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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 INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 66.0% to approximately RMB56,088,000 (2019 corresponding period: RMB164,854,000).
- Gross loss of approximately RMB21,836,000 (2019 corresponding period: gross profit of RMB42,018,000).
- Loss and total comprehensive expense for the period attributable to owners of the Company and non-controlling interests amounted to approximately RMB74,179,000 (2019 corresponding period: profit and total comprehensive income attributable to owners of the Company and non-controlling interests of RMB8,754,000).
- Basic and diluted loss per share were RMB3.5 cents (2019 corresponding period: basic and diluted earnings per share of RMB0.3 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 (collectively, the “Group”) for the six months ended 30 June 2020 (the “Period” or “period under review”), together with the comparative figures for the six months ended 30 June 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	RMB'000
Revenue	3	56,088	164,854
Cost of sales		(77,924)	(122,836)
Gross (loss) profit		(21,836)	42,018
Other income, gains and losses	5	(433)	(129)
Selling and distribution expenses		(21,971)	(15,801)
Administrative and the operating expenses		(19,757)	(18,429)
Finance costs	6	(854)	(352)
Impairment loss on property, plant and equipment		(8,625)	–
Impairment loss on right-of-use assets		(2,433)	–
Change in fair value of biological assets		1,730	1,447
(Loss) profit before tax	7	(74,179)	8,754
Taxation	8	–	–
(Loss) profit and total comprehensive (expense) income for the period		(74,179)	8,754
(Loss) profit and total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(70,881)	6,693
Non-controlling interests		(3,298)	2,061
		(74,179)	8,754
(Losses) earnings per share	9		
Basic (RMB cents)		(3.5)	0.3
Diluted (RMB cents)		(3.5)	0.3

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

		30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
	Notes		
Non-current Assets			
Property, plant and equipment	11	162,546	166,486
Right-of-use assets		45,370	49,639
Biological assets	12	4,842	2,806
Prepayments		7,215	7,991
		<u>219,973</u>	<u>226,922</u>
Current Assets			
Inventories		159,399	207,984
Trade receivables	13	83,075	108,969
Deposits and prepayments		2,592	4,364
Current tax recoverable		5,551	5,551
Pledged bank deposits		–	800
Bank and cash balances		161,525	201,434
		<u>412,142</u>	<u>529,102</u>
Current Liabilities			
Trade payables	14	12,956	10,585
Other payables and accruals		19,604	31,225
Bank borrowing	15	–	40,000
Lease liability		495	975
Current tax liabilities		9,961	9,961
		<u>43,016</u>	<u>92,746</u>
Net Current Assets		<u>369,126</u>	<u>436,356</u>
NET ASSETS		<u>589,099</u>	<u>663,278</u>
Capital and Reserves			
Share capital		17,624	17,624
Reserves		491,003	561,884
Equity attributable to owners of the Company		508,627	579,508
Non-controlling interests		80,472	83,770
Total Equity		<u>589,099</u>	<u>663,278</u>

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 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2019.

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 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition to the above amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, are effective for annual periods beginning on or after 1 January 2020.

The application of the above amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

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 <i>RMB'000</i>	Northern Region <i>RMB'000</i>	Eastern Region <i>RMB'000</i>	South- Central Region <i>RMB'000</i>	South- West Region <i>RMB'000</i>	Total <i>RMB'000</i>
For the six months ended						
30 June 2020 (Unaudited)						
Segment revenue from external customers	<u>13,411</u>	<u>8,519</u>	<u>16,396</u>	<u>9,156</u>	<u>8,606</u>	<u>56,088</u>
Segment loss	<u>(10,828)</u>	<u>(3,460)</u>	<u>(4,635)</u>	<u>(4,647)</u>	<u>(2,758)</u>	<u>(26,328)</u>
For the six months ended						
30 June 2019 (Unaudited)						
Segment revenue from external customers	<u>32,387</u>	<u>27,224</u>	<u>48,411</u>	<u>28,004</u>	<u>28,828</u>	<u>164,854</u>
Segment profit	<u>4,967</u>	<u>4,041</u>	<u>6,927</u>	<u>3,718</u>	<u>2,565</u>	<u>22,218</u>

