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 2019

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 2.7% to approximately RMB164.9 million (2018 corresponding period: RMB160.5 million).

- Gross profit decreased by approximately 30.5% to approximately RMB42.0 million (2018 corresponding period: RMB60.4 million).

- Profit and total comprehensive income for the period attributable to owners of the Company amounted to approximately RMB6.7 million (2018 corresponding period: profit and total comprehensive income attributable to owners of the Company of RMB18.2 million).

- Basic and diluted earnings per share were RMB0.3 cent (2018 corresponding period: basic and diluted earnings per share of RMB0.9 cents).

The board of directors (the "Board" or 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 2019 (the "Period" or "period under review"), together with the comparative figures for the six months ended 30 June 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**164,854**	160,488
Cost of sales		**(122,836)**	(100,101)
Gross profit		**42,018**	60,387
Other income, gains and losses	*5*	**(129)**	54
Selling and distribution expenses		**(15,801)**	(15,796)
Administrative and the operating expenses		**(18,429)**	(23,714)
Finance costs	*6*	**(352)**	–
Change in fair value of biological assets		**1,447**	1,736
Profit before tax	*7*	**8,754**	22,667
Taxation	*8*	**–**	–
Profit and total comprehensive income for the period		**8,754**	22,667
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**6,693**	18,211
Non-controlling interests		**2,061**	4,456
		8,754	22,667
Earnings per share	*9*		
Basic (RMB cents)		**0.3**	0.9
Diluted (RMB cents)		**0.3**	0.9

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Non-current Assets			
Property, plant and equipment	*11*	**152,073**	155,739
Right-of-use assets		**50,051**	51,413
Biological assets	*12*	**4,926**	2,948
		207,050	210,100
Current Assets			
Inventories		**199,798**	238,126
Trade receivables	*13*	**101,355**	96,342
Deposits and prepayments		**9,583**	4,756
Current tax recoverable		**5,551**	5,551
Bank and cash balances		**221,669**	152,853
		537,956	497,628
Current Liabilities			
Trade payables	*14*	**3,475**	9,686
Other payables and accruals		**27,811**	33,076
Bank borrowing	*15*	**40,000**	–
Current tax liabilities		**9,961**	9,961
		81,247	52,723
Net Current Assets		**456,709**	444,905
Total Assets Less Current Liabilities		**663,759**	655,005
Capital and Reserves			
Share capital		**17,624**	17,624
Reserves		**565,634**	558,941
Equity attributable to owners of the Company		**583,258**	576,565
Non-controlling interests		**80,501**	78,440
Total Equity		**663,759**	655,005

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 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

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 and an interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

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

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" ("HKFRS 16")

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lease

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of office premises and commercial properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment", the same line item as that within which the corresponding underlying assets would be presented if they were owned. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 "Financial Instruments" ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;
- elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payment relating to the right to use of the underlying assets and should be adjusted to reflect the discounting effect at transition. However, the adjustments to present value is insignificant to be recognised at the date of initial application, 1 January 2019.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised right-of-use assets of RMB51,413,000 at 1 January 2019.

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets *RMB'000*
Reclassification from	
– Prepaid lease payments	51,413
By class:	
Leasehold lands	51,413

Note: Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB2,723,000 and RMB48,690,000 were reclassified to right-of-use assets.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	**Adjustments**	**Carrying amounts under HKFRS 16 at 1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*
Non-current Assets			
Prepaid lease payments	48,690	(48,690)	–
Right-of-use assets	–	51,413	51,413
Current Assets			
Prepaid lease payments	2,723	(2,723)	–

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

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 products.

