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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 2022**

**FINANCIAL HIGHLIGHTS**

- Revenue increased by approximately 4.9% to approximately RMB67,651,000 (2021 corresponding period: RMB64,492,000).
- Gross profit of approximately RMB23,259,000 (2021 corresponding period: gross profit of approximately RMB18,117,000).
- Profit and total comprehensive income for the period attributable to owners of the Company and non-controlling interests amounted to approximately RMB4,474,000 (2021 corresponding period: loss and total comprehensive expense attributable to owners of the Company and non-controlling interests amounted to approximately RMB6,461,000).
- Basic and diluted earnings per share were RMB0.01 cent (2021 corresponding period: basic and diluted loss per share of RMB0.39 cent).

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 2022 (the “Period” or “period under review”), together with the comparative figures for the six months ended 30 June 2021.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	4	67,651	64,492
Cost of sales		<u>(44,392)</u>	<u>(46,375)</u>
Gross profit		23,259	18,117
Other income, gains and losses	5	23	(1,094)
Selling and distribution expenses		(5,151)	(4,802)
Administrative and other operating expenses		(18,510)	(18,563)
Change in fair value of biological assets	13	4,916	1,555
Change in fair value of convertible bonds		–	(1,585)
Finance costs	6	<u>(63)</u>	<u>(89)</u>
Profit (loss) before tax		4,474	(6,461)
Income tax expense	7	<u>–</u>	<u>–</u>
Profit (loss) and total comprehensive income (expense) for the period	8	<u><u>4,474</u></u>	<u><u>(6,461)</u></u>
Profit (loss) and total comprehensive income (expense) for the period attributable to:			
Owners of the Company		407	(7,908)
Non-controlling interests		<u>4,067</u>	<u>1,447</u>
		<u><u>4,474</u></u>	<u><u>(6,461)</u></u>
Earnings (loss) per share	10		
Basic (RMB cent)		<u><u>0.01</u></u>	<u><u>(0.39)</u></u>
Diluted (RMB cent)		<u><u>0.01</u></u>	<u><u>(0.39)</u></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

		30 June 2022	31 December 2021
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	11	148,145	137,039
Right-of-use assets	12	41,582	41,974
Biological assets	13	40,992	33,461
Prepayments	16	5,850	4,450
		236,569	216,924
<b>Current assets</b>			
Inventories	14	199,530	210,314
Trade receivables	15	104,523	118,741
Other receivable, deposits and prepayments	16	12,384	8,443
Current tax recoverable		5,551	5,551
Bank and cash balances		89,097	85,866
		411,085	428,915
<b>Current liabilities</b>			
Trade payables	17	7,612	17,985
Other payables and accruals		21,335	30,552
Amount due to ultimate holding company		5,929	5,929
Amount due to non-controlling shareholder		1,183	1,089
Lease liabilities		1,503	794
Current tax liabilities		9,961	9,961
		47,523	66,310
<b>Net current assets</b>		363,562	362,605
<b>Total assets less current liabilities</b>		600,131	579,529
<b>Non-current liabilities</b>			
Lease liabilities		199	786
<b>NET ASSETS</b>		599,932	578,743
<b>Capital and reserves</b>			
Share capital	18	24,418	22,748
Reserves		486,224	470,772
Equity attributable to owners of the Company		510,642	493,520
Non-controlling interests		89,290	85,223
<b>TOTAL EQUITY</b>		599,932	578,743

## **1. BASIS OF PREPARATION**

The unaudited condensed consolidated interim financial statements (“Interim Financial Statement”) 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”) and the applicable disclosures requirements sets out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The Interim Financial Statements do not included all the information and disclosures required in a full set of financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2021 (“2021 Annual Report”). The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in 2021 Annual Report.

## **2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2022. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current period and prior years.

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

## **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 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>
<b>For the six months ended 30 June 2022 (Unaudited)</b>						
Segment revenue from external customers	<u>9,569</u>	<u>11,553</u>	<u>19,874</u>	<u>14,515</u>	<u>12,140</u>	<u>67,651</u>
Segment profit	<u>2,391</u>	<u>3,735</u>	<u>5,511</u>	<u>3,907</u>	<u>3,334</u>	<u>18,878</u>
<b>For the six months ended 30 June 2021 (Unaudited)</b>						
Segment revenue from external customers	<u>16,371</u>	<u>7,313</u>	<u>12,565</u>	<u>11,359</u>	<u>16,884</u>	<u>64,492</u>
Segment profit (loss)	<u>3,218</u>	<u>2,359</u>	<u>3,106</u>	<u>(1,283)</u>	<u>5,915</u>	<u>13,315</u>

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.