Revenue

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

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Total segment (loss) profit	(26,328)	22,218
Unallocated amounts:		
Change in fair value of biological assets	1,730	1,447
Finance costs	(854)	(352)
Other corporate income	201	339
Other corporate expenses and losses	(48,928)	(14,898)
Consolidated (loss) profit before tax	<u>(74,179)</u>	<u>8,754</u>

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

	North-East Region <i>RMB'000</i>	Northern Region <i>RMB'000</i>	Eastern Region <i>RMB'000</i>	South-Central Region <i>RMB'000</i>	South-West Region <i>RMB'000</i>	Total <i>RMB'000</i>
As at 30 June 2020 (Unaudited)						
Segment assets	<u>11,798</u>	<u>13,209</u>	<u>29,430</u>	<u>15,404</u>	<u>13,234</u>	<u>83,075</u>
Segment liabilities	<u>490</u>	<u>312</u>	<u>599</u>	<u>335</u>	<u>315</u>	<u>2,051</u>
As at 31 December 2019 (Audited)						
Segment assets	<u>16,185</u>	<u>15,897</u>	<u>41,975</u>	<u>13,450</u>	<u>21,462</u>	<u>108,969</u>
Segment liabilities	<u>2,739</u>	<u>1,986</u>	<u>4,118</u>	<u>2,040</u>	<u>2,308</u>	<u>13,191</u>
				At 30 June 2020 (Unaudited) <i>RMB'000</i>	At 31 December 2019 (Audited) <i>RMB'000</i>	
Assets						
Total segment assets				83,075	108,969	
Other unallocated amounts						
Property, plant and equipment				162,546	166,486	
Right-of-use assets				45,370	49,639	
Biological assets				4,842	2,806	
Inventories				159,399	207,984	
Deposits and prepayments				9,807	12,355	
Current tax recoverable				5,551	5,551	
Pledged bank deposits				–	800	
Bank and cash balances				<u>161,525</u>	<u>201,434</u>	
Consolidated total assets				<u>632,115</u>	<u>756,024</u>	
Liabilities						
Total segment liabilities				2,051	13,191	
Other unallocated amounts						
Trade payables				12,956	10,585	
Other payables and accruals				17,553	18,034	
Bank borrowing				–	40,000	
Lease liability				495	975	
Current tax liabilities				<u>9,961</u>	<u>9,961</u>	
Consolidated total liabilities				43,016	92,746	

Revenue from major products

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

	Six months ended 30 June	
	2020	2019
	(Unaudited) <i>RMB'000</i>	(Unaudited) <i>RMB'000</i>
Sweet wines	32,364	84,880
Dry wines	17,313	57,626
Brandy	1,835	2,599
Others	4,576	19,749
	<u>56,088</u>	<u>164,854</u>

5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2020	2019
	(Unaudited) <i>RMB'000</i>	(Unaudited) <i>RMB'000</i>
Bank interest income	177	339
Loss on disposal of property, plant and equipment	–	(80)
Exchange loss	(634)	(388)
Others	24	–
	<u>(433)</u>	<u>(129)</u>

6. FINANCE COSTS

The costs represent the interest on bank borrowing.

