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 2018

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 9.7% to approximately RMB354,911,000 (2017: approximately RMB323,559,000).
- Gross profit increased by approximately 8.6% to RMB76,485,000 (2017: approximately RMB70,443,000).
- Profit and total comprehensive income for the year attributable to owners of the Company and non-controlling interests amounted to approximately RMB4,026,000 as compared with loss and total comprehensive expense attributable to owners of the Company and non-controlling interests of RMB37,094,000 for the previous year.

The board of directors (the "Board" or the "Directors") 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 2018 (the "Year"), prepared on the basis set out in Note 2.1, together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** **RMB'000**	2017 *RMB'000*
Revenue	*3*	**354,911**	323,559
Cost of sales		**(278,426)**	(253,116)
Gross profit		**76,485**	70,443
Other income, gains and losses	*5*	**45**	581
Selling and distribution expenses		**(33,784)**	(65,469)
Administrative and other operating expenses		**(43,253)**	(47,177)
Change in fair value of biological assets		**4,533**	4,594
Finance costs	*6*	**–**	(66)
Profit/(loss) before tax		**4,026**	(37,094)
Income tax expense	*7*	**–**	–
Profit/(loss) and total comprehensive income/(expense) for the year	*8*	**4,026**	(37,094)
Profit/(loss) and total comprehensive income/(expense) for the year attributable to:			
Owners of the Company		**(3,654)**	(39,553)
Non-controlling interests		**7,680**	2,459
		4,026	(37,094)
Loss per share	*10*		
Basic *(RMB cents)*		**(0.18)**	(1.96)
Diluted *(RMB cents)*		**(0.18)**	(1.96)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment		**155,739**	153,095
Prepaid land lease payments		**48,690**	51,414
Biological assets		**2,948**	2,903
		207,377	207,412
Current assets			
Inventories		**238,126**	257,744
Trade receivables	11	**96,342**	85,388
Deposits and prepayments		**4,756**	5,575
Current tax recoverable		**5,551**	5,551
Prepaid land lease payments		**2,723**	2,723
Bank and cash balances		**152,853**	153,647
		500,351	510,628
Current liabilities			
Trade payables	12	**9,686**	11,847
Other payables and accruals		**33,076**	44,775
Current tax liabilities		**9,961**	9,961
		52,723	66,583
Net current assets		**447,628**	444,045
NET ASSETS		**655,005**	651,457
Capital and reserves			
Share capital		**17,624**	17,624
Reserves		**558,941**	563,073
Equity attributable to owners of the Company		**576,565**	580,697
Non-controlling interests		**78,440**	70,760
TOTAL EQUITY		**655,005**	651,457

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

China Tontine Wines Group Limited (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 address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company is an investment holding company.

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 consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise stated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years except as stated below.

Key changes in accounting policies resulting from application of HKFRS 9

In the current year, 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 accumulated losses, without restating comparative information.

HKFRS 9 has been applied and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	1 January 2018 *RMB'000*
Decrease in trade receivable	**478**
Increase in accumulated losses	**(478)**

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of biological assets which are carried at their fair values less costs to sell.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise the judgements in the process of applying the accounting policies.

3. REVENUE

The Group manufactures and sells wine products to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

Sales to customers are normally made with credit terms of 30 to 90 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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 the 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 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.

The accounting policies of the reportable and operating segments are the same as those described in the summary of significant accounting policies.

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 segment profit or loss, assets and liabilities:

	North–East Region *RMB'000*	Northern Region *RMB'000*	Eastern Region *RMB'000*	South–Central Region *RMB'000*	South–West Region *RMB'000*	Total *RMB'000*
For the year ended 31 December 2018						
Segment revenue from external customer	83,836	58,330	99,371	51,366	62,008	354,911
Segment profit	15,437	13,711	20,220	10,159	11,696	71,223
For the year ended 31 December 2017						
Segment revenue from external customer	62,744	50,908	100,447	48,498	60,962	323,559
Segment profit	6,732	4,933	9,975	4,067	6,784	32,491
As at 31 December 2018						
Segment assets	20,773	18,908	25,462	10,759	20,440	96,342
Segment liabilities	3,626	2,523	4,298	2,222	2,682	15,351
As at 31 December 2017						
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

Reconciliations of reportable segment revenue, profit or loss, 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.