4. SEGMENT INFORMATION

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

	North–East Region	**Northern Region**	**Eastern Region**	**South–Central Region**	**South–West Region**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2019 (Unaudited)						
Segment revenue from external customers	32,387	27,224	48,411	28,004	28,828	164,854
Segment profit	4,967	4,041	6,927	3,718	2,565	22,218
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

Revenue

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Total segment profit	**22,218**	44,525
Unallocated amounts:		
Change in fair value of biological assets	**1,447**	1,736
Finance costs	**(352)**	–
Other corporate income	**339**	54
Other corporate expenses	**(14,898)**	(23,648)
Consolidated profit before tax	**8,754**	22,667

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

	North–East Region	**Northern Region**	**Eastern Region**	**South–Central Region**	**South–West Region**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 30 June 2019 (Unaudited)						
Segment assets	16,779	16,261	35,442	14,763	18,110	101,355
Segment liabilities	2,355	1,979	3,520	2,036	2,096	11,986
As at 31 December 2018 (Audited)						
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

	At 30 June 2019 (Unaudited) RMB'000	At 31 December 2018 (Audited) RMB'000
Assets		
Total segment assets	**101,355**	96,342
Other unallocated amounts		
Property, plant and equipment	**152,073**	155,739
Right-of-use assets	**50,051**	51,413
Biological assets	**4,926**	2,948
Inventories	**199,798**	238,126
Deposits and prepayments	**9,583**	4,756
Current tax recoverable	**5,551**	5,551
Bank and cash balances	**221,669**	152,853
Consolidated total assets	**745,006**	707,728
Liabilities		
Total segment liabilities	**11,986**	15,351
Other unallocated amounts		
Trade payables	**3,475**	9,686
Bank borrowing	**40,000**	–
Other payables and accruals	**15,825**	17,725
Current tax liabilities	**9,961**	9,961
Consolidated total liabilities	**81,247**	52,723

Revenue from major products

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

	Six months ended 30 June	
	2019 (Unaudited) *RMB'000*	2018 (Unaudited) *RMB'000*
Sweet wines	**84,880**	87,264
Dry wines	**57,626**	65,581
Brandy	**2,599**	3,786
Others	**19,749**	3,857
	164,854	160,488

5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Bank interest income	**339**	54
Loss on disposal of property, plant and equipment	**(80)**	–
Exchange loss	**(388)**	–
	(129)	54

6. FINANCE COSTS

The costs represent the interest on bank borrowing.

7. PROFIT BEFORE TAX

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging:		
Cost of inventories recognised as an expense	**109,564**	79,170
Write-off of inventories (included in cost of sales)	**4,038**	–
Loss allowance for trade receivables	**539**	197
Depreciation of property, plant and equipment	**4,523**	5,393
Depreciation of right-of-use assets	**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)	**1,949**	2,048

8. TAXATION

During the six months ended 30 June 2019 and 2018, 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 PER SHARE

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Earnings for the period attributable to owners of the Company and earnings for the purposes of calculating the basic and diluted earnings per share	**6,693**	18,211

	At 30 June 2019 & 2018 (Unaudited) Number of shares
Number of shares	
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	2,013,018,000

For the six months ended 30 June 2019 and 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 2019 and 2018.

10. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the periods ended 30 June 2019 and 2018, 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 2019 (Audited)	155,739
Additions	971
Disposals	(114)
Depreciation for the period	(4,523)
At 30 June 2019 (Unaudited)	152,073

12. BIOLOGICAL ASSETS

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

	RMB'000
At 1 January 2019 (Audited)	2,948
Change in fair value of biological assets	1,447
Increase due to cultivation	531
At 30 June 2019 (Unaudited)	4,926

No agricultural produce was harvested for the current interim period. All grapes are usually harvested annually from August to November of each year. As at the periods ended 30 June 2019, 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 net of impairment loss allowance presented based on the invoice date at the end of the reporting period.

	At 30 June 2019 (Unaudited) ***RMB'000***	At 31 December 2018 (Audited) *RMB'000*
0 – 30 days	**38,691**	38,560
31 – 60 days	**30,757**	27,410
61 – 90 days	**11,889**	30,372
91 – 180 days	**18,634**	–
181 – 365 days	**1,384**	–
	101,355	96,342

Reconciliation of loss allowance for trade receivables:

	RMB'000
Balance at 1 January 2019	776
Increase in loss allowance for the year	539
Balance at 30 June 2019	1,315

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 2019 (Unaudited) ***RMB'000***	At 31 December 2018 (Audited) *RMB'000*
0 – 30 days	**1,468**	7,420
31 – 60 days	**2,007**	2,266
	3,475	9,686

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

15. BANK BORROWING

During the current interim period, the Group had withdrawn a bank borrowing amounting to RMB40,000,000 (31 December 2018: nil). The new bank borrowing raised is denominated in Renminbi and carries interest at variable rate of 164.5% of the loan prime rate of the National Interbank Loan Center. The new bank borrowing was secured by certain property, plant and equipment of the Group amounting to RMB9,887,000 and 75% equity interest in Jilin province Hongruigaoke Petroleum Equipment Co., Ltd. 吉林省宏瑞高科石油裝備有限公司 held by Mr. Wang Guangyuan, the chairman of the board of directors and chief executive officer of the Company, and guaranteed by an independent entity.

16. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company:

The Company's share option scheme (the "Old Scheme") adopted by the shareholders of the Company on 19 November 2009 was terminated on 10 May 2019 upon the adoption of a new share option scheme (the "New Scheme") by the Company's shareholders on 10 May 2019 for the primary purpose of enabling the Company to grant options to subscribe for ordinary shares of HK$0.01 each in the Company to eligible participants (including directors, employees, suppliers of goods and services, consultants, advisers, contractors, business and service partners of the Group) to recognize and reward their contributions and/or as incentives for retaining them for their contribution or potential contribution to the Group for its long-term growth and development.

The outstanding share options of the Company as at 31 December 2018 and 30 June 2019 are set out below:

Date of grant	Number of outstanding options as at 31 December 2018 and 30 June 2019	Exercisable period	Exercise price
9 May 2016	66,200,000	9 May 2016 to 8 May 2021	HK$0.263

The following table discloses the movements of the share options granted by the Company under the Old Scheme during the six months ended 30 June 2019:

Category of participant	Date of grant	Outstanding at 1.1.2019	Granted during the period	Lapsed/ cancelled during the period	Exercised during the period	Outstanding at 30.6.2019
A director	9 May 2016	16,550,000	–	–	–	16,550,000
Employees	9 May 2016	49,650,000	–	–	–	49,650,000
Total		66,200,000	–	–	–	66,200,000

As at 30 June 2019, no share options were granted by the Company under the New Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the first half of 2019, the wine industry in China was still undergoing adjustments and faced various challenges. In June 2019, the output of wine enterprises with a revenue over RMB20 million per annum reached 43,000 kiloliters, representing a year-on-year decrease of 6.5%; and the total output of wine enterprises with a revenue over RMB20 million per annum for the six months ended 30 June 2019 reached 245,000 kiloliters, representing a decrease of 19.9%[1]. In addition, the growth of earnings of domestic wine enterprises was confronted with challenges as a result of the slowdown of economic growth.

As for consumption data, according to the industry forecast of Vinexpo/IWSR, the consumption volume of wine in China will increase from 153,500,000 cases in 2017 to 156,600,000 cases in 2022[2]. Imported wines still have a significant share of the market, though the consumer awareness of domestic wine brands has improved. Since January 2019, Australia has become the third country for which China has reduced the tariffs on imported wines to zero, following New Zealand and Chile. China's door towards new world wines has been widened up and domestic wines will face continuous competition from imported wines. However, in the first half of 2019, as a result of destocking of importers and the fall of RMB exchange rate, the volume and amount of wine imported to China both declined for the first time. In the first six months of 2019, the volume and amount of wine imports decreased by 12.9% and 9.2%[3], respectively. There are indications that more opportunities will be released for domestic wines in the future as the market of imported wines is getting saturated.

In respect of the wine categories, red grape wine is still the mainstream of consumption, accounting for 55% of the global market[4], but the market share is declining year by year. It is expected that the market share of white wines and rose red wines will continue to grow in the future. The overall wine market will exhibit a trend of segmentation, while the quality wines with higher value for money will be more attractive to the consumers.

In respect of the consumer structure, the youngest "millennials" in China have reached the legal drinking age in 2019, thus they will become a new force to promote the upgrading of wine consumption, and the consumer base will continue to expand. As anticipated by Vinexpo, the global wine consumption will reach US$207 billion by the end of 2022, and the overall market consumption will increase by 2.15%. Currently, the domestic wine market consumption ranks third, closely following the United States and France. It is expected that China will surpass France and become the world's second most valuable wine market by the end of 2020[5]. The wine market in China has great potential for development.

