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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 2019

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 6.1% to approximately RMB333,149,000 (2018: approximately RMB354,911,000).

- Gross profit decreased by approximately 3.1% to RMB74,102,000 (2018: approximately RMB76,485,000).

- Profit and total comprehensive income for the year attributable to owners of the Company and non-controlling interests amounted to approximately RMB4,517,000 as compared with profit and total comprehensive income attributable to owners of the Company and non-controlling interests of RMB4,026,000 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 2019 (the "Year"), prepared on the basis set out in Note 2.1, together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** ***RMB'000***	2018 *RMB'000*
Revenue	*3*	**333,149**	354,911
Cost of sales		**(259,047)**	(278,426)
Gross profit		**74,102**	76,485
Other income, gains and losses	*5*	**648**	45
Selling and distribution expenses		**(29,839)**	(33,784)
Administrative and other operating expenses		**(39,522)**	(43,253)
Change in fair value of biological assets		**4,469**	4,533
Share-based payments		**(3,756)**	–
Finance costs	*6*	**(1,585)**	–
Profit before tax		**4,517**	4,026
Income tax expense	*7*	**–**	–
Profit and total comprehensive income for the year	*8*	**4,517**	4,026
Profit/(loss) and total comprehensive income/ (expense) for the year attributable to:			
Owners of the Company		**(813)**	(3,654)
Non-controlling interests		**5,330**	7,680
		4,517	4,026
Loss per share	*10*		
Basic *(RMB cents)*		**(0.04)**	(0.18)
Diluted *(RMB cents)*		**(0.04)**	(0.18)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment		**166,486**	155,739
Right-of-use assets		**49,639**	–
Prepaid land lease payments		**–**	48,690
Biological assets		**2,806**	2,948
Prepayments		**7,991**	–
		226,922	207,377
Current assets			
Inventories		**207,984**	238,126
Trade receivables	*11*	**108,969**	96,342
Deposits and prepayments		**4,364**	4,756
Current tax recoverable		**5,551**	5,551
Prepaid land lease payments		**–**	2,723
Pledged bank deposits		**800**	–
Bank and cash balances		**201,434**	152,853
		529,102	500,351
Current liabilities			
Trade payables	*12*	**10,585**	9,686
Other payables and accruals		**31,225**	33,076
Bank borrowing	*13*	**40,000**	–
Lease liability		**975**	–
Current tax liabilities		**9,961**	9,961
		92,746	52,723
Net current assets		**436,356**	447,628
NET ASSETS		**663,278**	655,005
Capital and reserves			
Share capital		**17,624**	17,624
Reserves		**561,884**	558,941
Equity attributable to owners of the Company		**579,508**	576,565
Non-controlling interests		**83,770**	78,440
TOTAL EQUITY		**663,278**	655,005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 Company and its subsidiaries collectively referred to as the Group.

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 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 2019. 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.

HKFRS 16 "Leases"

The Group was initially applied HKFRS 16 "Leases" with effect from 1 January 2019 and has taken transitional provisions and methods not to restate comparative information for prior period.

On adoption of HKFRS 16, the Group recognised right-of-use assets and lease liabilities in relation to leases which had previously been classified as 'operating leases' under HKAS 17 "Leases", resulted in changes in the consolidated amounts reported in the financial statements as follows:

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

	1 January 2019 *RMB'000*
At 1 January 2019:	
Increase in right-of-use assets	53,310
Increase in lease liability	(1,897)
Decrease in prepaid land lease payments	(51,413)

The reconciliation of operating lease commitment to lease liability as at 1 January 2019 is set out below:

	1 January 2019 *RMB'000*
Operating lease commitment at 31 December 2018	2,004
Less:	
Discounting	(107)
Lease liability as at 1 January 2019	1,897

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 2019						
Segment revenue from external customer	69,181	50,160	104,009	51,517	58,282	333,149
Segment profit	12,802	10,362	21,456	9,800	7,584	62,004
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
As at 31 December 2019						
Segment assets	16,185	15,897	41,975	13,450	21,462	108,969
Segment liabilities	2,739	1,986	4,118	2,040	2,308	13,191
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

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.