7. (LOSS) PROFIT BEFORE TAX

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
(Loss) profit before tax has been arrived at after (crediting) charging:		
Cost of inventories recognised as an expense	39,551	109,564
Write-off of inventories (included in cost of sales)	31,456	4,038
Loss allowance for trade receivables	4,910	539
Impairment loss on property, plant and equipment	8,625	–
Impairment loss on right-of-use-assets	2,433	–
Depreciation of property, plant and equipment	5,306	4,523
Depreciation of right-of-use assets	1,836	1,362
Less: amounts included in property, plant and equipment	(893)	(893)
	943	469
Advertising and promotion expenses (included in selling and distribution expenses)	17,416	1,949

8. TAXATION

During the six months ended 30 June 2020 and 2019, 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. (LOSSES) 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	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
(Losses) earnings		
(Losses) earnings for the period attributable to owners of the Company and (losses) earnings for the purposes of calculating the basic and diluted (losses) earnings per share	(70,881)	6,693

At
30 June 2020 &
2019
(Unaudited)
Number of shares

Number of shares

Weighted average number of ordinary shares for the purpose of
basic and diluted (losses) earnings per share

2,013,018,000

For the six months ended 30 June 2019, 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.

For the six months ended 30 June 2020, the computation of diluted losses per share does not assume the exercise of the Company's share options as the assumed exercise would result in a decrease in losses per share.

10. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the periods ended 30 June 2020 and 2019, 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:

	<i>RMB'000</i>
At 1 January 2020 (Audited)	166,486
Additions	9,991
Depreciation for the period	(5,306)
Impairment loss recognised	(8,625)
	<u>162,546</u>
At 30 June 2020 (Unaudited)	<u>162,546</u>

12. BIOLOGICAL ASSETS

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

	<i>RMB'000</i>
At 1 January 2020 (Audited)	2,806
Change in fair value of biological assets	1,730
Increase due to cultivation	306
At 30 June 2020 (Unaudited)	4,842

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 period ended 30 June 2020, 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 2020 (Unaudited) <i>RMB'000</i>	At 31 December 2019 (Audited) <i>RMB'000</i>
0 – 30 days	4,152	33,724
31 – 60 days	5,797	36,979
61 – 90 days	7,271	38,266
91 – 180 days	27,328	–
181 – 365 days	38,527	–
	83,075	108,969

Reconciliation of loss allowance for trade receivables:

	<i>RMB'000</i>
Balance at 1 January 2020	936
Increase in loss allowance for the period	4,910
Balance at 30 June 2020	5,846

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 2020 (Unaudited) RMB'000	At 31 December 2019 (Audited) RMB'000
0 – 30 days	393	1,910
31 – 60 days	2,986	8,675
61 – 90 days	866	–
91 – 180 days	7,445	–
181 – 365 days	1,266	–
	<u>12,956</u>	<u>10,585</u>

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

15. BANK BORROWING

	At 30 June 2020 (Audited) RMB'000	At 31 December 2019 (Audited) RMB'000
Secured and guaranteed bank borrowing	<u>–</u>	<u>40,000</u>
Carrying amount repayable within one year	<u>–</u>	<u>40,000</u>
	–	40,000
Amount due within one year shown under current liabilities	<u>–</u>	<u>40,000</u>

The bank borrowing amounting to RMB40,000,000 raised is denominated in Renminbi and carries interest at variable rate of the loan prime rate plus 0.645% of the National Interbank Loan Center. During the period ended 30 June 2020, the bank borrowing was repaid.

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 2019 and 30 June 2020 are set out below:

Date of grant	Number of outstanding options as at 31 December 2019 and 30 June 2020	Exercisable period	Exercise price
9 May 2016	66,200,000	9 May 2016 to 8 May 2021	HK\$0.263
23 September 2019	200,000,000	24 September 2019 to 23 September 2020	HK\$0.146

The following table discloses the movements of the share options granted by the Company under the Old Scheme and the New Scheme during the six months ended 30 June 2020:

	Number of share options
Outstanding at 1 January 2020	266,200,000
Granted during the period	—
Lapsed/cancelled during the period	—
Exercised during the period	—
Outstanding at 30 June 2020	<u>266,200,000</u>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

Under the adverse impact of the novel coronavirus (COVID-19) since its outbreak at the beginning of the year, the wine industry in China has ushered in an unoptimistic start in 2020. As the epidemic continues to grow into a pandemic (the “pandemic”) on a global scale, the sales end has been blocked, the realization efficiency at the pipeline level has become low, and negative effects such as tight cash flow and general decline in market supply and demand have gradually appeared, which have brought serious impact on commercial and economic activities of wine enterprises.