1 http://www.haicent.com/list.asp?id=81577
2 https://www.jiuyejia.com/p/113450.html
3 http://www.winesinfo.com/html/2019/7/12-81222.html
4 https://www.jiuyejia.com/p/113450.html
5 https://fortuneinsight.com/web/posts/226719

FINANCIAL REVIEW

In the first half of 2019, the Group continued its good momentum in 2018 and its performance continued to improve and recorded profit. This was mainly attributable to the fact that on the one hand, the Group adapted to the changes in market demands, and timely adjusted the product structure on the basis of maintaining the market share of major products, which resulted in a year-on-year increase in revenue for the Period; on the other hand, the Group adhered to its pragmatic and prudent development strategy to further improve the operating efficiency, therefore selling and distribution expenses, advertising and promotion expenses maintained at a low level.

For the six months ended 30 June 2019, the Group recorded the total revenue of RMB164,854,000, representing a year-on-year increase of approximately 2.7%. Among which the sweet wine and dry wine remained the major sources of sales revenue, both of which accounted for 86.5% of the total revenue of the Group. The sales revenue from other wine products (including ice wine and white wine) achieved an exponential growth during the period under review, representing a year-on-year increase of approximately 412.0%.

During the period under review, the overall gross profit of the Group amounted to RMB42,018,000, which was lower than that of the corresponding period of last year, mainly due to adjustments to product portfolios, the increase in costs of sales and strategic adjustments to the selling prices of certain products during the Period. In the face of the increasingly intensified competition in the wine market, the Group strived to optimize the product portfolios against the market demand. During the Period, the Group focused on enhancing the acceptance of products by customers through marketing strategies (e.g. reducing initial selling prices) to improve the sales of ice wines, which resulted in an increase in the costs of sales accordingly. Together with relatively high costs of raw materials and of production, the gross profit of ice wines was reduced. On the other hand, the Group, so long as it would be overall profit-making, strategically reduced the selling prices of certain products and launched promotional activities of buying with freebies from time to time to increase its market share, which caused pressure on the overall gross profit margin. During the period under review, the profit and total comprehensive income for the period attributable to owners of the Company and non-controlling interests amounted to RMB8,754,000.

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

	Six months ended 30 June		**Year-on-year change**
	2019	2018	
Overall gross profit *(RMB'000)*	**42,018**	60,387	– 30.4%
Overall gross profit margin	**25.5%**	37.6%	– 12.1 percentage points

During the Period, the Group's overall gross profit margin was 25.5%. The sweet wine and dry wine, being the major products, were still the top contributors for the gross profit, both of which accounted for approximately 93.1% of the total gross profit.

During the period under review, the Group continued to improve its operating efficiency. The Group's selling and distribution expenses amounted to RMB15,801,000, remaining at the same level as the corresponding period of last year. In response to changes in consumer market, the Group continued to adjust its marketing strategies, slashed advertising investment in traditional media and turned to make wider use of new media for promotion and marketing, resulting in the corresponding decrease by approximately 5% in the advertising and promotion expenses to RMB1,949,000.

During the period under review, the total cost of sales of the Group was RMB122,836,000, representing a year-on-year increase of 22.7%. Such increase was mainly due to the increase of raw materials cost and additional written off of inventory of RMB4,038,000 included in 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 Period, the cost of raw materials of the Group was RMB95,553,000, representing a year-on-year increase of approximately 32.9%, which accounted for approximately 77.8% 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 six months ended 30 June 2019:

	For the six months ended 30 June		
	2019	2018	**Change %**
	(RMB'000)	*(RMB'000)*	
Raw materials	**95,553**	71,908	32.9%
Production overheads	**6,632**	8,011	–17.2%
Consumption tax and other taxes	**20,651**	20,182	2.3%
Total cost of sales	**122,836**	100,101	22.7%

OPERATION REVIEW

Facing competition pressure from imported wines, domestic wines has explored a development path that combines local culture and consumption feature of China to build up domestic brands with regional characteristics, high quality and cost-effectiveness on the basis of difference between production regions and grape variety. On top of this, it was essential for domestic wine manufacturers to conduct omni-channel brand marketing by collaborating with platforms, distributors and new retailers to meet the new trend of consumption scenarios and consumption custom brought by the new generation of consumers, so as to win the competition with imported wines.

