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

INTERIM REPORT

2016

Contents

Financial Highlights

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Profitability data		
Revenue	**178,064**	139,080
Gross profit	**62,349**	50,331
Profit and total comprehensive income for the period attributable to owners of the Company	**13,290**	9,604
Earnings per share		
– Basic (RMB cents)	**0.7**	0.5
– Diluted (RMB cents)	**0.7**	0.5

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
		(Restated)
Profitability ratios		
Gross profit margin	**35.0%**	36.2%
Net profit margin *(Note 1)*	**7.5%**	6.9%
Effective tax rate	**–**	–
Return on equity *(Note 2)*	**1.9%**	1.4%
Return on assets *(Note 3)*	**1.6%**	1.1%
Operating ratios (as a percentage of revenue)		
Advertising and marketing expenses	**0.4%**	4.3%
Staff costs	**12.3%**	9.7%

Notes:

1. Net profit margin is equal to the profit and total comprehensive income for the period attributable to owners of the Company divided by revenue.

2. Return on equity is equal to the profit and total comprehensive income for the period attributable to owners of the Company divided by the average balance of the equity attributable to owners of the Company as at the beginning of each period and as at the end of each period.

3. Return on assets is equal to the profit and total comprehensive income for the period attributable to owners of the Company divided by the average balance of total assets as at the beginning of each period and as at the end of each period.

Financial Highlights

	At 30 June 2016 *RMB'000* (Unaudited)	At 31 December 2015 *RMB'000* (Audited) (Restated)
Assets, liabilities and equity data		
Non-current assets	**201,618**	212,443
Current assets	**679,593**	619,790
Current liabilities	**76,842**	52,631
Shareholders' equity	**726,831**	705,516
Non-controlling interests	**77,538**	74,086

	At 30 June 2016 (Unaudited)	At 31 December 2015 (Audited) (Restated)
Other key financial ratios and information		
Current ratios *(Note 4)*	**8.8**	11.8
Quick ratios *(Note 5)*	**5.1**	5.8
Net asset value per share (RMB) *(Note 6)*	**0.4**	0.4
Inventory turnover days (days) *(Note 7)*	**584**	717
Trade receivables turnover days (days) *(Note 8)*	**87**	113
Trade payables turnover days (days) *(Note 9)*	**44**	33

Notes:

4. Current ratio equals current assets divided by current liabilities as at the end of each period/year.

5. Quick ratio equals current assets minus inventory, divided by current liabilities as at the end of each period/year.

6. The calculation of net asset value per share is based on the net assets divided by weighted average number of shares for the period/year.

7. Inventory turnover days are computed by dividing the average of the beginning and closing inventory balances in the respective financial period by cost of sales (excluding consumption tax and other taxes) and multiplied by 182 days (for the six months ended 30 June 2016) and 365 days (for the year ended 31 December 2015).

8. Trade receivables turnover days are computed by dividing the average of the beginning and closing trade receivables balance in the respective financial period by revenue and multiplied by 182 days (for the six months ended 30 June 2016) and 365 days (for the year ended 31 December 2015).

9. Trade payables turnover days are computed by dividing the average of the beginning and closing trade payables balance in the respective financial period by cost of sales (excluding consumption tax and other taxes) and multiplied by 182 days (for the six months ended 30 June 2016) and 365 days (for the year ended 31 December 2015).

10. The financial data of the Company for the year ended 31 December 2015 and information as to its consolidated financial position as at 31 December 2015 are extracted from the Company's annual report dated 24 March 2016.

Corporate Information

EXECUTIVE DIRECTORS
Mr. Wang Guangyuan
Mr. Zhang Hebin
Ms. Wang Lijuan

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Sih Wai Kin, Daniel
Mr. Lai Chi Keung, Albert
Mr. Yang Qiang

COMPANY SECRETARY
Mr. Wong Kwok Kuen, *FCCA*

AUDIT COMMITTEE
Mr. Sih Wai Kin, Daniel *(Chairman)*
Mr. Lai Chi Keung, Albert
Mr. Yang Qiang

REMUNERATION COMMITTEE
Mr. Sih Wai Kin, Daniel *(Chairman)*
Mr. Lai Chi Keung, Albert
Mr. Yang Qiang

NOMINATION COMMITTEE
Mr. Lai Chi Keung, Albert *(Chairman)*
Mr. Wang Guangyuan
Mr. Yang Qiang

AUTHORISED REPRESENTATIVES
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Mr. Wong Kwok Kuen

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INVESTOR RELATIONS CONSULTANT

CorporateLink Limited

COMPANY WEBSITE

http://www.tontine-wines.com.hk
(information on the website does not form part of this interim report)

SHARE INFORMATION

Listing date: 19 November 2009
Stock name: Tontine Wines
Number of issued shares as at 30 June 2016: 2,013,018,000 shares
Board lot: 2,000 shares

STOCK CODE

389

FINANCIAL YEAR-END DATE

31 December

Management Discussion and Analysis

The board of directors (the "Board" or the "Directors") of China Tontine Wines Group Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016 (the "Period" or the "period under review").

INDUSTRY OVERVIEW

According to the National Bureau of Statistics of China, the gross domestic product ("GDP") of the country recorded a year-on-year growth of approximately 6.7% in the first half of 2016, trailing the slow growth trend of 2015. The low season of the wine market in China began after the Spring Festival, as reflected by the slow and steady market consolidation. Wine manufacturers still faced a rather harsh operating environment in the first half of 2016.