Over the past three years, the wine output in China has shown a clear downward trend. According to the National Bureau of Statistics, the annual output of wine in 2017 was 1,001,000 kiloliters, which shrank to 629,000 kiloliters in 2018, and fell to 451,000 kiloliters in 2019. Under the impact of the pandemic, the wine output and sales suffered a severe setback in the first half of 2020, which further accelerated the downward trend. According to the National Bureau of Statistics, the national wine output from January to June 2020 was 127,000 kiloliters with a cumulative drop of 30.2%.¹

In respect of imported wine, the spread of pandemic around the world has brought great impact and uncertainty to the production and transportation of imported wine, and the development of imported wine has significantly cooled off. According to the statistics of liquor import from January to June 2020 released by the Liquor Importers Branch (酒類進口商分會), in the first half of the year, the national wine import volume was 214,838,000 liters with import value of US\$830 million. The cumulative decline in volume and value remained at a level of more than 30%, and its proportion to total volume of liquor imports fell to 49%.²

The market share of domestic wine has been continuously impacted by imported wine, resulting in shrinking sales volume and output, and entering a bottleneck period of development. The sharp decline in imported wine due to the outbreak of the pandemic has, to a certain extent, given domestic wine which is in the period of industrial structure adjustment, an opportunity to overtake its competitors. The pandemic coincides with the ongoing trend of liquor consumption differentiation in China, which will help to accelerate the integration and shuffling of the wine industry and promote the branding process, thereby further realizing the trend that only the most competent players can survive and raising the threshold of wine industry.

During the pandemic, the wine industry market has been constantly showing new trends and potential development opportunities. On the one hand, as more younger generation growing up with the Internet and the new “middle class” among the “post-60s” and “post-70s” generation return to their families, and more and more wine consumption is also brought into the family, providing considerable consumption potential for the wine industry. On the other hand, “online customer acquisition” is speeding up to catch up with “traditional customer acquisition”, and “online shopping” is vigorously impacting “offline shopping”. With the pandemic as a pivot, wine enterprises have begun to plan their next transformation process.

¹ <http://data.stats.gov.cn/easyquery.htm?cn=A01&zb=A02090B&sj=201912>

² <http://www.winesinfo.com/html/2020/8/12-83523.html>

As a double-edged sword, the pandemic has not only brought challenges and pressure to the wine industry, but also provided the wine industry with opportunities to accelerate its integration and adjustment. The cold winter brought about by the pandemic is temporary and will not fundamentally change the basic pattern of wine and consumers' consumption habits, but the emergence of new consumption scenarios it promotes will accelerate the innovation speed of enterprise. The wine industry after the outbreak of the pandemic is more in line with the development requirements of the new era, and will usher in a more positive and healthy development in the future.

FINANCIAL REVIEW

In the first half of 2020, the outbreak of the pandemic has adversely affected the upstream and downstream of the wine industry and the whole terminal retail business, which greatly dampened consumer sentiment, and brought serious impact and challenges to the business operation of the Group, resulting a double decline in the sales volume and revenue of the wine products of the Group.

For the six months ended 30 June 2020, the Group recorded the total revenue of RMB56,088,000. Among which, sweet wine and dry wine remained the major sources of sales revenue, both of which accounted for 88.6% of the total revenue of the Group. The loss and total comprehensive expenses for the period attributable to owners of the Company and non-controlling interests amounted to RMB74,179,000 (corresponding period in 2019: the profit and total comprehensive income for the period attributable to owners of the Company and non-controlling interests: RMB8,754,000). The loss for the period was mainly attributable to: 1) the decline in demand for wine products caused by the pandemic, and the decrease of the Group's revenue and gross margin; 2) the Group's forecast of the future operation of various internal assets and corresponding loss provisions made by the Group; and 3) increase in selling and distribution expenses for brand building, sales and marketing of the products of the Group.