In the face of the above changes in the wine market, the Group has made strategic adjustments to the portfolio during the period under review: on the one hand, we placed huge emphasis on product quality in a bid to solidify the market share of our major products while penetrated in sub-segment markets based on the diverse needs of consumers and launched personalized and customized products according to the various consumption scenes, for example, targeting the hot pot dining scene, the Group has released a new sweet wine featuring a youthfulness taste tendency and has received positive feedback from the consumers who are keen on the Sichuan spicy hot pot. On the other hand, the Group continued to explore regional characteristics and seize the opportunity of developing ice grape industry in Tonghua region. The ice wine product, which enjoyed vigorous promotion during the period under review, has been favored by the market and therefore resulting in a significant increase in sales volume thereof, which indirectly but also effectively enhanced the reputation and acceptance among the consumers towards this very product. During the Period, the Group had launched 3 new products in total and its total number of product category was hence increased to 152.

As one of the "Top 10 Chinese Wine Industry Brands", the Group pays great attention on product's quality as always and commits to producing high quality wine. With the above efforts, the Group was successfully selected as "Member of China Food Safety Initiative convention"（中國食品安全倡議公約成員單位）in May 2019. In addition, "Tontine Red Ice Wine 2016" won a bronze medal for the 13th G100 International Wine & Spirits Competition (G100國際葡萄酒及烈酒評選）, marking the Group as the sole awarded enterprise in Tonghua.

Output Volume and Sales

For the six months ended 30 June 2019, 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 7,587 tonnes in aggregate, representing an increase of approximately 7.9% year on year.

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. At the same time, in response to changes in consumer habits, the Group had begun to gradually develop e-commerce sales channels and undertake corporate orders to sell customized products.

For the six months ended 30 June 2019, the Group's products were sold through 105 distributors located in 20 provinces, 3 autonomous regions and 4 municipalities in China. During the period under review, the Group continued to optimize its sales network, strengthen the standardized management of distributors and strictly control its sales and distribution expenses. At the same time, the Group also aroused the sales enthusiasm of distributors through marketing campaign in which any buyer of certain products can get complimentary products.

Regional market performance

The breakdown of revenues from different regional markets of the Group in the first half of 2019 and the first half of 2018 is set out below:

	For the six months ended 30 June			
	2019		2018	
	Revenue ***(RMB'000)***	**Percentage of total revenue**	Revenue *(RMB'000)*	Percentage of total revenue
North-East Region	**32,387**	**19.6%**	30,905	19.3%
Northern Region	**27,224**	**16.5%**	26,154	16.3%
Eastern Region	**48,411**	**29.4%**	47,961	29.9%
South-Central Region	**28,004**	**17.0%**	26,930	16.8%
South-West Region	**28,828**	**17.5%**	28,538	17.7%
Total	**164,854**	**100.0%**	160,488	100.0%

The largest market of the Group is the Eastern region, the most developed region of the national economy and culture with per capita income and consumption level ranking to the front domestically as well as the region with the most fierce competition in terms of the sales of wines across the country. During the period under review, the Group recorded revenue from the Eastern region of totally RMB48,411,000, representing 29.4% of the total revenue.

The North-East region is the second largest market of the Group. As the production base of Tonghua, Jilin locates in this region, the Group therefore enjoys relatively strong local brand recognition. During the period under review, we recorded a revenue of RMB32,387,000 from this region, which contributed to 19.6% of the total revenue and increased by 4.8% year-on-year.

During the period under review, the sales revenue from the Northern Region increased by nearly 6% year-on-year to RMB27,224,000, while the sales revenue from the South-West Region and the South-Central Region were RMB28,828,000 and RMB28,004,000, respectively. Each of the above three regions accounted for 16.5%,17.5% and 17.0% 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 approximately 388 days, decreased sharply from 571 days in the corresponding period last year, mainly due to the marketing campaign designed to enhance product promotion and stimulate consumer spending as well as certain other measures to reduce the inventories in the first half of 2019, which reduced inventory turnover.

Trade account receivables turnover days

As at 30 June 2019, the trade account receivables turnover days of the Group stood at 109 days and the trade account receivables was RMB101,355,000.