With well-known wine brands in the People's Republic of China (the "PRC" or "China") gradually penetrating all segments of the market, market competition had intensified, eliminating weaker players and leaving room for stronger companies to survive. This process had been conducive to removing excessive capacity and lowering inventory in the wine industry. As a result, the market share of famous brands had kept on expanding, whilst the market space left for small enterprises was gradually narrowed. Stronger brand becoming stronger had become the new norm in the market. Therefore, brand image and product recognition had become more crucial for the sustainable operation of the wine companies.

In the PRC, both sales volume and prices of high-end wines have decreased since 2012, thereby posing significant challenges for the high-end wine products. After years of adjustment, the consumption structure of wine has changed. Wine consumption is now dominated by low to mid end mass-market products, and the consumption market has returned to rationality.

In terms of sales outlet, although the traditional distribution model remains the mainstream channel, new sales models with multi-channel network and online-to-offline ("O2O") platform, such as online shopping, chain store and franchise, have also gained increasing attention from wine manufacturers. E-commerce and O2O platforms are mainly targeted at individual customers, and thus were not affected by the restriction on consumption by government officials in China. Moreover, these e-commerce enterprises had also capitalized on their online platforms to strengthen penetration into second and third-tier cities, as well as rural towns. This had helped further unleash the sales potential of the wine market. In addition, wine manufacturers valued highly the education and cultural promotion of wine, in a bid to enhance customer loyalty.

FINANCIAL REVIEW

During the six months ended 30 June 2016, the Group's revenue increased by approximately 28.0% from the corresponding period of last year to approximately RMB178,064,000. The profit and the total comprehensive income attributable to the owners of the Company for the Period amounted to approximately RMB13,290,000, up by approximately 38.4% from RMB9,604,000 (restated) as recorded in the corresponding period of last year. Basic earnings per share during the Period was approximately RMB0.7 cent, up by approximately 40.0% from RMB0.5 cent (restated) as reported in the corresponding period of last year.

During the Period, the Group remained focused on mass-market products. The management strove to raise the production and sales of low to mid end wine products to meet the popular demand from the general public. The Group continued to optimize operations and realign business deployment and product mix targeting at its key customer base. In line with the mass market approach, the Group had adopted a sales-oriented marketing strategy, raising sales volume through broadening product mix and streamlining distribution channels.

The aforesaid keynotes on operations contributed to an increase in revenue during the Period. However, there was a slight retreat in the gross profit margin. Meanwhile, due to an effective reduction of selling and distribution expenses, the EBITDA margin and net profit margin increased by approximately 1.1 percentage points and 0.8 percentage points respectively to 13% and 9.4% from the corresponding period of last year.

Revenue performance

For the six months ended 30 June 2016, the Group recorded a revenue of approximately RMB178,064,000, representing a year-on-year increase of 28.0%. Against the backdrop of the Chinese Government's continued anti-corruption efforts and call on thrift consumption, as well as the consumption shift to those wine products matching the affordability of the general public, the Group's revenue of popular sweet wine products increased significantly during the period under review; revenue contribution from these products thus substantially increased to approximately 56.8%.

Sales of the Group's high-end dry wine products also increased, but at a rate lower than that of sweet wine products. As such, their revenue contribution dropped slightly to approximately 37.2%.

In addition, the Group's sales of ice wines and white wines both recorded strong growth, whereas the sales of brandy decreased substantially. Together these product lines accounted for only approximately 6.0% of the Group's total revenue.

Cost of sales

The following table sets forth the costs required for production of the Group for the six months ended 30 June 2016:

	Six months ended 30 June		
	2016	2015	Change %
	(RMB'000)	*(RMB'000)*	
Raw materials			
– Grapes and grape juice	**46,512**	33,698	38.0%
– Yeast and other additives	**6,169**	2,902	112.6%
– Packaging materials	**36,005**	28,536	26.2%
– Others	**195**	305	–36.1%
Total raw material cost	**88,881**	65,441	35.8%
Production overheads	**4,441**	5,719	–22.3%
Consumption tax and other taxes	**22,393**	17,589	27.3%
Total cost of sales	**115,715**	88,749	30.4%

For the period under review, the Group's total cost of sales amounted to approximately RMB115,715,000, representing a year-on-year increase of 30.4%, which was slightly higher than the 28.0% increase in revenue.

Major raw materials required for producing wine products of the Group are grapes, grape juice, yeast and additives and packaging materials, such as bottles, bottle caps, label, corks and packaging boxes. During the period under review, the cost of raw materials accounted for approximately 76.8% of the Group's cost of sales, representing an increase of approximately 3.1 percentage points from the same period of last year.

Among raw materials with relative high weighting in cost of sales, the cost of grapes and grape juice increased by 38.0% year-on-year to approximately RMB46,512,000. In addition to an increase in the consumption quantity driven by rising sales, the year-on-year price surge of grapes and grape juice also contributed to the significant increase in the cost of grapes and grape juice. During the period under review, the weighting of grapes and grape juice in the total cost of sales also rose from 38.0% for the same period of last year to 40.2%, representing an increase of approximately 2.2 percentage points.