	2019 ***RMB'000***	2018 *RMB'000*
Profit or loss		
Total profit or loss of reportable segments	**62,004**	71,223
Unallocated amounts:		
Change in fair value of biological assets	**4,469**	4,533
Other corporate income	**802**	608
Share-based payments	**(3,756)**	–
Other corporate expenses	**(59,002)**	(72,338)
Consolidated profit for the year	**4,517**	4,026

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.

	2019	2018
	RMB'000	*RMB'000*
Assets		
Total assets of reportable segments	**108,969**	96,342
Unallocated amounts:		
Property, plant and equipment	**166,486**	155,739
Right-of-use assets	**49,639**	–
Prepaid land lease payments	**–**	51,413
Biological assets	**2,806**	2,948
Inventories	**207,984**	238,126
Deposits and prepayments	**12,355**	4,756
Current tax recoverable	**5,551**	5,551
Pledged bank deposits	**800**	–
Bank and cash balances	**201,434**	152,853
Consolidated total assets	**756,024**	707,728

Reportable and operating segment assets represent trade receivables.

	2019	2018
	RMB'000	*RMB'000*
Liabilities		
Total liabilities of reportable segments	**13,191**	15,351
Unallocated amounts:		
Trade payables	**10,585**	9,686
Other payables and accruals	**18,034**	17,725
Bank borrowing	**40,000**	–
Lease liability	**975**	–
Current tax liabilities	**9,961**	9,961
Consolidated total liabilities	**92,746**	52,723

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.

	2019	2018
	RMB'000	*RMB'000*
Sweet wines	**122,730**	179,684
Dry wines	**154,630**	138,928
Brandy	**9,261**	8,770
Others	**46,528**	27,529
	333,149	354,911

Timing of revenue recognition

	2019	2018
	RMB'000	*RMB'000*
At a point in time	**333,149**	354,911

5. OTHER INCOME, GAINS AND LOSSES

	2019	2018
	RMB'000	*RMB'000*
Bank interest income	**774**	608
Net foreign exchange loss	**(154)**	(563)
Gain on disposal of property, plant and equipment	**28**	–
	648	45

6. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Lease interests	**83**	–
Interests on bank borrowing	**1,502**	–
	1,585	–

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 Enterprise Income Tax 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 FOR THE YEAR

The Group's profit for the year is stated after charging the following:

	2019	2018
	RMB'000	*RMB'000*
Auditor's remuneration	**1,680**	1,580
Cost of inventories sold	**199,159**	203,888
Depreciation of property, plant and equipment	**10,763**	10,586
Depreciation of right-of-use assets	**3,671**	–
Less: amounts included in property, plant and equipment	**(1,786)**	–
	1,885	–
Amortisation of prepaid land lease payments	**–**	2,724
Less: amounts included in property, plant and equipment	**–**	(1,786)
	–	938
Write off of inventories (included in cost of sales)	**19,024**	28,525
Operating lease expenses in respect of office premises	**–**	899
Equity-settled share-based payments to a consultant and distributors	**1,878**	–
Staff costs (including directors' remuneration):		
Salaries, bonuses and allowances	**14,757**	16,621
Sales commission	**8,127**	7,873
Retirement benefit scheme contributions	**4,950**	4,683
Equity-settled share-based payments	**1,878**	–
	29,712	29,177

9. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2019 (2018: 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 RMB813,000 (2018: loss attributable to owners of the Company of approximately RMB3,654,000) and the weighted average number of ordinary shares of 2,013,018,000 (2018: 2,013,018,000) in issue during the year.

Diluted loss per share

For the years ended 31 December 2019 and 2018, 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.