During the period under review, the overall gross loss of the Group amounted to RMB21,836,000. The pandemic in 2020 has greatly affected the golden period of wine sales. The Spring Festival, as the peak of wine consumption, should be the best time for the Group to conduct marketing and brand promotion, but the sudden pandemic has disrupted the normal pace of production and sales. In February, when the pandemic situation was most severe, the Group responded to the government's call for pandemic prevention and stopped production in the whole county. After the pandemic eased in March, the Group resumed work and production, and the operating rate remained at a relatively low level due to insufficient production capacity. Affected by the pandemic situation, wine sales declined significantly in the first half of the year and profits were further reduced due to the allocation of fixed costs, resulting in heavy pressure on the gross profit margin. During the Period, the overall gross loss margin of the Group was 38.9% (the same period in 2019: gross profit margin was 25.5%).

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
	2020	2019	change
Overall gross (loss) profit (RMB'000)	(21,836)	42,018	-152.0%
Overall gross (loss) profit margin	(38.9%)	25.5%	-64.4 percentage points

During the period under review, the Group's selling and distribution expenses amounted to RMB21,971,000, representing a year-on-year increase of 39.0%. Under the impact of the pandemic, offline wine exhibitions were fully affected, and the traditional physical marketing model was severely impacted. The Group was keenly aware of market changes, adjusted marketing strategies in a timely manner, and increased marketing investment. The Group deeply connected users, actively deployed online sales, and strengthened its efforts to develop the "online customer acquisition" model. At the same time, it seized the opportunity of the rise of the "stall economy" and promoted brand promotion through activities such as wine gift promotion gatherings, resulting in the corresponding increase by approximately 793.6% in the advertising and promotion expenses to RMB17,416,000.

During the period under review, the total cost of sales of the Group was RMB77,924,000, representing a year-on-year decrease of 36.6%. Decrease in sales cost was mainly due to the significant shrinkage in sales volume during the period. 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 RMB66,947,000, representing a year-on-year decrease of approximately 29.9%, which accounted for approximately 85.9% 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 2020:

	For the six months ended		Change %
	2020	2019	
	(RMB'000)	(RMB'000)	
Raw materials	66,947	95,553	-29.9%
Production overheads	4,060	6,632	-38.8%
Consumption tax and other taxes	6,917	20,651	-66.5%
Total cost of sales	77,924	122,836	-36.6%

OPERATION REVIEW

In the first half of 2020, the outbreak and continuation of the pandemic has brought severe challenges to the development of the Group. Restrictions on production and life and the pandemic has got the headlines for a very long time, directly discouraging people's consumption demand for wine, and dealing a heavy blow to the golden period of sales in the wine industry after the Spring Festival, which impacted various aspects such as the Company's sales and profit, and market expansion in the first half of the year.

As a leading brand in the wine industry in the PRC, the Group takes this opportunity to continuously strengthen the upgrading of the internal organizational structure, management system and operating mechanism during the pandemic. As wine is a product of social networking feature, the social suspension caused by the pandemic has further restricted traditional channels. After deeply aware of the importance of close integration of online and offline marketing, the Group has accelerated the sorting out of its product structure and actively explored new channels to achieve sales conversion. The Group has increased its advertising and promotion efforts in new media and other ways to accelerate the "Internet", has successfully built new marketing scenarios by new media platform during the Period, and has successfully generated revenue for the Company through live selling on short video platforms and other methods, thereby increasing users' loyalty.