Supply of grapes

Production of quality wine products is highly dependent upon sufficient supply of quality grapes and grape juice. The Group currently sources supply of grapes from 285 local grape farmer suppliers, whose vineyards are located in the regions around Ji'An City, Jilin Province, the PRC at the foothills of the Changbai mountain range on the banks of the Yalu river. The Group has entered into a 20 year long-term contract with each of its grape farmer suppliers in order to secure reliable and stable supply of quality grapes to meet its needs. To enhance quality management, the Group's vineyard management team supervises the planting, nurturing and harvesting of the grapevines.

During the period under review, the Group's grape juice supplies came from the PRC and France, and the Group also imported wines from France (e.g. "Cordes"「卡圖磨坊」, "Falyia"「法萊雅」, etc.). The Group has kept identifying new grape farmers, grape juice and imported wine suppliers that meet the Group's quality requirements. This approach strengthens the quality and stability of the supply chain, thereby meeting the production needs of the Group.

The Group conducts thorough tests on the grapes, grape juice and imported wines from suppliers. These procedures can ensure that all raw materials which the Group procures are from quality grape farmers and suppliers of grape juice and imported wine that meet the Group's quality requirements.

Gross profit and gross profit margin and EBITDA

During the period under review, the Group's gross profit continued to record a year-on-year growth of approximately 23.9% to approximately RMB62,349,000. The increase was mainly attributable to a rise in overall revenue. However, the gross profit margin during the period under review fell by 1.2 percentage points year-on-year to 35.0%, as the cost of sales grew faster than the revenue. However, it represented a slight improvement as compared to the gross profit margin of 32.2% for the full year of 2015.

The following table sets forth the details of gross profit and gross profit margin of the Group during the period under review and their comparison with the same period last year:

	For the six months ended 30 June		Compared with the corresponding period of last year
	2016	2015	
Overall gross profit *(RMB'000)*	**62,349**	50,331	23.9%
Overall gross profit margin	**35.0%**	36.2%	–1.2 percentage points

Earnings before interest, tax, depreciation and amortisation (EBITDA)

The following table sets forth the details of EBITDA and its comparison with the same period last year:

	For the six months ended 30 June		Compared with the corresponding period of last year
	2016	2015	
EBITDA *(RMB'000)*	**23,093**	16,591	39.2%
EBITDA Margin	**13.0%**	11.9%	1.1 percentage points

EBITDA, which reflects the Group's cash flow during the period under review, was approximately RMB23,093,000, representing an increase of 39.2% year-on-year. This was mainly attributable to the increase in revenue and gross profit, and the decrease in selling and distribution expenses, offsetting the negative impact from the increase in administrative expenses. The EBITDA margin increased by 1.1 percentage points year-on-year to 13.0%.

Selling and distribution expenses decreased by 14.2% year-on-year to approximately RMB18,062,000. Selling and distribution expenses mainly comprise of advertising and promotional expenses, transportation costs, sales commission and miscellaneous expenditures related to sales and marketing personnel.

The Group adjusted its advertisement strategies from 2015 onwards by focusing on appropriate market exposure. During the period under review, the Group continued to reduce advertising expenditures to approximately RMB750,000, down by approximately 87.6% year-on-year from approximately RMB6,047,000 in the corresponding period of last year.

During the period under review, administrative expenses recorded a year-on-year increase of 51.8% to approximately RMB29,356,000. Such increases were mainly due to the one-off expense amounting to approximately RMB8,025,000 incurred by the grant of share options. Excluding this expense, the administrative expenses of the Group during the period under review increased by approximately 10% when compared with the same period last year, which was lower than the growth rate of the revenue for the period under review.

Profit attributable to owners of the Company

During the period under review, profit attributable to owners of the Company was approximately RMB13,290,000, up 38.4% from the same period last year. This was mainly due to growth in revenue and gross profit, as well as a decline in selling and distribution expenses during the period under review. In turn, the Group's net profit margin rose by 0.8 percentage points to 9.4%.

OPERATION REVIEW

The following table shows the Group's revenue of various products for the period under review:

	Six months ended 30 June				
	2016		2015		
	Revenue ***(RMB'000)***	**Percentage of total revenue**	Revenue *(RMB'000)*	Percentage of total revenue	Percentage change in revenue
Sweet wines	**101,197**	**56.8%**	75,143	54.0%	34.7%
Dry wines	**66,296**	**37.2%**	55,654	40.0%	19.1%
Ice wines	**7,258**	**4.1%**	4,649	3.4%	56.1%
Brandy	**2,371**	**1.4%**	3,354	2.4%	–29.3%
White wines	**942**	**0.5%**	280	0.2%	236.4%
Total	**178,064**	**100.0%**	139,080	100.0%	28.0%

In view of the continuing consolidation of the wine market, the Group further adjusted its marketing strategies in the first half of 2016, but its focus was still on promoting sweet wine products to suit the consumption preferences of the general public.

The low-margin sweet wine products accounted for 56.8% of the total revenue of the Group in the first half of 2016, while the high-end dry wine products accounted for 37.2%. These two wine products accounted for 94.0% of the total revenue for the period under review. Ice wines, brandy and white wines accounted for 4.1%, 1.4% and 0.5% of the total revenue for the period under review respectively.