	2018 ***RMB'000***	2017 *RMB'000*
Profit or loss		
Total profit or loss of reportable segments	**71,223**	32,491
Unallocated amounts:		
Change in fair value of biological assets	**4,533**	4,594
Other corporate income	**608**	581
Other corporate expenses	**(72,338)**	(74,760)
Consolidated profit/(loss) for the year	**4,026**	(37,094)

Reportable and operating segment profit represented the profit incurred by each segment without allocation of amortisation, depreciation, allowance for bad and doubtful debts of trade receivables, write off of inventories, change in fair value of biological assets, finance costs, other corporate expenses and other corporate income.

	2018	2017
	RMB'000	*RMB'000*
Assets		
Total assets of reportable segments	**96,342**	85,388
Unallocated amounts:		
Property, plant and equipment	**155,739**	153,095
Prepaid land lease payments	**51,413**	54,137
Biological assets	**2,948**	2,903
Inventories	**238,126**	257,744
Deposits and prepayments	**4,756**	5,575
Current tax recoverable	**5,551**	5,551
Bank and cash balances	**152,853**	153,647
Consolidated total assets	**707,728**	718,040

Reportable and operating segment assets represent trade receivables.

	2018	2017
	RMB'000	*RMB'000*
Liabilities		
Total liabilities of reportable segments	**15,351**	25,551
Unallocated amounts:		
Trade payables	**9,686**	11,847
Other payables and accruals	**17,725**	19,224
Current tax liabilities	**9,961**	9,961
Consolidated total liabilities	**52,723**	66,583

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

Revenue from major products:

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

	2018	2017
	RMB'000	*RMB'000*
Sweet wines	**179,684**	184,607
Dry wines	**138,928**	126,448
Brandy	**8,770**	6,239
Others	**27,529**	6,265
	354,911	323,559

Timing of revenue recognition

	2018	2017
	RMB'000	*RMB'000*
At a point in time	**354,911**	323,559

5. OTHER INCOME, GAINS AND LOSSES

	2018	2017
	RMB'000	*RMB'000*
Bank interest income	**608**	501
Net foreign exchange (loss)/gain	**(563)**	46
Gain on disposal of property, plant and equipment	**–**	34
	45	581

6. FINANCE COSTS

The costs represent the interest on bank borrowing.

7. INCOME TAX EXPENSE

No provision for taxation in Hong Kong has been made as the Group did not have any assessable profit arising from Hong Kong for both years.

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.

8. PROFIT/(LOSS) FOR THE YEAR

The Group's profit/(loss) for the year is stated after charging the following:

	2018	2017
	RMB'000	*RMB'000*
Auditor's remuneration	**1,580**	2,120
Cost of inventories sold	**203,888**	184,941
Depreciation of property, plant and equipment	**10,586**	10,666
Amortisation of prepaid land lease payments	**2,724**	2,724
Less: amounts included in property, plant and equipment	**(1,786)**	(1,786)
	938	938
Write off of inventories (included in cost of sales)	**28,525**	27,517
Advertising and promotion expenses (included in selling and distribution expenses)	**3,959**	34,141
Operating lease expenses in respect of office premises	**899**	771
Staff costs (including directors' remuneration):		
Salaries, bonuses and allowances	**16,621**	17,509
Sales commission	**7,873**	7,448
Retirement benefit scheme contributions	**4,683**	4,360
	29,177	29,317

9. DIVIDENDS

The Directors do not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

10. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately RMB3,654,000 (2017: loss attributable to owners of the Company of approximately RMB39,553,000) and the weighted average number of ordinary shares of 2,013,018,000 (2017: 2,013,018,000) in issue during the year.

Diluted loss per share

For the years ended 31 December 2018 and 2017, the computation of diluted loss per share does not assume the exercise of the Company's share options since their exercise would result in a decrease in loss 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.