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Profit</b>		
Total profit of reportable segments	<b>18,878</b>	13,315
Unallocated amounts:		
Change in fair value of biological assets	<b>4,916</b>	1,555
Change in fair value of convertible bonds	–	(1,585)
Finance costs	<b>(63)</b>	(89)
Other corporate income	<b>129</b>	112
Other corporate expenses and losses	<b>(19,386)</b>	(19,769)
Consolidated profit (loss) for the period	<u><b>4,474</b></u>	<u>(6,461)</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>
<b>As at 30 June 2022 (Unaudited)</b>						
Segment assets	<u>2,922</u>	<u>12,898</u>	<u>32,066</u>	<u>29,797</u>	<u>30,086</u>	<u>107,769</u>
Segment liabilities	<u>524</u>	<u>632</u>	<u>1,087</u>	<u>794</u>	<u>664</u>	<u>3,701</u>
<b>As at 31 December 2021 (Audited)</b>						
Segment assets	<u>20,437</u>	<u>13,182</u>	<u>49,199</u>	<u>25,925</u>	<u>16,453</u>	<u>125,196</u>
Segment liabilities	<u>3,009</u>	<u>1,920</u>	<u>4,170</u>	<u>4,281</u>	<u>2,193</u>	<u>15,573</u>

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
<b>Assets</b>		
Total assets of reportable segments	107,769	125,196
Unallocated amounts:		
Property, plant and equipment	148,145	137,039
Right-of-use assets	41,582	41,974
Biological assets	40,992	33,461
Inventories	199,530	210,314
Other receivables, deposits and prepayments	14,988	6,438
Current tax recoverable	5,551	5,551
Bank and cash balances	89,097	85,866
	<hr/>	<hr/>
Consolidated total assets	<b>647,654</b>	645,839
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>		
Total liabilities of reportable segments	3,701	15,573
Unallocated amounts:		
Trade payables	7,612	17,985
Other payables and accruals	17,634	14,979
Amount due to ultimate holding company	5,929	5,929
Amount due to non-controlling shareholder	1,183	1,089
Lease liabilities	1,702	1,580
Current tax liabilities	9,961	9,961
	<hr/>	<hr/>
Consolidated total liabilities	<b>47,722</b>	67,096
	<hr/> <hr/>	<hr/> <hr/>

### Revenue from major products

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

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Sweet wines	22,566	28,334
Dry wines	34,957	28,017
Brandy	3,275	2,700
Others	6,853	5,441
	<hr/>	<hr/>
	<b>67,651</b>	64,492
	<hr/> <hr/>	<hr/> <hr/>

## Timing of revenue recognition

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
At a point in time	<u>67,651</u>	<u>64,492</u>

## 5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Bank interest income	95	112
Net foreign exchange loss	(106)	(1,206)
Gain on disposal of property, plant and equipment	<u>34</u>	<u>–</u>
	<u>23</u>	<u>(1,094)</u>

## 6. FINANCE COSTS

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Lease interests	<u>63</u>	<u>89</u>

## 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 during the six months ended 30 June 2022 and 2021.

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%.

No provision for PRC Enterprise Income Tax has been made as the Group did not have assessable profit subject to PRC Enterprise Income Tax during the six months ended 30 June 2022 and 2021.

## 8. PROFIT/(LOSS) FOR THE PERIOD

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

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Cost of inventories sold	36,318	37,370
Loss allowance for trade receivables	2,943	491
Depreciation of property, plant and equipment	6,776	6,729
Depreciation of right-of-use assets	2,268	1,795
Less: amounts included in property, plant and equipment	<u>(726)</u>	<u>(726)</u>
	<u>1,542</u>	<u>1,069</u>

## 9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the six months ended 30 June 2022 and 2021, nor has any dividend been proposed since the end of the reporting period.