During the period under review, there were significant increases in the revenue and gross profit of sweet wines, dry wines, white wines and ice wines. However, the revenue and gross profit of brandy declined, reflecting unstable consumer demand for this product, and the brandy market has yet to be cultivated and fortified.

During the period under review, the Group launched 8 new products, among which seven were sweet wines and one was dry wine. They accounted for approximately 0.4% of the total revenue for the first half of 2016. Although the weighting was not high, it reflected the Group's determination to adopt an innovative business approach. Diversified product range has enabled the Group to satisfy various consumer tastes and demand.

Sales volume and average selling price performance

	Six months ended 30 June				
	2016		2015		
	Total sales volume *(tonne)*	**Average selling price per tonne *(RMB'000/ tonne)***	Total sales volume *(tonne)*	Average selling price per tonne *(RMB'000/ tonne)*	Percentage change in average selling price per tonne
Sweet wines	**6,978**	**14.5**	4,985	15.1	–4.0%
Dry wines	**2,903**	**22.8**	2,394	23.2	–1.7%
Ice wines	**48**	**151.2**	48.5	95.9	57.7%
Brandy	**162**	**14.6**	215	15.6	–6.4%
White wines	**2**	**470.8**	0.5	559.6	–15.9%
Total	**10,093**	**17.6**	7,643	18.2	–3.3%

In view of the dominance of medium to low-end products in the marketplace, the Group continued adjusting product prices during the period under review to cater for the demand of mainstream customer groups. During the period under review, the Group's total sales volume increased by 32.1% year-on-year to 10,093 tonnes, among which sweet wines rose by 40.0%, dry wine 21.3% and white wines 300.0%. However, the sales volume of brandy and ice wines decreased by 24.7% and 1.0% respectively.

As the Group's product portfolio moved further in line with the popular consumption demand, the average selling price per tonne declined by 3.3% year-on-year to RMB17,642.

The average selling price per tonne of sweet wines, dry wines, brandy and white wines eased year-on-year during the period under review, and the price per tonne of white wines even declined by 15.9%. This reflected that the Group had further adjusted its high, medium and low-end products towards mass consumption. However, the average selling price per tonne of ice wines recorded a year-on-year increase during the period under review.

Selling and distribution network

The Group sells most of its products to distributors, who distribute and sell such wine products to third-party retailers, including supermarkets, and specialty stores selling tobacco and alcohol, food and beverage outlets such as restaurants and hotel restaurants. These distributors also sell directly to end-consumers, while selling and distributing to other sub-distributors. All distributors are independent third parties and are generally engaged in the business of distributing and selling of wine products.

The Group constantly reviews the performance of its distributors. As at 30 June 2016, the Group's products were sold through 122 distributors in 22 provinces, 3 autonomous regions and 4 direct-controlled municipalities in the PRC. The number of distributors decreased by 13 when compared with that of the corresponding period of 2015, reflecting the strenuous efforts made by the management in streamlining the structure of its selling and distribution network, so as to eliminate distributors with poor sales records. During the period under review, the average sales revenue generated from the Group's nationwide distributors increased by 41.7% year-on-year to approximately RMB1,460,000. This proved the positive effect of streamlining selling and distribution network, and brought about significant improvement of sales efficiency.

The Group enters into a standard distribution agreement with each of its selected distributors for a period of one year (subject to annual renewal following successful negotiation between the parties upon the expiry of the existing distribution agreement). In order to facilitate and assist the marketing and sale of the Group's products by its distributors, the Group bears the delivery costs and implements various targeted advertising strategies to emphasize the health benefits of moderate consumption of wines in order to establish consumer loyalty and strengthen the popularity of its products.

For online sales, the proportion of revenue generated from this segment was not high during the period under review, but the Group considered online sales as a channel of huge potential. This would be advantageous for the Group to promote diversified distribution channel and enlarge its marketing coverage.

Notes:

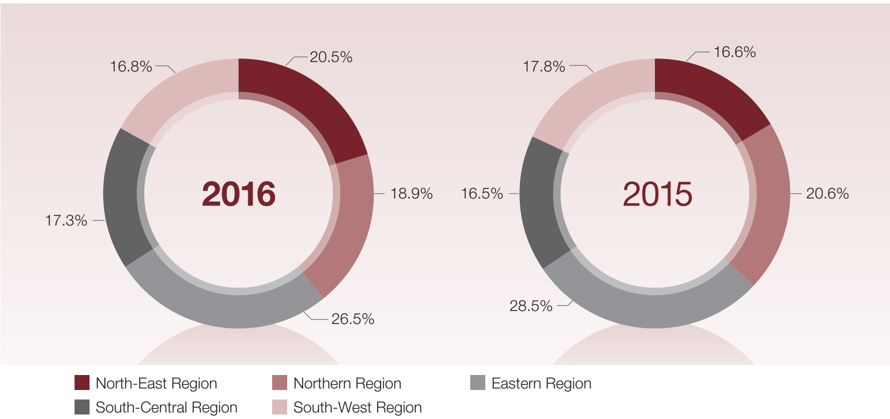
1. **North-East Region** includes the Provinces of Heilongjiang, Jilin and Liaoning.
2. **Northern Region** includes the Provinces of Gansu, Hebei, Shaanxi, Shanxi, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, city of Beijing and city of Tianjin.
3. **Eastern Region** includes the Provinces of Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Zhejiang and city of Shanghai.
4. **South-Central Region** includes the Provinces of Guangdong, Hainan, Henan, Hubei and Hunan.
5. **South-West Region** includes the Provinces of Guizhou, Qinghai, Sichuan, Yunnan, Guangxi Zhuang Autonomous Region and city of Chongqing.
6. Distribution Network.
7. Production base.