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**109,905**	97,118
Less: allowance for bad and doubtful debts	**(936)**	(776)
	108,969	96,342

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

	2019	2018
	RMB'000	*RMB'000*
0 – 30 days	**33,724**	38,560
31 – 60 days	**36,979**	27,410
61 – 90 days	**38,266**	30,372
	108,969	96,342

Reconciliation of loss allowance for trade receivables:

	2019	2018
	RMB'000	*RMB'000*
At the beginning of the year, as previously stated	**776**	–
Effect of changes in accounting policies	**–**	478
At the beginning of the year, as restated	**776**	478
Increase in loss allowance for the year	**160**	298
At the end of the year	**936**	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
At 31 December 2019					
Weighted average expected loss rate	**0.85%**	**–**	**–**	**–**	
Receivable amount *(RMB'000)*	**109,905**	**–**	**–**	**–**	**109,905**
Loss allowance *(RMB'000)*	**936**	**–**	**–**	**–**	**936**
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

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:

	2019	2018
	RMB'000	*RMB'000*
0 – 30 days	**1,910**	7,420
31 – 60 days	**8,675**	2,266
	10,585	9,686

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.

13. BANK BORROWING

During the year ended 31 December 2019, the Group had drawn a bank borrowing amounting to RMB40,000,000 (31 December 2018: Nil). The new bank borrowing raised is denominated in RMB and carries interest at variable rate of the loan prime rate plus 0.645% of the National Interbank Loan Center and is repayable within one year. The new bank borrowing was secured by pledged bank deposits amounting to RMB800,000, 35% equity interest in a subsidiary of the Company 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.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In 2019, the Chinese wine industry, which is still in the period of industrial structure adjustment, faced various challenges. Under the impact of imported wine, the domestic wine production continued to show a downward trend in 2019, and the overall scale contraction pace further accelerated as compared to 2018. According to the National Bureau of Statistics, wine production continued to decline in 2019, with the national wine output reaching 451,000 kiloliters with a cumulative drop of 10.2%[1].

Having been affected by certain factors like the economic slowdown and the Sino-US trade war, in 2018, China's wine imports experienced the first negative growth since the industry recovered in 2015, and continued a drop trend in 2019. In the first 11 months of 2019, the import volume reached 599,000 kiloliters, representing a year-on-year decrease of 10.6%; the import value reached US$2.208 billion, representing a year-on-year decrease of 7%[2].

In recent years, with the promotion of free trade agreements, China has implemented zero tariffs on wine imports from wine-producing countries such as New Zealand, Chile, Georgia, and Australia. Increased imports from these regions have led to intensifying competition in the domestic wine market. From 1 January 2019, according to the China-Australia Free Trade Agreement, China will fully open to implement a "zero tariff" policy on wines importing from Australia. Benefiting from the tariff policy, Australian wine exports to the Chinese market continued to grow and recorded a new high during the Year, and it ever surpassed France to become China's largest source of imported wine.

The influx of imported wines has promoted the maturity of the Chinese wine consumption market, but it has also generated continuous impact on the market share of domestic wines. The sales and production of domestic wines have shrunk, and the market profits have gradually decreased, which has indirectly promoted the accelerated integration of the industry. In addition, factors such as the pressure on the structural adjustment of the domestic economy and the increasing uncertainty of the global trading environment have further forced the innovation and upgrading of the Chinese wine industry which is in a bottleneck period of development. As a result, the market concentration has increased, and resources have gradually concentrated to those top and boutique brands. With the promotion of household consumption upgrading, the domestic wine industry has entered into a new cycle of lower production volume with rising prices, and enterprises have accelerated their product structure upgrades and shifted to the mid- and high-end product layout.

The market adjustment and consolidation period since 2013 has not yet ended, but China has a large consumer group base, with the increase of residents' income and the improvement of consumption levels, the Chinese wine market still has huge consumption potential.

1 http://data.stats.gov.cn/easyquery.htm?cn=A01&zb=A02090B&sj=201912
2 http://s.askci.com/news/maoyi/20191226/1157501155819.shtml

FINANCIAL REVIEW

For the year ended 31 December 2019, the Group continued its good development momentum since 2018, maintained a steady performance with profit growth. As benefited from an accurate grasp of changes in market demand, the Group accelerated product upgrades to develop and launch new products. On the basis of maintaining the market share of its major products, the Group also implemented adjustment to and upgrading of its product structure. With the continuously optimised corporate management model, the Group further achieved improvements in operating efficiency, effectively reduced various expenses, which was conducive to improving the profit for the year under review.