	2018 ***RMB'000***	2017 *RMB'000*
Trade receivables	**97,118**	85,388
Less: allowance for bad and doubtful debts	**(776)**	–
	96,342	85,388

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	2018 ***RMB'000***	2017 *RMB'000*
0 – 30 days	**38,560**	56,001
31 – 60 days	**27,410**	29,387
61 – 90 days	**30,372**	–
	96,342	85,388

Reconciliation of loss allowance for trade receivables:

	2018	2017
	RMB'000	*RMB'000*
At the beginning of the year, as previously stated	**–**	–
Effect of changes in accounting policies	**478**	–
At the beginning of the year, as restated	**478**	–
Increase in loss allowance for the year	**298**	–
At the end of the year	**776**	–

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current	**Over 30 days past due**	**Over 60 days past due**	**Over 90 days past due**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2018					
Weighted average expected loss rate	**0.80%**	**–**	**–**	**–**	
Receivable amount *(RMB'000)*	**97,118**	**–**	**–**	**–**	**97,118**
Loss allowance *(RMB'000)*	**776**	**–**	**–**	**–**	**776**
At 31 December 2017					
Weighted average expected loss rate	–	–	–	–	
Receivable amount *(RMB'000)*	85,388	–	–	–	85,388
Loss allowance *(RMB'000)*	–	–	–	–	–

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:

	2018	2017
	RMB'000	*RMB'000*
0 – 30 days	**7,420**	9,171
31 – 60 days	**2,266**	2,676
	9,686	11,847

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 REVIEW

The PRC wine market has experienced prosperous development, and major productive countries have accelerated their promotional effort in the PRC market in recent years, leading to the dual growth of import volume and value of wine. According to relevant statistics, currently there are over 5,000 wine importers and distributors in China. In addition to wine-producers from France and Italy where numerous traditional European wineries are located, emerging wineries from Chile, Argentina, Australia, and even California also proactively vie for the market share of the PRC. From 2013 to 2017, China's wine import volume has increased from approximately 376,800 kiloliters to approximately 745,800 kiloliters[1]. In 2018, wine import volume recorded year-on-year decrease of approximately 7.8% to approximately 687,500 kiloliters[2], with annual import value amounting to approximately US$2,860 million.

The boom of import wine causes great impact as most of the domestic wine manufacturers were incompetent to offer featured product or differentiated product. In recent years, certain well-known liquor enterprises in Mainland China like Moutai and Luzhou Old Cellar have started to tap into the wine market to respond to challenge, and over the past year they had exerted greater efforts in promoting their wine products, resulting in more complex and competitive landscape.

Since 2012, the domestic wine industry has entered into a period of adjustment, and total output has kept declining but remained at around 1.1 million kiloliters. In 2017, the fifth consecutive year of such decline, the output recorded a year-on-year decline of 5.3% to 1,001 thousand kiloliters. From January to November 2018, wine output recorded a year-on-year decline of 7.0% to 581 thousand kiloliters. In view of these, it is expected that total wine output for 2018 would fall below 1,000 thousand kiloliters.

In recent years, domestic wine output has been sluggish among the fierce competition from domestic and foreign competitors. Average gross margin of listed wine companies decreased slightly and continuously, while their selling expense maintained at high level. In light of the low mechanization degree, less variety of grapes and under-developed quality certification and management system of the wine industry in Mainland China, it is expected that there would be another long period for the wine industry to go through adjustment and integration.

1. *http://www.winesinfo.com/html/2018/1/12-76125.html*

2. *http://www.winesinfo.com/html/2019/2/12-80549.html*

FINANCIAL REVIEW

For the year ended 31 December 2018, the performance of the Group improved, and the Group achieved a surplus over last year. This was mainly attributable to the adjustments made by the Group on sales strategies, reducing promotion and marketing expenses, which resulted in a significant decrease in advertising and marketing expenses on a year-on-year basis. On the other hand, the Group continued to consolidate sales channels, leading to a notable decrease in selling and distribution expenses during the Year.