The rise of "street stall economy" concept is popular among the people. With the effective control of the pandemic and the opening of policies in various parts of the mainland China, the street stall economy has become a new driving force for economic recovery and has played an important role in boosting consumption. The government in North-East Region actively encourages and supports the development of street stall economy by organizing and holding a variety of street stall activities. The Group has seized the opportunity to change the passive situation under the pandemic, and achieved the expansion and extension of brand products through activities such as free wine promotion, so as to consolidate the market share of major products. During the Period, the total number of product category of the Group reached 163.

As one of the "Top 10 Chinese Wine Industry Brands", the Group is committed to producing high quality wine, and its product maintained recognition in the industry and the market. In May 2020, the white ice wine under Lingge series produced by the Group were awarded the "2019-2020 Quality Ice Wine Brand" at the 7th China Wine Conference hosted by the Wine and Spirits Sub-Council of China-Europe Association for Technical and Economic Cooperation. This award is another award for the Lingge series products after the Lingge series of "Jiang Xin Arctic Red Ice (2016)" won the silver medal in "The Belt and Road" International Wine Competition in 2019.

Output Volume and Sales

For the six months ended 30 June 2020, 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 a total of 1,980 tonnes.

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. In the first half of 2020, as a result of the special situations of the pandemic and changes in consumer preferences, the Group began to gradually use new media platforms to build new marketing scenarios, and generate revenue for the Company by selling goods through livestreaming.

For the six months ended 30 June 2020, the Group's products were sold through 100 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, strengthened the standardization management and of distributors' strictly controlled sales and distribution expenses, and at the same time, in response to the special situations of the pandemic, the Group increased subsidies to its distributors for their sales activities to further enhance their marketing enthusiasm.

Regional market performance

The breakdown of revenues from different regional markets of the Group in the first half of 2020 and the first half of 2019 is set out below:

	For the six months ended 30 June			
	2020		2019	
	Revenue (RMB'000)	Percentage of total revenue	Revenue (RMB'000)	Percentage of total revenue
North-East Region	13,411	23.9%	32,387	19.6%
Northern Region	8,519	15.2%	27,224	16.5%
Eastern Region	16,396	29.2%	48,411	29.4%
South-Central Region	9,156	16.3%	28,004	17.0%
South-West Region	8,606	15.4%	28,828	17.5%
Total	<u>56,088</u>	<u>100.0%</u>	<u>164,854</u>	<u>100.0%</u>

Benefiting from the developed economy and culture with per capita income and consumption level of residents ranking to the front domestically, the Eastern Region remained the largest market of the Group. During the period under review, the Group recorded a total revenue of RMB16,396,000 in the Eastern Region market, accounting for 29.2% of the total revenue.

As the second largest market of the Group, the North-East region is also the production base of Tonghua, Jilin. The Group sold more goods and maintained more stable sales volume as a result of the geographical advantage. During the period under review, the revenue in the North-East Region was RMB13,411,000, accounting for 23.9% of the total revenue and representing an increase of 4.3 percentage points as compared with the corresponding period last year.

During the period under review, the sales revenue from the Northern Region was RMB8,519,000, while the sales revenue from the South-Central Region and the South-West Region were RMB9,156,000 and RMB8,606,000, respectively. Revenue from each of the above three regions accounted for 15.2%, 16.3% and 15.4% of the total revenue.

BUSINESS INDICATOR REVIEW

Inventory turnover days

The inventory turnover days of the Group as at the end of the Period stood at 471 days as compared with 388 days in the corresponding period last year, which was mainly due to a relatively longer time for the realisation of inventory during the period under review, the Company had taken corresponding measures to optimise the internal structure, so as to speed up the realisation of inventory.

Trade account receivables turnover days

As at 30 June 2020, the trade account receivables turnover days of the Group stood at 312 days and the trade account receivables was RMB83,075,000.