For the year ended 31 December 2019, the Group recorded the total revenue of RMB333,149,000. The overall gross profit of the Group was RMB74,102,000, and its gross profit margin was 22.2%, representing a year-on-year increase of 0.6 percentage points. Total profit and comprehensive income of the Company for the year was RMB4,517,000, representing a year-on-year increase of 12.2%.

During the year under review, sweet wine and dry wine were the major sources of the Group' sales revenue, both of which accounted for 83.3% of the Group's total revenue. The sales income from other liquor products (including ice wine and white wine) increased by approximately 69.0% year-on-year as compared with 2018, and such revenue share increased from 7.8% in 2018 to 14.0%.

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 Year, it focused on strengthening the sales of ice wine products. In order to promote the ice wine consumption culture to domestic consumers, the Group opened up the ice wine market with a lower initial selling price to make more consumer experience towards this type of product. The raw materials and production costs for ice wine products were relatively higher, which squeezed the gross profit of the product. In addition, as long as it would be overall profit-making, the Group 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.

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

	For the year ended 31 December		**Year-on-year**
	2019	2018	**change**
Overall gross profit *(RMB'000)*	**74,102**	76,485	–3.12%
Overall gross profit margin	**22.2%**	21.6%	+0.6 percentage points

During the Year under review, the overall gross profit of the Group was RMB74,102,000, representing a decrease of 3.12% as compared with last year, and such decline was lower than the decrease in revenue. The gross profit adjustment was mainly due to factors such as the adjustment of product structure and strategic adjustment of prices of some products. Sweet wine and dry wine continued to be the main products contributing the highest gross profit, both of which accounted for about 94.4% of the total gross profit. In addition, the provision of impairment on inventory in 2019 decreased as compared to that of last year, and the overall gross profit margin of the Group rose slightly to 22.2%. Except for that gross profit margin of other wine products (including ice wine and white wine) fell under pressure, the gross profit margins of sweet wine, dry wine and brandy had all increased.

During the year under review, the total cost of sales of the Group was RMB259,047,000, representing a decrease of 7% as compared with last year. Such decrease was mainly due to a decrease in cost of raw materials, which cost contributed the largest proportion of 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 of the Group was RMB208,990,000, representing a year-on-year decrease of approximately 8.6%, which accounted for approximately 80.7% of the total cost of sales of the Group.

During the year under review, the Group continued to rectify its sales channels, resulting in a decrease in sales and distribution expenses by approximately 11.7% to RMB29,839,000 as compared to the same period of last year. In order to cater to the general sales trend of domestic alcohol product, the Group continued to increase the proportion of online sales during the Year, including further application of emerging media channels such as online platform. The Group significantly reduced its advertising on traditional media channels, effectively reducing its marketing expenses. The advertising and promotion expenses of the Group in 2019 were significantly reduced by approximately 51% year-on-year to RMB1,949,000. In addition to its marketing expenses, the Group also effectively reduced administrative expenses through salary adjustments and reduction of office expenses. The overall operating efficiency of the Group was further optimized and improved.

The following table sets forth the breakdown of the costs required for production by the Group for the year ended 31 December 2019:

	For the year ended 31 December		**Year-on-Year**
	2019	2018	**Change**
	(RMB'000)	*(RMB'000)*	
Total cost of raw materials	**208,990**	228,761	–8.6%
Production overheads	**9,193**	5,674	+62.0%
Consumption tax and other taxes	**40,864**	43,991	–7.1%
Total cost of sales	**259,047**	278,426	–7.0%

OPERATION REVIEW

During the Year, the domestic wine industry was still in the adjustment period. On the one hand, it continued to face the squeeze and impact of imported wine, and on the other hand, it benefited from the opportunities brought by the continuous promotion of national consumption upgrade and the increasingly expanding middle class. In face of the wine industry entering into the era of intensive cultivation, under the pressure, the domestic wine industry was gradually moving towards the development of a fusion of China's regional features and consumer characteristics.