During the Year under review, among the sales revenue of the major products of the Group, sweet wines recorded a slight decrease on a year-on-year basis; dry wines recorded an increase of approximately 10%; and the other wine products achieved a growth of more than threefold. Such changes in the product sales enabled the Group's revenue to increase by approximately 9.7% year-on-year to RMB354,911,000 in 2018. This led to an overall gross profit increase of approximately 8.6% to RMB76,485,000. During the Year under review, the Group recorded a profit and total comprehensive income for the year attributable to owners of the Company and non-controlling interests of RMB4,026,000, against a loss and total comprehensive expense attributable to owners of the Company and non-controlling interests of RMB37,094,000 for the previous year.

Profits and total comprehensive income for the year attributable to owners of the Company and non-controlling interests was less than that for the interim period, which was mainly because at the end of the Year, the Group made provision for some grape juice inventory. Related accounting treatment involves no cash flow outlays.

The following table shows the Group's gross profit, gross profit margin and year-on-year comparison during the Year:

	For the year ended 31 December		Year-on-year change
	2018	2017	
Overall gross profit *(RMB'000)*	**76,485**	70,443	+ 8.6%
Overall gross profit margin	**21.6%**	21.8%	– 0.2 percentage points

During the Year under review, overall gross profit margin of the Group was 21.6%. For our major products, gross profit margin of sweet wine stayed flat as compared with last year, while gross profit margin of dry wine products improved as product price increased. Income of the above two products accounted for nearly 90% of our total income of 2018, and contribution of the two products to our total gross profit was more than 95%.

During the Year under review, selling and distribution expenses of the Group dramatically decreased by approximately 48% year-on-year to RMB33,784,000. In addition, in response to the trend of market development, the Group slashed advertising investment in traditional media and turned to make wider use of new media for product promotion, resulting in the corresponding decrease in the advertising and promotion expenses. In 2018, the Group's advertising and marketing expenses decreased by approximately 88% year-on-year to RMB3,959,000. Dramatic decline of these two expenses contributed to significantly enhanced overall operating efficiency of the Group, thus enabling the Group to record profits during the Year under review.

During the Year under review, the total cost of sales of the Group was RMB278,426,000, representing an increase of approximately 10% as compared to the previous year.

For the year ended 31 December 2018, the output of all categories of products manufactured by the two production bases of the Group located in Tonghua, Jilin Province and Baiyanghe, Shandong Province reached 17,755 tonnes in aggregate, representing an increase of approximately 7.1% year on year. In particular, the output of the Tonghua production base recorded an increase of approximately 9.0% year on year, while the output of the Baiyanghe production base was generally at the same level as last year.

Raw materials accounted for the largest portion of the cost of sales. The major raw materials required for the production of wine products of the Group consist of grape, grape juice, yeast, additives and packaging materials which include bottles, bottle caps, labels, corks and packaging boxes. During the Year under review, the cost of raw materials was RMB228,761,000, representing a year-on-year increase of approximately 14.6%, which accounted for approximately 82.2% of the total cost of sales of the Group.

The following table sets forth the breakdown of the costs required for production by the Group for the year ended 31 December 2018:

	For the year ended 31 December		*Change %*
	2018 *(RMB'000)*	2017 *(RMB'000)*	
Raw materials	**228,761**	199,564	+14.6%
Production overheads	**5,674**	13,218	–57.1%
Consumption tax and other taxes	**43,991**	40,443	+8.8%
Total cost of sales	**278,426**	253,116	10.0%

OPERATION REVIEW

In recent years, with wine getting increasingly popular among consumers and the rapid expansion of the middle class of China, changes are happening to the consumption landscape of wine which is undergoing a transition from the previous high-end and luxurious consumption to mass and lifestyle consumption. The sale of low and medium-priced wine is getting more buoyant. As a result, wine importers now intend to introduce more wines with higher value for money, especially wines from the New World, for certain regions of which the tariffs on wines imported to China have been lowered, bringing even greater competitiveness for these products in the PRC market.