OPERATION ANALYSIS BY PRODUCT

The breakdown of revenue from different wine products of the Group in the first half of 2020 and the first half of 2019 is set out below:

	For the six months ended 30 June 2020		For the six months ended 30 June 2019		Change %
	Revenue (RMB'000)	% of total revenue	Revenue (RMB'000)	% of total revenue	
Sweet Wines	32,364	57.7%	84,880	51.5%	-61.9%
Dry Wines	17,313	30.9%	57,626	35.0%	-70.0%
Brandy	1,835	3.3%	2,599	1.5%	-29.4%
Others	4,576	8.1%	19,749	12.0%	-76.8%
Total	<u>56,088</u>	<u>100.0%</u>	<u>164,854</u>	<u>100.0%</u>	-66.0%

Sweet Wines

Sweet wines contribute the most to the Group's sales and output. For the six months ended 30 June 2020, the Group's revenue from sweet wines amounted to RMB32,364,000, accounting for 57.7% of its total revenue. Due to the impact of the pandemic, the sales volume of this type of product declined as compared with the corresponding period last year. Due to an increase in the average cost per ton, the gross profit from sweet wines fell.

Dry Wines

For the six months ended 30 June 2020, the Group's sales revenue from dry wine products amounted to a total of RMB17,313,000, accounting for 30.9% of the Group's total revenue. Due to the decrease in production in the first half of the year resulting from the impact of the pandemic, coupled with the increase in average selling prices of products, which affected sales, resulting in a year-on-year decrease in sales volume and sales revenue during the period under review.

Brandy

During the period under review, the Group launched the "Apple-type" brandy, which was well received by the market. The sales revenue of brandy products was RMB1,835,000, accounting for 3.3% of the total revenue and represented an increase of 1.7 percentage points over the corresponding period last year. The gross profit margin was 35.5%, representing an increase of 14.3 percentage points from the corresponding period last year. In the first half of the year, this type of product has become the type of product contributing the highest gross profit to the Group instead of its dry wines.

Other products

The Group's other wine products include high-end ice wines and white wines (Yaaru Wine (雅羅白)), and recorded sales revenue of RMB4,576,000 during the Period, representing a substantial decrease over the corresponding period last year as a result of the pandemic, its proportion of total revenue fell to 8.1% from 12.0% in the corresponding period last year. The Group will continue to maintain the mainstream trend of its new marketing model, continuously promote its dominant development path of brand product differentiation with "regionalization" and "specialization", providing consumers more brand-worthy products.

IMPAIRMENT LOSS AND OTHER EXPENSES

During the period under review, (i) the write-off on certain obsolete and slow moving inventories, impairment loss on right-of-use assets and property, plant and equipment and provision of expected credit loss for trade receivables amounted to RMB47,424,000 (the same period in 2019: RMB4,577,000) and (ii) increase in selling and distribution expenses for brand building, sales and marketing of the products of the Group amounted to RMB17,416,000 (the same period in 2019: RMB1,949,000).

BUSINESS PROSPECTS

2020 will be a special year for the world under the haze of the pandemic. The pandemic will have more negative impacts on global economic activities in the second half of 2020 than expected, and the pace of economic recovery will be slower than previously envisaged. In June this year, the International Monetary Fund (“IMF”) lowered its forecast for global economic growth in its updated report of the World Economic Outlook. It is estimated that the global GDP would shrink by 4.9% in 2020, which is also the most pessimistic forecast by IMF for global economic growth since the Great Depression of the 1930s. In addition, trade frictions, geopolitical frictions and changes in the financial situation will have an impact on economic recovery, and the current situation is fraught with great uncertainty.³

In this global battle, the prevention and control measures of China are effective and achieve remarkable success. According to the National Bureau of Statistics, China’s GDP fell by 1.6% in the first half of 2020 and grew by 3.2% against the adverse market condition in the second quarter⁴. The IMF indicated in its forecast that the global economy will shrink in general this year, and China will be the only major economy that achieves growth. China’s GDP growth rate will be the fastest in the world, at 8.2%⁵. As a positive factor in the pessimistic external environment, to a certain extent, this will undoubtedly introduce substantial growth drivers to boost the recovery and development of the domestic wine industry in the second half of the year.