## 10. EARNINGS (LOSS) PER SHARE

Earnings (loss)	Six months ended 30 June	
	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Earnings (loss) for the purpose of calculating basic and diluted earnings (loss) per share	<u>407</u>	<u>(7,908)</u>
<b>Number of Share</b>	<b>30 June 2022 '000</b>	<b>30 June 2021 '000</b>
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	<u>2,849,872</u>	<u>2,013,018</u>

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the six months ended 30 June 2022.

For the six months ended 30 June 2021, the computation of diluted loss per share does not assume the exercise of the Company's convertible bonds and share options since their exercise would result in a decrease in loss per share.



## 11. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the current interim period are summarised as follows:

	<i><b>RMB'000</b></i>
At 1 January 2022 (Audited)	137,039
Additions	17,892
Disposals	(10)
Depreciation for the period	<u>(6,776)</u>
At 30 June 2022 (Unaudited)	<u><u>148,145</u></u>

## 12. RIGHT-OF-USE ASSETS

The movements in right-of-use assets during the current interim period are summarised as follows:

	<i><b>RMB'000</b></i>
At 1 January 2022 (Audited)	41,974
Additions	1,876
Depreciation for the period	<u>(2,268)</u>
At 30 June 2022 (Unaudited)	<u><u>41,582</u></u>

## 13. BIOLOGICAL ASSETS

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

	<i><b>RMB'000</b></i>
At 1 January 2022 (Audited)	33,461
Change in fair value of biological assets	4,916
Increase due to cultivation	<u>2,615</u>
At 30 June 2022 (Unaudited)	<u><u>40,992</u></u>

Cultivation costs incurred as addition to the grapes and ginseng.

Ginseng wine products generally use ginseng aged 5 as raw materials and all ginseng has been planted for two and a half years as at 30 June 2022, therefore, no ginseng are transferred to inventories of the Group for production during the period ended 30 June 2022.

No agricultural produce was harvested for the current interim period. All grapes are usually harvested annually from August to November of each year.

The Group has engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the fair values of grapevines and ginseng as at 30 June 2022.

#### 14. INVENTORIES

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Raw materials and consumables	103,022	112,986
Work in progress	90,428	89,138
Finished goods	6,080	8,190
	<u>199,530</u>	<u>210,314</u>

#### 15. 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 the ageing 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 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
0 – 90 days	33,210	90,428
91 – 180 days	34,933	20,202
181 – 365 days	36,380	1,442
Over 365 days	–	6,669
	<u>104,523</u>	<u>118,741</u>

Reconciliation of loss allowance for trade receivables:

	<i>RMB'000</i>
Balance at 1 January 2022 (Audited)	4,235
Increase in loss allowance for the period	<u>2,943</u>
Balance at 30 June 2022 (Unaudited)	<u>7,178</u>

## 16. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
<b>Current</b>		
Rental deposit	293	297
Other tax receivables	4,835	8,043
Other deposits and prepayments	7,256	103
	<u>12,384</u>	<u>8,443</u>
<b>Non-current</b>		
Prepayments for property, plant and equipment	4,250	2,850
Prepayments for intangible asset	1,600	1,600
	<u>5,850</u>	<u>4,450</u>

## 17. TRADE PAYABLES

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

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
0 – 30 days	858	12,896
31 – 60 days	6,754	5,089
	<u>7,612</u>	<u>17,985</u>

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

## 18. SHARE CAPITAL

	30 June 2022 <i>HK\$'000</i>	31 December 2021 <i>HK\$'000</i>
Authorised:		
10,000,000,000 (31 December 2021: 10,000,000,000) ordinary shares of HK\$0.01 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
2,840,548,000 (31 December 2021: 2,640,548,000) ordinary shares of HK\$0.01 each	<u>28,406</u>	<u>26,406</u>

	<b>30 June 2022 RMB'000</b>	31 December 2021 RMB'000
Shown in the condensed consolidated financial statements (31 December 2021: consolidated financial statements)	<b>24,418</b>	22,748

Movement of the number of shares issued and the share capital during the current period is as follows:

	Number of shares '000	Amount HK\$'000
At 31 December 2021	2,640,548	26,406
Share option exercised (note 19)	200,000	2,000
At 30 June 2022	<b>2,840,548</b>	<b>28,406</b>

## 19. SHARE-BASED PAYMENTS

### Equity-settled share option scheme

The Company's share option scheme (the "Scheme") was adopted by the shareholders of the Company 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 30 June 2022 and 31 December 2021 are set out below:

Date of grant	Number of options	Exercisable period	Exercise price
21 September 2021	As at 30 June 2022: Nil (note) (Unaudited)	23 September 2021 to 22 September 2022	HK\$0.1
	As at 31 December 2021: 200,000,000 (Audited)		

*Note:* 200,000,000 share options were exercised and no share options were lapsed during the six months ended 30 June 2022.