OPERATION ANALYSIS BY PRODUCT

The breakdown of revenue from different wine products of the Group in the first half of 2019 and the first half of 2018 is set out below:

	For the six months ended 30 June 2019		For the six months ended 30 June 2018		
	Revenue ***(RMB'000)***	**% of total revenue**	Revenue *(RMB'000)*	% of total revenue	**Change %**
Sweet Wines	**84,880**	**51.5%**	87,264	54.4%	–2.7%
Dry Wines	**57,626**	**35.0%**	65,581	40.9%	–12.1%
Brandy	**2,599**	**1.5%**	3,786	2.3%	–31.4%
Others	**19,749**	**12.0%**	3,857	2.4%	412.0%
Total	**164,854**	**100.0%**	160,488	100.0%	2.7%

Sweet Wines

Sweet wines contribute the most to the Group's sales and output. As of 30 June 2019, the Group's revenue from sweet wines amounted to RMB84,880,000, accounting for 51.5% of its total revenue and representing a slight adjustment of approximately 2.7% as compared with the corresponding period of last year. The sales of such products were satisfactory during the period under review and recorded an increase of 3.1% as compared with the corresponding period of last year. Due to the downward adjustment of the average selling price per tonne, the gross profit from sweet wines decreased and represented 43.9% of the Group's total gross profit, with the gross profit margin of 21.7%. During the period under review, the Group strengthened the layout of the segment market of such products and launched differentiated and personalized products for different consumption scenarios, and the new products introduced with the hot pot scenario recorded favorable sales and were well received among consumers.

Dry Wines

As of 30 June 2019, dry wines contributed the most to the Group's gross profit. During the period under review, the sales revenue from dry wines amounted to a total of RMB57,626,000, accounting for 35.0% of the Group's total revenue. The average selling price per tonne was slightly higher than that of the corresponding period of last year, which resulted in the slight decrease in sales volume. However, dry wines remained the product category of highest gross profit margin of the Group, with the gross profit margin reaching 35.9%. During the period under review, such products recorded a gross profit of RMB20,687,000, accounting for 49.2% of the Group's total gross profit.

Brandy

During the period under review, the Group's sales revenue from brandy amounted to RMB2,599,000, accounting for 1.5% of the total revenue.

Other products

Other products of the Group include ice wines and white wines. Both their sales volume and revenue achieved significant growth during the period under review. During the Period, such products recorded sales revenue of RMB19,749,000, increased by 412.0% year-on-year. The percentage of total revenue increased to 12.0% from 2.4% for the corresponding period of last year; the gross profit contribution was RMB2,337,000, accounting for 5.6% of the total gross profit. Driven by the encouragement of ice grape cultivation in the Tonghua area and the vigorous development of the ice grape industry, the Group seized the opportunity to focus on the development and promotion of ice wines during the period under review. Such products have won numerous international awards with their high quality, and their taste is also comparable to that of products from famous ice wine producing areas such as Canada. During the period under review, the Group strengthened product promotion through lowering the initial selling price and other measures, which received rather active response in the market. Therefore, such products has become the Group's new revenue growth engine and also help to further consolidate the Group's brand recognition and influence in the middle and high-end markets.

BUSINESS PROSPECTS

Influenced by long-term uncertainties such as Sino-US trade tensions and Brexit, global economic growth remained sluggish in the first half of 2019. In August this year, trade tensions between China and the United States escalated again, and geopolitical instabilities remained. It is expected that the global economy will continue to be under downward pressure in the second half of 2019. According to the report of World Economic Outlook, global economic growth was forecasted to slow down to 3.2% in 2019[6].

According to the National Bureau of Statistics, in the first half of 2019, China's economy ran smoothly, with GDP growth rate of 6.3%, down 0.5 percentage point from the same period last year. Weak economic growth and many uncertainties have weakened consumer demand and market sentiment in a certain extent. The wine industry in China is also facing many challenges.

[6] https://www.imf.org/zh/Publications/WEO/Issues/2019/07/18/WEOupdateJuly2019

In the imported wine sector, total wine imports in 2018 amounted to 716,549 kiloliters, dropped nearly 9% year on year[7], marking the first decline in nearly six years. In the first half of 2019, the decline further expanded, and the import amount also fell sharply. The imported wine entered a continuous downward consolidation period. In the domestic wine sector, the wine production in China has been declining year after year, which is still in the stage of industry restructuring due to the change of consumption pattern. With the increasingly fierce competition in the wine market, it is expected that the market share will continue to concentrate on strong brands, top brands and quality wineries.