Production output

During the period under review, the Group's production facilities in Tonghua, Jilin and Yantai Baiyanghe, Shandong produced a total of 10,275 tonnes of wine products, of which the output of Tonghua, Jilin accounted for 8,068 tonnes while Yantai Baiyanghe 2,207 tonnes. The sales-output ratio (defined as the comparison between output and sales) was 98.2% in the first half of 2016, reflecting equilibrium in production and sales.

Regional market performance

The following table sets forth a breakdown of the Group's revenue by sales region in the PRC for the Period:



In terms of regional revenue, the Eastern region remains the largest market of the Group, the revenue from which increased by 19.0% year-on-year, accounting for 26.5% of the total revenue. Wine products are generally well received in this region, as it covers those prosperous provinces in the PRC and maintains a relatively high per-capita income level. During the period under review, the number of distributors of the Group in this region decreased by 6 to 36. However, it remained as having the largest number of distributors among the Group's major sales regions. The average sales per distributor in this region increased by 38.9% year-on-year to approximately RMB1,310,000, being the lowest average sales per distributor across the PRC, reflecting intensive competition in this region.

Benefiting from its adjacency to the Group's production base in Tonghua, Jilin, the North-East region enjoys home market advantage with revenue increasing by 59.6% year-on-year, and accounting for 20.5% of the Group's total revenue. This enabled the North-East region to outshine the Northern region, and became the second largest market of the Group. The remarkable performance of the North-East region was mainly attributable to high recognition and favourable brand effect of the Group's products in the region. During the period under review, being the only region recording an increase in the number of distributors, the Group commanded 21 distributors in the North-East region, representing an increase of 2 distributors from the year-ago period. In addition, the average sales per distributor in the region increased by 44.4% year-on-year to approximately RMB1,750,000, being the highest average sales per distributor among regions across the PRC.

Northern region recorded a year-on-year increase of 17.1% in revenue, accounting for 18.9% of the Group's total revenue. During the period under review, the number of distributors of the Group in this region decreased by 6 to 24. The average sales per distributor increased by 46.3% year-on-year to approximately RMB1,400,000.

South-Central region recorded a year-on-year increase of 33.7% in revenue, accounting for 17.3% of the Group's total revenue. During the period under review, the number of distributors of the Group in this region decreased by 1 to 21, and the average sales per distributor increased by 40.1% year-on-year to approximately RMB1,460,000.

South-West region recorded a year-on-year increase of 20.4% in revenue, accounting for 16.8% of the Group's total revenue. The number of distributors of the Group in this region decreased by 2 to 20. The average sales per distributors increased by 32.5% year-on-year to approximately RMB1,490,000.

The respective proportion of total revenue of these regions demonstrated a more balanced development of the Group's regional sales. This has enabled the Group to diversify its business risks, and broadened its revenue and profit bases. Meanwhile, the management will further explore the sales potential of wine products among second and third-tier cities across the PRC.

BUSINESS INDICATOR REVIEW

Inventory turnover days:

The inventory of the Group amounted to approximately RMB286,569,000 as at 30 June 2016, representing a slight decrease as compared to approximately RMB312,719,000 as at the end of 2015. This was because part of the Group's high-end grape juice was used for the production of ice wine, thereby activating asset utilization. As at the end of the period under review, approximately 41% of the Group's inventories were provided for high-end products, and the remaining 59% for medium-and-low-end products. In terms of the nature of the inventory, approximately 14.8% was raw materials, 76.5% work in progress and 8.7% finished goods. The inventory turnover days on average during the period under review decreased to 584 days, representing a significant improvement as compared to 792 days and 717 days in the corresponding period of and in 2015, respectively. This was attributable to a drop in inventory level as at the end of the period under review.

Trade account receivables analysis:

The trade account receivables turnover days of the Group during the period under review was 87 days. This was in line with the 88 days during the corresponding period last year and improved slightly from 113 days in 2015. The trade account receivables turnover days of 87 days was slightly better than the credit period of 90 days granted to customers of the Group.

Trade account payables analysis:

The trade account payables turnover days of the Group during the period under review stood at 44 days. This was slightly higher than 36 days during the corresponding period last year and 33 days in 2015. The increase was mainly due to the purchase of large stocks of packaging materials in May and June for wine production during July and August.

OPERATION ANALYSIS BY PRODUCT

The following table sets forth the Group's gross profit distribution by product line and their respective gross profit margin for the Period:

	As a percentage of total gross profit for the six months ended 30 June 2016	Percentage point changes as compared with the same period of the previous year	Gross profit margin for the six months ended 30 June 2016	Percentage point changes as compared with the same period of the previous year
Sweet wines	48.1%	2.5	29.6%	–0.9
Dry wines	45.3%	–1.8	42.6%	0.0
Ice wines	4.5%	–0.2	38.6%	–12.2
Brandy	1.1%	–1.1	30.1%	–3.2
White wines	1.0%	0.6	65.3%	–0.4
Total	N/A	N/A	35.0%	–1.2

Sweet wines

Sweet wines represented the product line contributing the most to sales and gross profit of the Group during the period under review. Its revenue amounted to approximately RMB101,197,000, representing an increase of 34.7% from the same period of last year, reflecting keen demands for popular products. Its gross profit was approximately RMB29,991,000, representing a year-on-year increase of 30.5%. During the period under review, sweet wines business accounted for 48.1% of the overall gross profit of the Group. This outpaced dry wines and became the largest gross profit contributor of the Group.