On the one hand, the Group had benefited from upgrading of consumers' awareness of wine, which effectively consolidated the market share of its major products and gained better brand recognition. On the other hand, the Group continued to innovate and develop its business through application of emerging marketing and publicity channels such as online media and mobile platforms, which was more efficient and targeted to popularize and promote the wine. By deeply cultivating various market segments, it continued to optimize its product structure, introduce new products, and highlight personalization and differentiation with a view to providing a new cognitive experience of wine to a wider consumer group.

The Group launched personalized and customized products based on different consumption scenarios. In terms of promoting personalized products, the Group adopted a strategy of forming strategic alliances with industry-leading companies, and launched joint products through cooperation between the two parties to expand market coverage and enhance the brand awareness of the Company. During the year under review, the Group cooperated with the Haidilao Group to launch a new sweet wine called "Haidilao Semi-sparkling Mountain Grape Wine" for the hot pot scene, which was well received by Sichuan hot pot enthusiasts. In addition, the Group cooperated with Shanghai Naixin Industrial Company Limited*（上海乃欣實業有限公司）("Naixin Industrial") to develop a rose mountain wine, which combines the Eryuan roses with high-quality mountain grapes. In addition, the Group and Beijing Lingge Culture Company*（北京鈴戈文化公司）("Lingge Culture") jointly launched the "Jiang Xin（絳馨）"series under the "Lingge" brand, and tried and explored to improve the product design.

Relying on the differences in the production areas and grape varieties, the Group focused on cost-effective products with both quality and regional features. During the year under review, the Group seized the opportunity of vigorously developing the ice grape industry in Tonghua County, Jilin Province to actively promote ice wine products with regional features at a very preferential price, which successfully raised the general public's awareness and acceptance of high-end ice wine products, and drove a significant increase in the sales of ice wine products with satisfactory sales results. During the year under review, the total number of product category of the Group was increased to 163, of which 14 products were newly launched products, which contributed a good performance by accounting for about 10% of the Group's revenue.

As one of the "Top 10 Chinese Wine Industry Brands", the brand and quality of product of the Group maintained recognition in the industry and the market. The Group's products received multiple domestic and international awards. In March 2019, "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）, and in June 2019, "Tontine Shangqian Premium Mountain Wine" and "Tongtian · Yaaru Sunny Cabernet Sauvignon Dry Red Wine" won two "Fine Awards"（精品獎）in the fifth DSW International Fine Wine Challenge. In July 2019, the distilled grape liquor of Yaaru Wine（雅羅白）was listed as the iconic product of each wine producing region in China. In addition, 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. Mr. Wang Jun, the chief brewer of Tontine Wines, was awarded the title of "China Wine Master" by the China Wine Industry Golden Bottle Award（中國酒業金樽獎）in March 2019. He was recognized as a "Tonghua Master ''（通化工匠）in July 2019 and was commended so.

Output Volume and Sales

For the year ended 31 December 2019, the output of all categories of products manufactured by the two production bases of the Group located in Tonghua City, Jilin Province and Baiyanghe, Yantai City, Shandong Province reached 12,722 tonnes and 3,110 tonnes, respectively.

The Group 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, in recent years, the Group has gradually strengthened to increase the proportion of online sales through e-commerce sales channels and self-developed sales platforms. The Group also carried out diversified strategic cooperation, including undertaking corporate orders and establishing strategic alliances with corporations to sell customized products.