## 20. CAPITAL COMMITMENTS

The Group's capital commitments, at the end of the reporting period are as follows:

	<b>At 30 June 2022 RMB'000 (Unaudited)</b>	At 31 December 2021 RMB'000 (Audited)
Capital expenditure in respect of the followings contracted for but not provided in the condensed consolidated financial statements:		
Acquisition of intangible assets	1,750	1,750
Development of wine estate, wine cellar and other properties	8,175	3,600
	<u>9,925</u>	<u>5,350</u>

## 21. RELATED PARTIES TRANSACTIONS

### Compensation of key management personnel

The remuneration of directors and other members of key management for the period was as follows:

	<b>Six months ended 30 June</b>	
	<b>2022 RMB'000 (Unaudited)</b>	2021 RMB'000 (Unaudited)
Short-term benefits	2,412	2,049
Post-employment benefits	93	90
	<u>2,505</u>	<u>2,139</u>

The remuneration of directors and key executives is determined by the board of directors of the Company (upon the recommendation of the remuneration committee) having regard to the performance of individuals and market trends.

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY OVERVIEW

In the first half of 2022, the scattered outbreaks of the pandemic affected many parts of China, which imposed pressures on the operation of the consumer market. Total retail sales of consumer goods in the first half of the year amounted to RMB21,043.2 billion, representing a slight year-on-year decrease of 0.7%. Specifically, retail sales of alcohol and tobacco was RMB247.5 billion in absolute terms, representing a year-on-year increase of 6.7%.<sup>1</sup> In the first half of the year, wine production in China had been declining. According to the Ministry of Industry and Information Technology (MIIT), wine production of above-set-scale winemaking enterprises in China was 97,000 kiloliters from January to June 2022, representing a year-on-year decrease of 29.2%.<sup>2</sup>

In recent years, imported wines, which once commanded significant share in the domestic market, have witnessed contraction, on top of the continuous decline in the production of domestic wines. In the first half of the year, imported wines experienced a “reduction in both sales and volume” again. According to data released by the General Administration of Customs, China’s wine import volume from January to June 2022 was 184 million liters, representing a year-on-year decrease of 13.4%; and the import amount was approximately RMB4.72 billion, representing a year-on-year decrease of 11.4%.<sup>3</sup>

Following the decision by the Ministry of Commerce to impose anti-dumping duties on wines originating in Australia from 28 March 2021, wines exported from Australia to China suffered a hard hit and recorded a sharp decline. According to Wine Australia, the export amount of Australian wine fell by 19% to A\$2.08 billion during the year ended 30 June 2022. In particular, the export amount of Australian wine to China (including Hong Kong and Macau) dropped by 74% to A\$206 million.<sup>4</sup> On 21 June 2022, Wine Australia even announced to close down its only physical office in Shanghai. The imported wine industry experienced the survival of the fittest, with wine products imported from France, Chile and Italy seizing a portion of the market share originally taken by Australian wine. However, the pandemic caused the costs of production, packaging and transportation to skyrocket, which pushed up soaring imported cost of wine and further took a toll on imported wines.<sup>5</sup>

The weakness in imported wines had brought domestic wines great opportunities to release stocks, enabling them to seize a portion of the market share. With the rising of the “China-Chic”, there are more and more domestic wine brands to launch new products with distinctive characteristics. What’s behind the popularity of China-made products is the attitude of the younger consumer group towards life. Therefore, the recognition and consumer confidence in domestic wines can be boosted through building up distinctive domestic brands and strengthening marketing tools, which is conducive to improving consumer loyalty.