This pandemic comes with risks and opportunities. On the one hand, the sharp decline in the number of imported wines in the first half of 2020 has greatly alleviated the squeeze on the market share of domestic wines. In response to the prevention and control of the pandemic, the country has continuously strengthened restrictions on imported food, and the development pressure of imported wine in China will be greater in the short term. Grasping opportunities in crises, this may become a favorable catalyst for the development of the domestic wine industry. In view of the more fierce market competition in China, the wine industry will accelerate its integration, and show a trend of weeding out the weak players, providing an opportunity for wine producers to enhance their competitiveness. Top and boutique brands will be more favoured by the market. On the other hand, from the perspective of consumers, the pandemic reflects the improvement of “health awareness”, and consumers will pay more attention to health features of their drinking choices, which will benefit the wine industry in the long run. The ginseng wine products which the Group has shelved due to the pandemic will be launched to the market in due course in the second half of the year. Ginseng itself has medicinal value and helps improve human immunity, which certainly will provide a business opportunity for the Group in its future production and sales. It is believed that while expanding its product categories, the Group will further enhance its overall profitability.

³ <https://www.yicai.com/news/100679172.html>

⁴ http://www.ce.cn/xwzx/gnsz/gdxw/202007/16/t20200716_35336407.shtml

⁵ <https://www.yicai.com/news/100679172.html>

As a social consumption for a long time, the pattern of wine consumption has changed during the pandemic and temporarily replaced by household consumption and personal consumption. The growing awareness of non-social consumption and the further change of consumption scenarios are important market changes in the first half of 2020. The Group accelerates the pace of layout in new channels and new media, and speeds up the completion of the construction of “online + offline” three-dimensional consumption scenarios, especially the layout speed of online consumption scenario, so as to actively respond to new challenges in special times and meet new opportunities for the development of wine enterprises.

Although the pandemic control has achieved a stage victory, with the outbreak of the regional pandemic, the production and operation of the Group in the second half of the year will still be affected by the uncertainty of the pandemic. In the second half of 2020, the Group will keep abreast of the changing trend of domestic wine market consumption with a pragmatic and prudent attitude, and strive to make preparations for greater development at this suspension of pace stage. The Group will further optimize its product structure, explore more brand promotion methods and expand new sales channels, build a new sales circle system and turn the passive into active, thereby reducing operational risks. On the other hand, the Group will continue to further deepen the development path of “Characteristic Production Area + Unique Brand + Distinctive Experience”, and on the basis of maintaining the market share of major products, actively explore market segments and develop more personalized products with regional features and customized products targeting corporate customers to expand its product portfolio.

The impact of the pandemic has brought great challenges to the recovery of domestic wines. However, with the further narrowing of the share of imported wines, the increasing attention of local governments to the wine industry and the unchanged general trend of consumption upgrading, the domestic wine industry has the opportunity to gain more long-term development. With the gradual improvement of the national pandemic situation, the consumption demand for wine has been gradually released, and the recovery of the industry has been accelerated, the Group will also settle down, and continue to improve the market in the “post-pandemic period”, with a view to providing consumers wine products with better quality.

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 2020, the Group's cash and cash equivalents were substantially denominated in RMB and amounted to approximately RMB161,525,000. 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 RMB3,843,000 contracted but not provided for in the condensed consolidated financial statements as at 30 June 2020. 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. As at 30 June 2020, none of the Group's assets was pledged.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020 (2019 corresponding period: 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 2020, the Group employed a work force of 381 in Hong Kong and in the PRC (31 December 2019: 460). The total salaries and related costs (including Directors' fee) for the Period amounted to approximately RMB7,879,000 (2019 corresponding period: RMB12,412,000).

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 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, 21 August 2020

As at the date of this announcement, the Board comprises Mr Wang Guangyuan, Mr Zhang Hebin and Ms Wang Lijun as executive directors and Dr 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.