For the year ended 31 December 2019, the Group's products were sold through 107 distributors located in 20 provinces, 3 autonomous regions and 4 municipalities in China. During the year under review, the Group continued to optimize its sales network, further strengthened the management and coordination of distributors. In order to cater to the emerging consumption model, the Group reorganized and optimized its sales structure, and diversified and expanded its sales channels by opening up online sales platforms, which maintained its sales and distribution expenses at a lower level and enhanced operating efficiency during the Year. In addition, 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 2019 and 2018 is set out below:

	For the year ended 31 December			
	2019		2018	
	Revenue *(RMB'000)*	**% of total revenue**	Revenue *(RMB'000)*	% of total revenue
North-East Region	**69,181**	**20.8**	83,836	23.6
Northern Region	**50,160**	**15.0**	58,330	16.4
Eastern Region	**104,009**	**31.2**	99,371	28.0
South-Central Region	**51,517**	**15.5**	51,366	14.5
South-West Region	**58,282**	**17.5**	62,008	17.5
Total	**333,149**	**100.0**	354,911	100.0

In terms of regional revenue, due to the developed economy in the Eastern Region, residents in the region have a high level of consumption with concentrated spending power, and the wine market has been developed in the region. During the year under review, the Eastern Region continued to be the Group's largest market. Despite fierce competition, sales revenue from the region increased continuously. The Group recorded revenue of RMB104,009,000 from the region, accounting for 31.2% of total revenue, representing an increase of 3.2 percentage points year-on-year.

The North-East Region is the second largest market of the Group. As the production base of Tonghua City, Jilin Province locates in this region, the Group enjoys relatively strong local brand recognition as a result of the geographical advantage. During the year under review, the revenue in the North-East Region was RMB69,181,000, accounting for 20.8% of total revenue.

During the year under review, the revenue in the Northern Region was RMB50,160,000, accounting for 15.0% of total revenue. The sales revenue in the South-West Region amounted to RMB58,282,000, and the sales revenue in the South-Central Region amounted to RMB51,517,000, accounting for 17.5% and 15.5% of total revenue, respectively.

BUSINESS INDICATOR REVIEW

Inventory turnover days

The inventory turnover days of the Group as at the end of the Year stood at 373 days, further decreased from 386 days as at the end of 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, which reduced inventory turnover.

Trade receivables turnover days

As at 31 December 2019, the trade receivables turnover days of the Group stood at 112 days (2018: 93 days), which was mainly due to an increase in trade receivables to RMB108,969,000 (2018: RMB96,342,000) with a decrease in sales.

OPERATION ANALYSIS BY PRODUCT

Sweet Wines

For the year ended 31 December 2019, sweet wines continued to contribute the most to the Group's output and sales. The sales revenue of such product in 2019 was RMB154,630,000, representing a decrease of 13.9% over last year, which was mainly affected by a slight decrease in sales volume of the product and average selling price per tonne. Gross profit decreased by approximately 10.1% to RMB30,148,000. The gross profit margin of the product was approximately 19.5%, which was slightly higher than last year. The contribution of sweet wine's gross profit accounted for 40.7% of the Group's overall gross profit in 2019, decreased by 3.1 percentage points year-on-year, which was partly due to the increase in sales and proportion of other products. During the year 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 satisfactory sales and were well received and recognized among consumers.

Dry Wines

For the year ended 31 December 2019, dry wines contributed the most to gross profit and gross profit margin of the Group, of which gross profit was RMB39,773,000, accounting for 53.7% of total gross profit, and gross profit margin was 32.4%, representing an increase of 3.9% year on year. During the year under review, the sales revenue from dry wines amounted to a total of RMB122,730,000, representing a year-on-year decrease of 11.7%, which was mainly due to the decline in sales volume resulting from a slight increase in selling price per tonne. Such product contributed 36.8% of the Group's total revenue. During the year under review, the Group effectively strengthened consumers' awareness of the low sugar and health characteristics of dry wine by promotions on new media platforms, which further enhanced the market awareness of dry wine.

Brandy

For the year ended 31 December 2019, the Group's sales revenue from brandy products was RMB9,261,000, representing an increase of approximately 5.6% as compared to last year. The gross profit of such product increased by 39.4% year-on-year to approximately RMB1,557,000, and gross profit margin increased to 16.8%. The gross profit of this type of products contributed only 2.1% of the total gross profit and approximately 2.8% of the total revenue.