As this product line was targeted at the popular market, its gross profit margin was relatively lower than the other products of the Group, standing at approximately 29.6%, which decreased by 0.9 percentage points compared with the same period of the previous year. However, it improved significantly from the 2015 full-year gross profit margin of 22.1%.

During the period under review, the Group launched 7 types of new sweet wines in total in order to meet the growing market demands for popular products.

Product diversification is one of the Group's distinctive strengths. During the period under review, the Group marketed 48 types of sweet wines in total, in line with that of 46 in 2015.

Dry wines

During the period under review, revenue from dry wines was approximately RMB66,296,000, representing a year-on-year increase of 19.1%, This reflected rising market acceptance of high-end products but its sales growth rate was relatively lower than that of the medium and low end products. Gross profit margin of dry wines remained flat at 42.6% when compared with the same period of last year, indicating stable market demand and firm consumer acceptance. Like its revenue, dry wine business' gross profit also recorded a similar growth rate of approximately 19.1% from the same period of last year to approximately RMB28,226,000. Due to a significant increase in sweet wines' weighting, dry wines' percentage of overall gross profit of the Group slightly decreased from 47.1% for the same period of last year to 45.3% for the period under review.

During the period under review, the Group marketed 65 types of dry wines in total, down by 24 types from that of 2015. This was mainly attributable to the Group's focus on products appealing to consumers' preference in its marketing strategy with a view of maintaining high gross profit margin.

Ice wines

During the period under review, revenue from ice wines was approximately RMB7,258,000, representing an increase of 56.1% from the same period of last year. Gross profit of ice wines increased by 18.8% year-on-year to approximately RMB2,804,000 during the period under review, while gross profit margin decreased by 12.2 percentage points year-on-year to 38.6%. As ice wines require costly grape juice as raw materials for brewing, this product line faced pressure on gross profit margin. During the period under review, ice wines' weighting in overall gross profit of the Group was 4.5%. Ice wine represents a flagship product for the Group to tap into the high-end market.

Brandy

During the period under review, the Group's revenue from brandy decreased by 29.3% from the same period of last year to approximately RMB2,371,000, reflecting unstable market demand for brandy. This product line contributed gross profit of approximately RMB713,000, representing a decrease of 36.1% from the same period of last year. Its gross profit margin eased 3.2 percentage points to 30.1%. Its proportion to the overall gross profit was approximately 1.1%.

White wines

During the period under review, the revenue from white wines totaled approximately RMB942,000, representing a significant increase of 236.4% from the same period of last year. The Group's white wines business contributed gross profit of approximately RMB615,000, representing an increase of 234.2% from the same period of last year. The gross profit margin slightly decreased by 0.4 percentage point from the same period of last year to 65.3%. During the period under review, white wines products accounted for 1.0% of the overall gross profit of the Group.

BUSINESS PROSPECTS

In view of uncertain global economic outlook and continuous slowdown of China's economy, it is expected that China's wine market would still be undergoing a process of slow and deep adjustment in the short to medium term.

The Company now enjoys a strong financial position. As at 30 June 2016, the Group owned bank balances and cash of approximately RMB285,799,000 and without bank borrowings. As such, the Group commands sufficient financial resources to capture investment opportunities with ample flexibility.

The Group plans to establish a trading company in Hong Kong in the second half of this year in a bid to conduct two-way wine trading activities. On one hand, this trading company is geared to introducing imported wine to China's domestic market, and on the other hand promoting wine produced in China to overseas market. The management expects this trading company to help expand the business scope of the Group and enhance its profitability.

The Board also considers merger and acquisition of high quality vineyards in overseas market, with an aim to enrich the Group's product portfolio and cater for the tastes and needs of different customers. However, such a move will be conducted in a prudent manner. The Board will carry out detailed research on the operation, product quality and target markets of the possible vineyards to be merged or acquired, before making the final decision.

The Group plans to develop its own high end brand winery, namely Jilin Tongtian Winery, which is expected to obtain business license from the Government in the second half of this year. This winery is equipped with an annual capacity of approximately 500 tons. Leverage on the advantages of our own vineyard, the Group intends to produce high and mid-end products with fully integrated production all the way from growing grapes to brewing wine. Apart from extending production line, the Group also expects to deepen brand building and gradually establish a unique brand in the industry, thus supporting the sustainable development of the Group's business.

As for online sales platform, the Group is considering strategic cooperation with different enterprises, to develop a comprehensive online sales platform of wine products, putting great efforts to promote its own products while selling other brands.

It is expected that the market will still be full of challenges in the second half of this year, but the management will endeavor to explore market opportunities with a proactive attitude. Based on past experiences, the second half of a year tends to be the traditional peak season for wine products. Distributors normally purchase large quantities of wine before December-end to be prepared for the upcoming Spring Festival sales. Therefore, the management expects the sales of the second half of the year to be higher than that of the first half. The Group will continue to strictly control the cost, so as to provide stable return to shareholders.