<sup>1</sup> <https://www.bbtnews.com.cn/2022/0717/444767.shtml>

<sup>2</sup> [https://www.miit.gov.cn/gxsj/tjfx/xfpy/sp/art/2022/art\\_fbdae83b6381461a972369f40bb4861c.html](https://www.miit.gov.cn/gxsj/tjfx/xfpy/sp/art/2022/art_fbdae83b6381461a972369f40bb4861c.html)

<sup>3</sup> <http://m.yhj9.com/article-7291.html>

<sup>4</sup> <https://www.yhj9.com/article-7293.html>

<sup>5</sup> <https://www.foodtalks.cn/news/32431>

Affected by the pandemic and the consumption habits of the new generation of consumer group, online consumption remained strong growth momentum. According to statistics, domestic online retail sales for the first half of 2022 amounted to RMB6,300.7 billion, representing a year-on-year increase of 3.1%. Among the commodity goods online retail sales, the online commodity sales of food, clothing and consumer categories grew by 15.7%, 2.4% and 5.1%, respectively.<sup>6</sup> “Online sales” has also gradually emerged as a new trend in the wine industry, unleashing the growth potential of the sector.

## FINANCIAL REVIEW

In the first half of 2022, with the scattered outbreaks of the pandemic in many parts of China, the stringent pandemic control measures inevitably had impacts on business activities and people’s livelihood to a certain extent, causing significant downward pressure on the economy. Due to a series of containment measures implemented in Jilin Province to contain the pandemic, the Group’s production base in Tonghua suffered with disruptions in logistics and sales activities, resulting in reduced output.

For the six months ended 30 June 2022 (the “Period under Review”), the output of the Group was 2,349 tonnes, a slight decrease as compared with the corresponding period of last year. However, the proportion of the sales in dry wine and other wines with higher prices to the total sales witnessed an increase due to changes in the mix of products sold. During the Period under Review, the Group recorded a total revenue of RMB67,651,000, representing an increase of approximately 4.9% as compared with the corresponding period of last year. Among which, the sales revenue of sweet wine and dry wine accounted for 85.1% of the total revenue of the Group in aggregate during the Period under Review. The sales revenue of other wine products (including ice wine, Chinese liquor and ginseng wine) increased by approximately 26.0% year-on-year, and their share of revenue increased from 8.4% for the corresponding period of 2021 to 10.1% for the Period under Review.

During the Period under Review, the gross profit of the Group amounted to RMB23,259,000, representing an increase of 28.4% year-on-year. During the Period under Review, the Group achieved an overall gross profit margin of 34.4%, an increase of 6.3 percentage points year-on-year. The surge was mainly attributable to higher proportion of contribution from sales of dry wine and other wine products with higher gross profit margins.

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

	<b>Six months ended 30 June</b>		<b>Year-on-year</b>
	<b>2022</b>	2021	<b>change</b>
Overall gross profit (RMB’000)	<b>23,259</b>	18,117	+28.4%
Overall gross profit margin	<b>34.4%</b>	28.1%	+6.3 percentage points

<sup>6</sup> [http://big5.www.gov.cn/gate/big5/www.gov.cn/shuju/2022-07/15/content\\_5701146.htm](http://big5.www.gov.cn/gate/big5/www.gov.cn/shuju/2022-07/15/content_5701146.htm)

During the Period under Review, the total cost of sales of the Group was RMB44,392,000, representing a year-on-year decrease of 4.3%. The major raw materials required for production of wine products of the Group consist of grape juice and packaging materials. During the Period, the cost of raw materials of the Group was RMB31,861,000, representing a year-on-year decrease of approximately 12.2%, which accounted for approximately 71.8% of the total cost of sales of the Group.

The following table sets forth the breakdown of the costs required for production by the Group for the six months ended 30 June 2022:

	<b>For the six months ended 30 June</b>		<b>Change %</b>
	<b>2022</b> (RMB'000)	2021 (RMB'000)	
Total cost of raw materials	<b>31,861</b>	36,298	-12.2%
Production overheads	<b>4,457</b>	2,477	+79.9%
Consumption tax and other taxes	<b>8,073</b>	7,600	+6.2%
	<hr/>	<hr/>	
Total cost of sales	<b>44,392</b>	46,375	-4.3%

During the Period under Review, the selling and distribution expenses of the Group amounted to RMB5,151,000, representing a year-on-year increase of 7.3%. Under the combined effects of the pandemic and the mainstream consumption shifting to younger consumer group, online sales emerged as a new trend in the industry. The Group collaborated with various online new media platforms for online marketing and achieved fruitful results. During the Period under Review, the Group continued to broaden online marketing channel strategy and signed contracts with several well-known internet celebrities to replace traditional media advertising and marketing with a commission on sales performance, which enabled the Group to save huge cost of advertising placement and achieve better sales performance.