In the face of increasing competition from imported products and the participation of domestic producers of other wine products in the wine market, during the Year under review, the Group had strengthened the development and promotion of new products and also actively reorganized the sales channels and adjusted the promotional methods in light of market development and changes in consumer groups and consumption patterns. Our self-developed "Tongtian Yaaru Wine（雅羅白）" recorded satisfactory sales during the Year. "Tongtian Yaaru Wine（雅羅白）" is a distilled liquor made of grapes, and contains a high level of alcohol which can better cater to the needs of the domestic traditional spirits consumers while it is of healthy concepts as an alkaline beverage without methanol. Such products have been well-received since its launching during the Year.

In order to effectively expand our base of young consumers, during the Year, the Group actively carried out targeted promotional events in a personalized and life-oriented manner through online media and mobile platforms, in an effort to raise awareness of the Group's products in the younger and middle-class consumer groups.

As one of the "Top 10 Chinese Wine Industry Brands", the Group is widely recognized among the industry and consumers. During the Year under review, the Group's products received multiple domestic and international awards. In May 2018, "Tontine White Ice Wine 2015" won a silver medal for China wine production region in "2018 CMB (Concours Mondial de Bruxelles)". In early July 2018, the Group won the Top Gold in the Ninth International PAR Organic Wine Award 2018 for its "Honor 2012 Late Harvest Shuang Hong (Vitis amurensis)", the only Top Gold won by Chinese participating companies in this award. In addition, the Company has been approved as a productive protection demonstration base for intangible cultural heritage of Jilin Province, which is located in the production base of Tonghua Tontine Winery Co., Ltd. in Tonghua County, Jilin Province; and the Group also won the title of "Best Investment Value Listed Company" in the 2017 China Wine Industry Listed Company Annual Summit.

OUTPUT VOLUME AND SALES

During the Year under review, the Group's production facilities in Tonghua, Jilin Province and Yantai Baiyanghe, Shandong Province produced a total of 13,696 tonnes and 4,059 tonnes of wine products respectively.

The Group mainly sells its grape wine products to distributors, who in turn distribute our products to supermarkets, cigarette and liquor specialty stores, food and beverage outlets such as restaurants and hotel restaurants and other third-party retailers or sell and distribute products directly to end consumers and other distributors. The Group has also been developing e-commerce sales channels.

For the year ended 31 December 2018, the Group's products were sold through 109 distributors located in 20 provinces, 3 autonomous regions and 4 municipalities in China. During the Year, the Group continued to optimize its sales network and strengthened the management of and coordination with distributors, and has integrated its sales structure to reduce intermediate links, thus slashing the sales and distribution expenses during the Year under review.

REGIONAL MARKET PERFORMANCE

Below are the respective breakdown of revenues from different regional markets of the Group in 2018 and 2017:

	For the year ended 31 December			
	2018		2017	
	Revenue *(RMB'000)*	**% of total revenue**	Revenue *(RMB'000)*	% of total revenue
North-East Region	**83,836**	**23.6**	62,744	19.4
Northern Region	**58,330**	**16.4**	50,908	15.7
Eastern Region	**99,371**	**28.0**	100,447	31.0
South-Central Region	**51,366**	**14.5**	48,498	15.0
South-West Region	**62,008**	**17.5**	60,962	18.9
Total	**354,911**	**100.0**	323,559	100.0

Due to the relatively developed economy and the high popularity of wine consumption, Eastern Region continued to be the largest market of the Group during the Year under review. The revenue of this region amounted to RMB99,371,000, representing 28% of the total revenue. The Eastern Region covers several relatively developed provinces across the PRC, and is one focus of the Group's marketing effort. Moreover, this region is also a major market for imported wine as it enjoys concentrated consumption power and is profoundly influenced by western culture.

The Group's products have obtained more recognition and brand recognition in the North-East Region where the Tonghua production base, Jilin Province locates, thus the business in this region has achieved a steady rise. During the Year under review, sales revenue from the North-East Region amounted to RMB83,836,000, representing 23.6% of the total revenue and a year-on-year increase of more than 30%. One reason was that other wine products achieved satisfying results in this region, in particular, "Tongtian Yaaru Wine"「雅羅白」was able to cater for the consumer's preference to hard drink in the North-East Region.