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 strong liquidity position with sufficient cash to cope with daily operations and future development demands for capital.

With strong cash and bank balances, the Group is in a net cash position and is thus exposed to minimal financial risk on interest rate fluctuation.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2016 (2015 corresponding period: nil).

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 for the past years. As at 30 June 2016, the Group's cash and cash equivalents were substantially denominated in RMB and amounted to approximately RMB285,799,000. The Group has sufficient financial resources and a strong cash position for satisfying working capital requirements of business development, operations and capital expenditures.

Capital commitments and charges on assets

The Group made capital expenditure commitments including approximately RMB100,752,000 that was authorised but not contracted for and approximately RMB6,855,000 contracted but not provided for in the condensed consolidated financial statements as at 30 June 2016. These commitments were required mainly to support the Group's production capacity expansion.

As at 30 June 2016, none of the Group's assets was pledged (30 June 2015: 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 2016, the Group employed a work force of 559 in Hong Kong and in the PRC (31 December 2015: 368). The total salaries and related costs (including Directors' fee) for the Period amounted to approximately RMB21.9 million (including the one-off share-based payments of RMB8.0 million) (2015: RMB13.6 million).

Share Option Scheme

A share option scheme (the "Scheme") was adopted by the shareholders of the Company on 19 November 2009 for the primary purpose of providing incentives to eligible participants including directors, employees, supplier of goods and services, consultant, adviser, contractor, business partner or service partner.

The following table discloses movements of the Company's share options granted under the Scheme during the Period:

Grantee(s)/Category of participant(s)	Date of grant	Exercise price (HK$)	Outstanding at 1.1.2016	Granted during the Period	Lapsed/ forfeited during the Period (Note)	Exercised during the Period	Outstanding at 30.6.2016
Zhang Hebin (Director)	9 May 2016	0.263	–	16,550,000	–	–	16,550,000
Employees	18 May 2012	0.71	40,000,000	–	–	–	40,000,000
	9 May 2016	0.263	–	99,300,000	–	–	99,300,000
			40,000,000	99,300,000	–	–	139,300,000
Total			40,000,000	115,850,000	–	–	155,850,000

Please refer to Note 14 to the Condensed Consolidated Financial Statements contained in this interim report for further details of the grant of share options under the Scheme during the Period.

The maximum number of shares in the Company which may be granted under the Scheme must not exceed 165,584,000 shares (the "Scheme Mandate Limit"), representing 10% of the Company's issued share capital as at 19 November 2009 (being the date on which the Company's shares were first listed on the Stock Exchange).

As at 31 December 2015, 24 March 2016 (being the date of the annual report of the Company for the year ended 31 December 2015) and 30 June 2016:

– the total number of shares available for issue by the Company under the Scheme Mandate Limit was 125,584,000 shares, 125,584,000 shares and 9,734,000 shares respectively, representing approximately 6.24%, 6.24% and 0.48% respectively of the then issued share capital of the Company (that is, 2,013,018,000 shares) as at such dates;

– there were outstanding options attaching subscription rights to subscribe for an aggregate of 40,000,000 shares, 40,000,000 shares and 155,850,000 shares respectively, representing approximately 1.99%, 1.99% and 7.74% respectively of the then and existing issued share capital of the Company (that is, 2,013,018,000 shares).

Directors' and/or chief executive's interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations

As at 30 June 2016, the interests and short positions of the Directors and/or the chief executive of the Company in the shares, underlying shares in or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) (the "SFO") as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(1) Long position in the ordinary shares of HK$0.01 each in the Company

Name of Director	Name of Group member/ associated corporation	Capacity/Nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of shareholding *(Note 4)*
Mr. Wang Guangyuan	The Company	Interest of a controlled corporation	675,582,720 shares (L) *(Note 2)*	33.56%
Mr. Zhang Hebin	The Company	Interest of a controlled corporation	132,467,200 shares (L) *(Note 3)*	6.58%

Notes:

(1) The letter "L" denotes long position in the shares.

(2) These shares were registered in the name of and beneficially owned by Up Mount International Limited ("Up Mount"), a company incorporated in the British Virgin Islands (the "BVI") and whose entire issued share capital is owned by Mr. Wang Guangyuan ("Mr. Wang").

(3) These shares were registered in the name of and beneficially owned by Wing Move Group Limited ("Wing Move"), a company incorporated in the BVI and whose entire issued share capital is owned by Mr. Zhang Hebin ("Mr. Zhang").

(4) The percentage of shareholding is calculated on the basis of 2,013,018,000 shares in the Company in issue as at 30 June 2016.

(2) *Interests in share options of the Company*

Name of Director	Date of grant	Exercisable period	Exercise price *(HK$)*	Number of underlying shares subject to the outstanding options	Approximate percentage of shareholding *(Note)*
Mr. Zhang Hebin	9 May 2016	9 May 2016 to 8 May 2021	0.263	16,550,000	0.82%

Note:

The percentage of shareholding is calculated on the basis of 2,013,018,000 shares in the Company in issue as at 30 June 2016.

Save as disclosed above, none of the Directors and/or the chief executive of the Company had or were deemed under the SFO to have any interests or short positions in the shares, underlying shares in or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 30 June 2016.