During the Period under Review, as gross profit increased year-on-year and total cost of sales decreased year-on-year, the profit and total comprehensive income for the period was RMB4,474,000, representing a turnaround from loss in the corresponding period of last year.

## **OPERATION REVIEW**

In order to prevent the COVID-19 pandemic, domestic pandemic containment measures have gradually become a norm. Control measures implemented in various regions to cut off the spread of the pandemic caused disruptions in goods and personnel movement. On the other hand, China's gross domestic product (GDP) grew by 2.5% in the first half of the year, but only increased by 0.4% in the second quarter compared to 4.8% in the first quarter, indicating the downward pressure on economic growth.<sup>7</sup> Changes in the economic environment had caused certain impact on business activities and consumer sentiment.

<sup>7</sup> [http://www.stats.gov.cn/tjsj/zxfb/202207/t20220715\\_1886607.html](http://www.stats.gov.cn/tjsj/zxfb/202207/t20220715_1886607.html)



In the post-pandemic era, as online shopping has become more active, the sales model of “live-broadcast distribution” has also emerged as the latest trending symbol for internet shopping. In response to the change in consumer habits, the Group stuck to its marketing strategy of online sales in the first half of 2022, enabling the Group to achieve higher cost efficiency in marketing.

With the lingering of the pandemic and the increasing health consciousness of consumers, the healthcare-oriented lifestyle economy is expected to be a new “Blue Ocean” in the future with huge consumption potential. The Group, therefore, seized the opportunity and launched a new ginseng wine product in 2021, which was well received by the market. On top of ensuring the supply of quality raw materials, the ginseng farmland of the Group also enables the Group to leverage the abundant ginseng resources and knowledge of its efficacy to seek for wider application of ginseng in different products, in bid to continuously expand this series of products.

During the Period under Review, the Group actively deepened its cooperation with various platforms. Through detailed planning, the Group gradually implemented strategic cooperation with renowned enterprises such as AntChain, 58 Youpin (58優品) and Ji Yao Fang Zhou. Moreover, the Group established Tontine Partner (Beijing) Wines Company Limited (通天知己(北京)酒業有限公司) (“Tontine Partner”) with café chain Partner Coffee, an up-and-coming player of office coffee chain, in 2022. Tontine Partner is a 51% owned subsidiary of the Group. The Group plans to operate pub chain project together with Partner Coffee by leveraging its experience in developing the business model of online and offline salons. Through such cooperation, the Group can further explore how to leverage the comprehensive leisure, entertainment and social platform targeting the white-collar community to strengthen product sales and brand building.

## **Output Volume and Sales**

For the six months ended 30 June 2022, the output of all categories of products manufactured by the two production bases of the Group located in Tonghua, Jilin Province and Baiyanghe, Shandong Province reached a total of 2,349 tonnes. Among the total, the output of the Tonghua production base was 966 tonnes, decreased by 26.4% year-on-year. The decline in output was caused by disruption to production activities and freight shipments resulting from local lockdown measures at the Tonghua base, due to pandemic outbreak in certain regions in Jilin Province in the first half of the year. The output of the Baiyanghe base reached 1,383 tonnes, increased by approximately 25.6% year-on-year, and partially offsetting the impact of the decline in output from Tonghua base.

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 2022, the Group further strengthened new marketing scenarios built at new media platforms, and made extensive use of various social platforms to enhance product exposure. In response to the habits of the new generation of consumer group, the Group actively built a multi-faceted sales model, including online sales initiated by signed Internet celebrities, cooperating with social platforms and leisure and hypostatic chain stores to combine product experience with sales.

For the six months ended 30 June 2022, the Group's products were sold through 87 distributors located in 20 provinces, 3 autonomous regions and 2 direct-controlled municipalities in China.

## **Regional Market Performance**

During the Period under Review, the Eastern Region became the first largest market of the Group given that the economy is relatively well developed and the wine consumption culture is mature in the region, and its per capita income and consumption power were among the top of the country. During the Period under Review, the Group recorded a revenue of RMB19,874,000 in the Eastern Region market, accounting for approximately 29.4% of the total revenue, representing an increase of 9.9 percentage points as compared with the corresponding period of last year.