During the Year under review, the revenue in the Northern Region also recorded a year-on-year increase of nearly 15%, to RMB58,330,000, accounting for 16.4% of the total revenue. The sales revenue in the South-West Region amounted to RMB62,008,000, and the sales revenue in the South-Central Region amounted to RMB51,366,000. The sales revenue from such two regions both recorded year-on-year increase, and revenue from such two regions in aggregate accounting for 32% of the total revenue.

BUSINESS INDICATOR REVIEW

Inventory turnover days

The inventory turnover days of the Group as at the end of the Year stood at 386 days, representing a substantial decrease as compared to 478 days as at the end of previous year. This was mainly attributable to the sales increase in 2018 and various measures adopted by the Group for de-stocking, leading to a decrease of inventory turnover days.

Trade account receivables turnover days

As at 31 December 2018, the trade account receivables turnover days of the Group stood at 93 days, while the trade account receivables increased to RMB96,342,000 as a result of the increase in sales.

OPERATION ANALYSIS BY PRODUCT

Sweet Wines

For the year ended 31 December 2018, sweet wines continued to contribute the most to the Group's output and sales. Its revenue in 2018 amounted to RMB179,684,000, representing a slight decrease as compared with the corresponding period of last year. The sales of sweet wines recorded a significant increase in the second half of 2017 due to the Group's promotional activities mainly conducted in the second half of 2017. Annual sales of sweet wines in 2018 were relatively stable, with sales revenue in the second half slightly higher than that in the first half. The gross profit margin from sweet wine was approximately 19%, basically flat with last year. During the Year, the Group continued to improve the product structure of sweet wines, with some products with low gross profit eliminated.

Dry wines

During the Year under review, the sales revenue from dry wines amounted to RMB138,928,000, increased by 9.9% year-on-year, which was mainly attributable to the adjustment on product prices during the Year under review. Its gross profit margin was 28.5%, representing an increase of approximately 2 percentage points as compared with that of last year. The year-on-year growth of sales revenue from dry wine was mainly attributable to the improved awareness of dry wine among consumers and the enhanced market recognition to dry wines due to more understanding of its low-sugar and healthy characteristics among consumers through the soft promotion of the Group on the new media platform.

Brandy

During the Year under review, the Group's revenue from brandy reached approximately RMB8,770,000, accounting for approximately 2.5% of the total revenue.

Other products

Other products of the Group include high-end ice wines and white wines. In 2018, the Group's revenue from other products was RMB27,529,000, significantly increased by 339.4% year-on-year. During the Year, the gross profits from other products also increased by approximately 75%. The increase in revenue and gross profits was mainly attributable to the satisfactory sales of "Tongtian Yaaru Wine" (「雅羅白」), a grape distilled white wine developed by the Group. As a high-alcohol white wine with the aromas of fresh fruit, this product was produced by the use of the resource advantages in the cultivation of mountain grapes and the wine-brewing technology by distillation of the Group. "Tongtian Yaaru Wine" (「雅羅白」) was well received in the North-East Region and the Northern Region, which, to some extent, gave impetus to the Group's annual revenue and gross profit.

BUSINESS PROSPECTS

In 2019, both China's economy and the global economy will face unprecedented challenges. The widely-discussed trade disputes between China and the United States have yet to show any signs of easing. The world's top two economies have been wrestling with each other in various fields, bringing more unpredictable uncertainties to the global economic development. The US government has adjusted tariff preferences for many of its traditional allies, causing concerns among the European and even Asian countries and increasing the risk of international trade frictions.

China has just announced its expected economic growth of Mainland China to be between 6% and 6.5% this year, the lowest growth rate in 30 years, and the Premier of the State Council even has called for "making full preparation for tough battles".

In the face of uncertain economic prospects and the severe industrial competition, the Mainland China wine industry is expected to see more structural adjustments. On the one hand, wine companies need to strengthen cost control to maintain solid cash flows and a healthy financial position, and on the other hand, they should put more resources in the development of personalized products, brand packaging, sales channels and innovative promotional methods to maintain their market shares.