Other products

Other wine products of the Group include high-end ice wines and white wines. For the year ended 31 December 2019, with the Group's vigorous promotion and sales of ice wine products, the sales revenue of other wine products amounted to RMB46,528,000, representing a significant increase of 69.0% over the same period of last year, and its proportion of total revenue increased to 14.0%. During the Year, the gross profit of other wine products also increased by approximately 17.8% to RMB2,624,000, and the proportion of gross profit contribution to the overall gross profit increased to 3.5%. The gross profit margin decreased by 2.5 percentage points to 5.6% as compared with the same period last year, which was mainly due to the higher cost of ice wine products targeting the high-end consumer market, and the Group lowered the initial selling price at the beginning of product promotion with a view to allowing more consumer experience towards the product and attracting general consumers to sample ice wines at a very preferential price, which had affected the gross profit margin to a certain extent.

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 in accordance with the government policies during the year under review, so that general consumers can enjoy the ice wine products with the North-East regional features and which taste is comparable to that of products from famous ice wine producing area such as Canada. Ice wine products have been highly recognized by the wine community domestically and internationally, and had won international awards. With vigorous promotion of the Group in the past year, ice wine products have established certain recognition in the domestic market.

FUTURE OUTLOOK

Entering into 2020, China and the United States reached a first-phase agreement for trade relations, which eased trade conflicts. However, there are still many contradictions in the fields of commerce, intellectual property, and geopolitics. We have yet to see whether the two countries can establish a lasting co-existence relationship.

The epidemic of the novel coronavirus that emerged at the end of 2019 is still menacing. The rapid outbreak and large-scale spread of the epidemic had severe impacts on China's overall economy and various industries. It is still difficult to assess the impact of the epidemic on China and the global economy. In addition to the impact of the epidemic on consumer sentiment, the upstream and downstream of the wine industry and terminal retail operations are also affected, and traditional marketing activities such as exhibitions and promotion fairs are difficult to be carried out in the short term, along with the declined consumer consumption. Such factors may result in a substantial drop of sales volume in the domestic wine market in the first quarter of 2020.

In the new era, the Group will keep abreast of the mainstream trend of the new marketing model to improve and expand its product quality and marketing channels. By applying the new retail model and implementing new media promotion strategies, the Group has its diversified marketing channels to better meet the preferences of new generation of general consumer. At the same time, the new retail model also helps to diversify the operating risks of the traditional business model and thus significantly reduces traditional advertising spending.

The Group will also make use of the channels and customer resources accumulated over the years in the sale of wine products to sell its other products. The Group will implement sharing of its marketing channels with the intention of distributing beer products through its existing marketing channels of wine products to achieve cost sharing in developing marketing channels and expanding new revenue sources. The increase in types of products to be sold will also help boost the effectiveness of its sales platforms.

The Group continued to launch new products and develop personalized and customized products, which have successfully attracted a group of high-quality customers and established a clear brand image. In the coming year, the Group will continue to focus on developing more personalized products with regional features and customized products targeting corporate and group customers, actively explore market segments and expand its product portfolio. While effectively maintaining its existing market share, the Group will continue to attract more new customers through product upgrading to expand its customer base.

"Regionalization" plus "Characterization" is gradually becoming the dominant development direction for brand product differentiation. With the Group having successfully established the market awareness for the grape distilled liquor product of "Yaaru Wine"（雅羅白）and ice wine products successfully developed by it, the Group will continue to further deepen the development path of "Characteristic Production Area + Unique Brand + Distinctive Experience" to create continuously the new profit growth point for the Group. The Group will seize the opportunity arising from the policy of encouraging development and promotion of the ice grape industry in Tonghua area, continue to focus on the promotion of ice wine products with the regional features of the North-East China to further expand the income source of the Group. At the same time, the Group will put emphasis on the promotion of the self-developed grape distilled liquor product of "Yaaru Wine"（雅羅白）to build it into the most distinctive grape distilled liquor brand of Tontine.