After years of intensified development of the market and active brand promotion in the local region, the South-Central Region became the second largest market for the Group's products with high recognition and popularity and steadily increasing product sales. During the Period under Review, the Group recorded a revenue of RMB14,515,000 in the South-Central Region market, accounting for approximately 21.5% of the total revenue, representing an increase of 3.9 percentage points as compared with the corresponding period of last year.

During the Period under Review, sales revenue from the South-West Region was RMB12,140,000, accounting for 17.9% of the total revenue. During the Period under Review, the Northern Region market achieved a sales revenue of RMB11,553,000, accounting for 17.1% of the total revenue, representing an increase of approximately 58.0% as compared with the corresponding period of last year.

The North-East Region is where the production base of Tonghua, Jilin is located. Due to the outbreak of the pandemic in the local region, in addition to the production, sales and logistics supply of products being blocked, local control measures also restricted social gatherings and related consumption. During the Period under Review, the region recorded a revenue of RMB9,569,000, accounting for 14.1% of the total revenue, representing a decrease of approximately 41.5% as compared with the corresponding period of last year.

## **BUSINESS INDICATOR REVIEW**

### **Inventory Turnover Days**

The inventory turnover days of the Group as at the end of the Period stood at approximately 1,021 days as compared with 829 days in the corresponding period of last year, mainly due to the Group's purchase of grape juice from Australia amounting to RMB94,918,000 and ginseng from the domestic market amounting to RMB10,080,000 as raw materials in 2021, partial of which were still pending for production and sales as at the end of the Period due to the impact of the pandemic on the Group's sales, resulting in higher inventory balance.

### **Trade Receivables Turnover Days**

As at 30 June 2022, the trade receivables turnover days of the Group stood at 299 days, and the trade receivables was RMB104,523,000.

## **OPERATION ANALYSIS BY PRODUCT**

### **Dry Wines**

The Group's sales revenue from dry wine products in the first half of the year amounted to RMB34,957,000, which became the product category with the highest sales revenue during the Period under Review, accounting for 51.7% of the total revenue. The gross profit of the product was RMB13,768,000 with a gross profit margin of 39.4%.

### **Sweet Wines**

During the Period under Review, the Group's sales revenue from sweet wine products amounted to RMB22,566,000, accounting for 33.4% of its total revenue. The gross profit of the product was RMB6,094,000 with a gross profit margin of 27.0%.

### **Brandy**

During the Period under Review, the Group's sales revenue from brandy amounted to RMB3,275,000, accounting for 4.8% of its total revenue. The gross profit of the product was RMB2,348,000 with a gross profit margin of 28.3%. The Group's "Apple-type" brandy was well received by the market.

### **Other Products**

The Group's other wine products include high-end ice wines and Chinese liquor (Yaaru liquor (雅羅白)) and the newly launched ginseng wine products with healthcare benefits developed by the Company. During the Period under Review, the sales revenue of other products amounted to RMB6,853,000, accounting for 10.1% of the Group's total revenue, representing an increase of 1.7 percentage points as compared with the corresponding period of last year. The gross profit of other products was RMB2,469,000 with a gross profit margin of 36.0%.

## **BUSINESS PROSPECTS**

The novel coronavirus strains are constantly mutating, making the pandemic continue. The pandemic broke out in many places in China in the first half of the year, affecting people's livelihood and economy to varying degrees. Although GDP grew by 2.5% in the first half of the year, the growth rate slashed quarter-on-quarter, and the pace of economic recovery slowed significantly. Some domestic industry sectors are subject to capital constraints, which has stagnated business. Some manufacturing industries face challenges such as shortage of raw materials, insufficient freight capacity, and unstable energy supply.

Internationally, the energy and food crisis caused by the Russia-Ukraine conflict not only pushed up prices, but also increased the risk of stagflation in Western countries. Countries have tightened monetary policy in response to sudden changes in economic conditions. Future international trade and global supply chains are still plagued by many uncertainties; in addition, the geopolitical environment in the Asia-Pacific region is becoming increasingly tense, all of which cast a shadow over the economic development throughout 2022.