In addition, it should not be neglected that with the maturation of consumers' knowledge of wine and the continuous influx of new consumers of the post-95s and post-00s generation, consumers' pursuit of wine has become more individualized, healthy and personal experience-oriented. Therefore, high-performance and cost-effective red wines of high quality and under famous brands will become more popular in the Chinese wine market in the future. Exploring market segments and developing differentiated and customized products have become an important direction for the Group to achieve a breakthrough in the future.

The Group will follow the trend of consumption change in domestic wine market in a practical and prudent manner in the second half of 2019 to further optimize its product portfolio. Except for exploiting continuously the benefits generating from its geographic advantage to maintain its current market share for its major products, the Group will also actively seek opportunities in segmental markets and diversify its product portfolio by persistently developing more personalized products with regional features and corporate-oriented customized products. On the other hand, the Group will capture the opportunity from the encouraging policy for the ice wine industry in Tonghua to further focus on the marketing of ice wine products so as to expand the revenue sources of the Group, while continue promoting self-developed distilled grape liquor "Tongtian Yaaru Wine「雅羅白」" to increase its market presence with the aim of building it to be a liquor brand with specific Tongtian characteristics.

In respect of high-end own brand products, the Group will pay continuous attention to the trend of change in middle and high-end wine market. By leveraging on the advantage of mountain grapes in Northeast production base, the Group will keep developing new products with its own brand characteristics and deploy high end winery brand as the important force of entering into the middle and high-end wine market.

Under the pressure of imported wine and the changing of consumers' structure, the Group would seize the opportunities emerging from new retail by fully utilizing the channel advantage of distributor network and e-commerce platforms. By adapting to the favor of the new generation of consumers and marketing through new media, the Group intends to strengthen brand promotion so as to increase the market recognition of Tongtian brand and its reputation as well as consolidate and expand the customer base, which would build unbreakable cornerstone for the further development of the Group.

[7] https://xueqiu.com/1229970637/129869510

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 good and healthy 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 and bank borrowing. As at 30 June 2019, the Group's cash and cash equivalents were substantially denominated in RMB and amounted to approximately RMB221,669,000. The Group has sufficient financial resources and a positive cash position to satisfy the working capital requirements of its business development, operations and capital expenditures.

Capital commitments and charges on assets

The Group made capital expenditure commitments of approximately RMB3,711,000 contracted but not provided for in the condensed consolidated financial statements as at 30 June 2019. These commitments were required mainly to support the Group's production capacity expansion.

As at 30 June 2019, the Group's property, plant and equipment of RMB9,887,000 was pledged to secure the bank borrowing granted to the Group (30 June 2018: nil).

Employment and remuneration policy

Quality and dedicated staff are our most important assets and are indispensable to our success in the competitive market. As part of our corporate culture, we strive to ensure a strong team spirit among our employees for them to contribute towards our corporate objectives. In achieving the goal, we offer competitive remuneration packages commensurate with the industry level and provide various fringe benefits, including trainings, medical insurance coverage as well as retirement benefits to the employees in Hong Kong and in the PRC. Employees are encouraged to enrol 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. 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 dedication.

As at 30 June 2019, the Group employed a work force of 492 in Hong Kong and in the PRC (31 December 2018: 502). The total salaries and related costs (including Directors' fee) for the Period amounted to approximately RMB12,412,000 (2018: RMB12,700,000).

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (2018 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 (comprised all the independent non-executive Directors) had reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the risk management and internal controls, as well as reviewed the Group's unaudited condensed consolidated interim financial statements for the Period.

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

This interim results announcement is published on the websites of the Stock Exchange (http://www.hkex.com.hk) and the Company (http://www.tontine-wines.com.hk). The interim report for the 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, 23 August 2019

As at the date of this announcement, the Board comprises Mr Wang Guangyuan, Mr Zhang Hebin and Ms Wang Lijun as executive directors and Mr Cheng Vincent, Mr Lai Chi Keung, Albert and Mr Yang Qiang as independent non-executive directors.

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.