After establishing certain acceptance for the ice wine products in the market, the Group is expected to gradually increase its selling price, which will enable the Group to achieve a higher gross profit for its ice wine products. The Group entered into multiple strategic cooperations last year, such as, jointly launching with the Haidilao Group of a new sweet wine called "Haidilao Semi-sparkling Mountain Grape Wine" for the hot pot scene, cooperation with Naixin Industrial to develop a rose mountain wine, and jointly launching with Lingge Culture of the "Jiang Xin（絳馨）"series under the "Lingge" brand, which had been launched in the market one after another this year. It is expected that these wine products will begin to generate revenue for the Group.

Realizing the importance of refining products, the Group is committed to creating wine series products with more Tontine features to enhance the Group's overall profitability. With the release of the policy of medicine and food homology for ginseng, coupled with customers' increasing awareness and recognition of the medicinal and health value of ginseng, the Group plans to add ginseng blended wine products to its product series. At the same time, as benefited from its geographical advantage, the region which Tontine Wines operates is the main producing region for ginseng in China, and the procurement and supply of ginseng raw materials can be effectively secured. This year, the Group will supply ginseng blended wine series products to domestic large-scale distribution companies of ginseng products and ginseng blended wine products by customized processing and direct sales of products, in order to further enrich the Group's product categories and expand income source of the group to generate better returns for our shareholders.

China's expected economic growth this year would range between 5% and 6% in the short term. With the continuous structural adjustment of the wine industry in China, manufacturers and distributors are facing more complex and severe challenges in all aspects of the business environment, refinement of products have become a consensus, and the transformation and upgrading of enterprises are imminent in the industry. Under the heavy pressure, the Group will take a pragmatic and prudent attitude to grasp the consumption trend of the domestic wine market, further optimize its product structure, and leverage its existing advantages to consolidate its existing market position.

FINANCIAL MANAGEMENT AND TREASURY POLICY

The Group's revenues, expenses, assets and liabilities were substantially denominated in 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 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 to cope with daily operations and future development demands for capital. The Group is in a net cash position and is thus exposed to minimal financial risk on interest rate fluctuation.

LIQUIDITY AND FINANCIAL RESOURCES

The management closely monitors the Group's financial performance and liquidity position. The Group generally finances its operation with internal cash flows generated from its operations and bank borrowing.

During the Year, the Group's working capital was healthy and positive. As at 31 December 2019, the Group's net working capital (calculated as current assets less current liabilities) amounted to approximately RMB436,356,000 (31 December 2018:RMB447,628,000). The Group has sufficient financial resources available to meet its future working capital and financing requirements.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group made capital expenditure commitments of approximately RMB5,004,000 (2018: RMB3,711,000) contracted but not provided in the consolidated financial statements. These capital commitments were provided by cash generated from operations.

PLEDGE OF ASSETS

As at 31 December 2019, the Group pledged its bank deposits of approximately RMB800,000 (2018: Nil) and 35% equity interest in a subsidiary of the Company to secure a bank borrowing amounting to RMB40,000,000 (2018: Nil).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2019 (2018: Nil).

DIVIDEND

The Directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2019 (2018: 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. The Company has also adopted share option scheme with the primary purpose of motivating our employees of the Group 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 2019, the Group employed a work force of 460 (including Directors) in Hong Kong and in China (2018: a work force of 480). The total salaries and related costs (including the Directors' fee) for the Year amounted to approximately RMB29,712,000 (2018: RMB29,177,000).

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules" and the "Stock Exchange", respectively) 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, Dr. Cheng Vincent (Chairman), Mr. Lai Chi Keung, Albert and Mr. Yang Qiang), 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 2019 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 12 May 2020 to Saturday, 16 May 2020 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the annual general meeting of the Company (the "AGM") to be held on Saturday, 16 May 2020. 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, 11 May 2020.

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 2019 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, 13 March 2020

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 Dr. 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.

* *For identification purpose only*