With rising national health awareness in recent years, the One Health industry is becoming an upcoming trend. According to the data of the Healthy China 2030 Planning Outline, it is expected that the scale of China's health industry will exceed RMB8 trillion in 2020, and it will exceed RMB16 trillion by 2030.<sup>8</sup> In the field of One Health industry, national key policies are frequently introduced. The Group has taken the initiative to seize the opportunity by developing products with healthcare benefits to grasp business opportunities in related fields. The Group's ginseng wine products launched last year has become an important and iconic product. The ginseng in the Group's ginseng farmland has been grown for two and a half years. The farmland provides a stable and reliable supply of raw materials for the Group's continued expansion in production capacity of ginseng wine products.

In order to tap the long-term development potential of the healthcare wine market, the Group is exploring cooperation with Ji Yao Fang Zhou. The two parties will jointly develop herbal wine and promote the healthy concept of "Happy Life and Nourish Health", to further deepen the layout in the field of healthcare derivative products.

The Group has promptly adjusted its marketing strategies to cope with changes in consumption scenarios brought along by the pandemic. By cooperating with a number of new leisure and social platforms, the Group has successfully constructed "online+ offline" three-dimensional consumption scenarios, to better meet the needs of the new generation of consumer group and self-drinking consumption. Due to the increased recognition of the Group's products and brands, more online platforms in different fields and "Internet celebrities" also became more active to seek to establish a cooperative relationship with the Group. In the future, such new retail channel will continue to be the Group's mainstream sales method.

In addition to online sales and social platforms, the Group also attempts to tap consumer groups directly. In the first half of the year, the Group reached a strategic cooperation with café chain Partner Coffee, and will jointly operate the urban pub chain project in the future. The Group will be responsible for supplying a variety of its premium alcoholic beverages to these physical platforms. The Group will also leverage Partner Coffee e-commerce platform to cooperate with JD Logistics to provide consumers with convenient shopping services. This cooperation signifies an important step for the Group's business chain of downstream vertical integration.

Under the shadow of the global economic recession, as well as the challenges brought about by the reversal of the domestic business environment and the normalization of pandemic containment, the market outlook for the second half of the year is complex and changeable. The Group must remain vigilant and maintain a stable business development with a pragmatic and prudent attitude.

## **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.

<sup>8</sup> <http://www.cccmhpie.org.cn/Pub/9225/176009.shtml>

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 needs 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.

### **Interim Dividend**

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2022 (2021 corresponding period: nil).

## **LIQUIDITY AND FINANCIAL RESOURCES**

During the period under review, the Group's working capital was healthy and positive and we financed the Group's operation with internal cash flows generated from operations and the issue of convertible bonds. As at 30 June 2022, the Group's cash and cash equivalents were substantially denominated in RMB and amounted to approximately RMB89,097,000. 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 RMB9,925,000 contracted but not provided for in the condensed consolidated financial statements as at 30 June 2022. These commitments were required mainly to support the Group's production capacity expansion.

As at 30 June 2022, none of the Group's assets was pledged.

### **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 2022, the Group employed a work force of 275 in Hong Kong and in the PRC (31 December 2021: 324). The total salaries and related costs (including Directors' fee) for the Period amounted to approximately RMB8,296,000 (2021 corresponding period: RMB8,489,000).



## **Share Option Scheme**

The Company's share option scheme (the "2009 Share Option Scheme") adopted on 19 November 2009 was terminated on 10 May 2019 upon the adoption of a new share option scheme (the "2019 Share Option Scheme") by the Company's shareholders at the annual general meeting held on 10 May 2019, which enables the Company to offer to grant options to subscribe for ordinary shares (the "Shares") of HK\$0.01 each in the Company.

Consequent upon its termination, no further options can be granted under the 2009 Share Option Scheme but the subsisting options granted prior to its termination will continue to be valid and exercisable subject to and in accordance with the terms on which they were granted, the provisions of the 2009 Share Option Scheme and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules" and the "Stock Exchange" respectively).

During the Period, under the 2019 Share Option Scheme, all 200,000,000 share options granted on 21 September 2021 were exercised on 30 May 2022 and no share options were granted, outstanding, cancelled or lapsed during the six months ended 30 June 2022.

## **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.

## **REVIEW OF INTERIM FINANCIAL RESULTS**

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed auditing, risk management and internal control systems and financial reporting matters including the review of the unaudited interim results and interim report of the Company for the six months ended 30 June 2022.

## **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 express my sincere gratitude to our senior management team and all staff for their hard work and dedication over the years.

By order of the Board  
**Wang Guangyuan**  
*Chairman and Executive Director*

Hong Kong, 31 August 2022

*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.*