines

For the six months ended 30 June 2018, sweet wines continued to contribute the most to the Group's output and sales. Its revenue for the first half of 2018 amounted to RMB87,264,000, representing an increase of 82% as compared with the corresponding period last year. Their contributions to gross profit grew by 151.7% to RMB30,488,000, accounting for 50.5% of the total gross profit of the Group. During the period under review, the increasing sales revenue of sweet wine is primarily attributable to the "Buy and Get Free" marketing campaign designed to further publicize the Group's products, and enhance consumers' awareness of the product so as to induce stimulation of consumer spending. Thanks to the promotional activities conducted in the second half of 2017, products of the Group have become more recognized by consumers, contributing to notable increase in the sales during the period under review. During the Period, the Group further adjusted its product structure by removing varieties with low gross profit and developing varieties with relatively high gross profit, which boosted growth of the comprehensive gross profits from sweet wine. Due to the increase in sales of the sweet wine, gross profit margin from sweet wine was raised by nearly 10 percentage points year-on-year.

Dry wines

During the period under review, the sales revenue from dry wines amounted to RMB65,581,000, significantly increased by 133% year-on-year, and its gross profits were raised by 137% to RMB27,070,000. The year-on-year growth of sales revenue from the dry wine is mainly attributable to the improved awareness of dry wine among consumers. With the rise in their standard of living, their high adaptability to the taste for wine, and their crave for low-sugar and healthy catering, customer preference tilted more to dry wines. During the period under review, contributions of dry wine to gross profit accounted for 44.8% of the total gross profit, which is comparable with that of last year.

Brandy

During the period under review, the Group's revenue from brandy reached approximately RMB3,786,000; and its gross profit margin was 25.8%, accounting for approximately 1.6% of the overall gross profit.

Other products

Other products of the Group include high-end ice wines and white wines. Ice wine is a high-end product, but in recent years, the Group has further developed mid-end ice wine products in order to embrace market demands. During the Period, the Group has intensified promotion of the mid-end wine products, and those products were well received. Sales revenue of the mid-end wine experienced a slight year-on-year increase as a result of its increased sales volume. In the first half of 2018, the Group's revenue from ice wines was RMB2,642,000, with gross profit margin increasing to 48.1%. Other products only accounted for 3.1% in aggregate of the Group's overall gross profit during the period under review.

BUSINESS PROSPECTS

The intensified trade war between China and the U.S. has become the biggest challenge to the global economic development as these two giant economic powers have either mutually imposed import restrictions or greatly raised the tariff. On the other hand, the conclusion of the agreement on tariff and reduction of trade barriers between the U.S. and the European Union did not thoroughly ease the concerns of the European public about protectionism of the U.S. Those uncertainties will to certain extent generate psychological pressure on domestic consumer market.

China cuts its rate imposed on wine imports from this year onwards, which will deal a blow at domestic wine manufacturers. Output of domestic wines has been declining for five consecutive years. In 2017, domestic wine products approximately accounted for 61% of the market share in China, while wine imports grew by 15%. Despite rapid increase in the volume of wine imports in recent years, there are many sub-standard and cheap OEM wines imported into China. Domestic consumers have gradually become mature as far as wine consumption is concerned, and they no longer blindly believe that the quality of imported wine is surely better than that of domestic wine, after they have experienced imported wine for some years. In recent years, domestic wine quality has been enhanced constantly. Tontine Wines is one of examples as its ice red grape wine won a gold award respectively in the Asia Wine Quality Competition and the International Organic Wine Award.

In China, wine consumption has been shifted from high-end products driven by public/corporate-financed banqueting to mid-to-high end products targeted at middle class and younger generation of the 80s and 90s. These consumers have international dimension and they pay high regard to price performance in terms of wine consumption. Considering the consumption motive and needs of these consumers, brand differentiation emerged. Hence, an enterprise should also adjust its marketing planning and retail direction to keep pace with the market.

With the improvement in quality of domestic wine, and increasing diversification of consumption demands, especially the process of consumers developing themselves from the entry level to advanced level in every aspect of wine, during which they will have increasingly high expectation towards the wine, personalized segment will appear on the market, offering better development opportunity to domestic wine. Domestic wine producers should hold and explore the market, and it is also very important to stabilize and improve the quality of wine products in order to ensure their quality safety, thus establishing consumers' trust in the quality of domestic wine and even their loyalty to domestic wine brand. As a response to personalized requirements of consumers for the product, the Group will continue focusing on the target consumers to strengthen their recognition and awareness of our products by way of systematic branding and promotion, and the Group will also put more efforts into the promotion of its high-end and high-price products – ice wine and wine produced from its winery.

Jilin Tongtian Winery established by the Group for the development of high-end products has completed its calibration, and it is expected to be put into operation gradually this year. Leveraging on the strengths of the winery, the Group plans to produce mid-to-high end products with its own brand characteristics through the fully integrated operation all the way from grape plantation to wine brewing. The winery with proprietary mid-to-high end wines would also be advantageous to deepening the Group's brand building efforts. Tongtian Winery has an annual capacity of 500 tonnes. The Group will flexibly adjust the output according to the market reaction to the proprietary brands of wines produced by the winery.

Actively leveraging on its strengths of extensive business connections and resources in the northeast China, the Group seeks to achieve diversified development of its own business and the relevant sectors. The Group is currently conducting feasibility study on investment in agricultural projects with economic benefits, in order to exploit fully its advantages in location and industry resources to expand its business and sources of revenue.

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 2018, the Group's cash and cash equivalents were substantially denominated in RMB and amounted to approximately RMB160,092,000. The Group has sufficient financial resources and a strong cash position to satisfy the working capital requirements of its 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 2018 (2017 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 REVIEW

The interim results for the Period are unaudited and have not been reviewed by the auditors of the Company.

The audit committee of the Company (currently comprises all the independent non-executive Directors, including Mr. Lam Yiu Por, Mr. Lai Chi Keung, Albert and Mr. Yang Qiang, with Mr. Lam Yiu Por as the chairman) had reviewed with the management of the Company the accounting policies and practices adopted by the Group and the Group's unaudited condensed consolidated financial statements for the Period.

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

This interim results announcement is published on the websites of the Stock Exchange (http://www.hkex.com.hk) and the Company (http://www.tontine-wines.com.hk). The interim report for the Period 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, 24 August 2018

As at the date of this announcement, the Executive Directors are Mr. Wang Guangyuan, Mr. Zhang Hebin and Ms. Wang Lijun 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.