China began to reduce the import tax rate imposed on wine from some regions last year. For example, wine products imported from Australia have enjoyed zero tariffs this year according to the Sino-Australia Free Trade Agreement. Therefore, Australia follows France to become the second largest wine importer, which will create another shock for domestic wine producers. Quality certification and management system of domestic wines are relatively backward as compared to that of foreign countries, resulting in the quality of domestic wine products varying greatly without personalized brands of distinctive tastes.

Competing with imported products, domestic wines must maintain good and stable quality and ensure products' quality and safety, so as to gradually establish consumers' trust in the quality of domestic wines and their loyalty to domestic wine brands. In the future, it is expected that the brand marketing model led by the winery will become an innovative model for the development of the Chinese wine industry, and brands will be shaped through the winery model.

Jilin Tongtian Winery established by the Group for the development of high-end products has been ready for operation. Leveraging on the strengths of such winery, the Group plans to produce domestic 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.

During the Year, "Tongtian Yaaru Wine（雅羅白）" recorded satisfactory sales, demonstrating that this distilled liquor made of grapes caters to the taste of domestic consumers. We believe that this product has considerable development potential in the future. In 2019, the Group will focus on promoting "Tongtian Yaaru Wine（雅羅白）" product with a view to making it to become a new revenue and profit growth point.

The culture of wine consumption in Mainland China, especially in the first- and second-tier cities, is becoming more mature, and the younger generation and the middle class have gradually become the main consumers of wine. The Group plans to strengthen its efforts of marketing its ice wines for middle and high-end consumers this year. The Group's ice wines have won numerous international awards and their taste is comparable to that of famous ice wines production places such as Canada. Due to the relatively high retail price and the low production volume of ice wine, the Group has not put many promotional resources on this product in the past. With the development trend of the wine market in Mainland China and the increasing demand for differentiated products from consumers, we believe that strengthening the promotional efforts in the Group's ice wine products will help to enhance the brand's reputation in the industry and establish a distinctive brand image among the middle and high-end consumers.

The wine sales in Mainland China have maintained double-digit growth over the past few years, outshining other alcoholic products in terms of growth rate. However, domestic wine producers face fierce competition from foreign imported products as well as many other domestic brands, posing a severe test for them. The Group will continue to maintain its existing market share in a pragmatic and prudent manner, while catering to the preferences of the new generation of consumers by applying new retail models and incorporating new media campaign strategies. It will also continue to develop personalized and customized products in order to expand its customer base and diversify its revenue sources.

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

During the Year, our working capital was healthy and positive and the Group generally financed its operation with internal cash flows generated from operations for the past years. As at 31 December 2018, the Group's cash and cash equivalents amounted to approximately RMB152,853,000. 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 2018, the Group made capital expenditure commitments of approximately RMB3,711,000 contracted but not provided in the consolidated financial statements. These capital commitments were provided by cash generated from operations. As at 31 December 2018, none of the Group's assets was pledged (2017: 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 China. A share option scheme has also been adopted with the primary purpose of motivating our employees to optimise 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 2018, the Group employed a work force of 480 (including Directors) in Hong Kong and in China (2017: a work force of 498). The total salaries and related costs (including the Directors' fee) for the Year amounted to approximately RMB29,177,000 (2017: RMB29,317,000).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2018 (2017: Nil).

DIVIDEND

The Directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2018 (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 7 May 2019 to Friday, 10 May 2019 (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 Friday, 10 May 2019. 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, by 4:30 p.m. on Monday, 6 May 2019.

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 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

The audit committee of the Company which comprises all the independent non-executive Directors (namely, Mr. Cheng Vincent; appointed on 17 November 2018, Mr. Lai Chi Keung, Albert, Mr. Yang Qiang and Mr. Lam Yiu Por; resigned on 17 November 2018). The Audit Committee had 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 ZHONGHUI ANDA CPA LIMITED

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 2018 as set out in the preliminary announcement have been agreed by ZHONGHUI ANDA CPA Limited, the Group's auditor, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by the Group's auditor 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 the Group's auditor 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 2018 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, 15 March 2019

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. Cheng Vincent, Mr. Lai Chi Keung, Albert and Mr. Yang Qiang.

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