Interests of the substantial shareholders in shares and underlying shares in the Company

As at 30 June 2016, so far as is known to the Directors, the following parties, other than a Director or chief executive of the Company, were recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company, as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

Name	Capacity/Nature of interest	Number of shares	Approximate percentage of shareholding *(Note 5)*
Up Mount *(Note 1)*	Beneficial owner	675,582,720	33.56%
Ms. Zhang Min 張敏 *(Note 2)*	Interest of spouse	675,582,720	33.56%
Wing Move *(Note 3)*	Beneficial owner	132,467,200	6.58%
Ms. Luo Cheng Yan 羅成艷 *(Note 4)*	Interest of spouse	132,467,200	6.58%

Notes:

(1) Up Mount is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Wang, the chairman of the Company and an executive Director.

(2) Ms. Zhang Min is the spouse of Mr. Wang and is therefore deemed to be interested in all the shares and/or underlying shares in the Company held by Mr. Wang (through Up Mount or personally) by virtue of the SFO.

(3) Wing Move is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Zhang, an executive Director.

(4) Ms. Luo Cheng Yan is the spouse of Mr. Zhang and is therefore deemed to be interested in all the shares and/or underlying shares in the Company held by Mr. Zhang (through Wing Move or personally) by virtue of the SFO.

(5) The percentage of shareholding is calculated on the basis of 2,013,018,000 shares in the Company in issue as at 30 June 2016.

All the interests stated above represent long positions. As at 30 June 2016, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

Directors' interests in contracts

No contract of significance in relation to the business of the Group to which any controlling shareholder(s) of the Company or any of its subsidiaries was a party, and/or in which a Director had a material interest, whether directly or indirectly, subsisted as at 30 June 2016 or at any time during the Period.

Sufficiency of public float

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this report, the Company has maintained sufficient public float of not less than 25% of its total issued shares as required under the Listing Rules since the listing of its shares on the Stock Exchange.

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.

Corporate Governance

The Company is committed to fulfilling its responsibilities to shareholders and protecting and enhancing shareholder value through solid corporate governance. It devotes considerable efforts in formulating and formalising best practices. It also exerts its best to ensure optimum transparency and the best quality of disclosures. The Board has been and will continue to uphold the appropriate standards of corporate governance within the Group, thereby ensuring all businesses are conducted in an honest, ethical and responsible manner and that proper processes to effectively infuse strong ethical principles are in place, executed and are regularly reviewed.

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 following:

Code Provision A.2.1

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer ("CEO") should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and CEO and Mr. Wang Guangyuan, the chairman of the Board and CEO of the Company, currently performs these two roles. Mr. Wang is responsible for the overall business strategy and development and management of the Group. The Board considers Mr. Wang 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 CEO of the Company notwithstanding the deviation.

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 and Other Information

Audit Committee Review

The interim results for the Period are unaudited. 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 internal controls, as well as reviewed the Group's unaudited condensed consolidated interim financial statements for the Period.

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.

Wang Guangyuan
Chairman and Executive Director
23 August 2016

Report on Review of Condensed Consolidated Financial Statements

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF
CHINA TONTINE WINES GROUP LIMITED
中國通天酒業集團有限公司
(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Tontine Wines Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Without quantifying our review conclusion, we draw attention to the fact that the condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended 30 June 2015 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

23 August 2016

Condensed Consolidated Statement of Profit or loss and Other Comprehensive Income

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 (unaudited) RMB'000	2015 (unaudited) (restated) RMB'000
Revenue	3	**178,064**	139,080
Cost of sales		**(115,715)**	(88,749)
Gross profit		**62,349**	50,331
Bank interest income		**380**	381
Selling and distribution expenses		**(18,062)**	(21,052)
Administrative expenses		**(29,356)**	(19,340)
Change in fair value of biological assets		**1,431**	1,591
Profit before tax	5	**16,742**	11,911
Taxation	6	**–**	–
Profit and total comprehensive income for the period		**16,742**	11,911
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**13,290**	9,604
Non-controlling interests		**3,452**	2,307
		16,742	11,911
Earnings per share	7		
Basic *(RMB cents)*		**0.7**	0.5
Diluted *(RMB cents)*		**0.7**	0.5

Condensed Consolidated Statement of Financial Position

At 30 June 2016

	Notes	30 June 2016 (unaudited) *RMB'000*	31 December 2015 (audited) (restated) *RMB'000*
Non-current Assets			
Property, plant and equipment	*9*	**141,830**	145,381
Prepaid lease payments		**55,500**	56,862
Deposits paid for acquisition of property, plant and equipment		**–**	7,343
Biological assets	*10*	**4,288**	2,857
		201,618	212,443
Current Assets			
Inventories		**286,569**	312,719
Trade receivables	*11*	**86,051**	84,702
Deposits and other receivables		**12,900**	12,153
Tax recoverable		**5,551**	5,551
Prepaid lease payments		**2,723**	2,723
Bank balances and cash		**285,799**	201,942
		679,593	619,790
Current Liabilities			
Trade payables	*12*	**35,906**	9,307
Other payables and accruals		**30,933**	33,363
Tax liabilities		**10,003**	9,961
		76,842	52,631
Net Current Assets		**602,751**	567,159
Total Assets Less Current Liabilities		**804,369**	779,602
Capital and Reserves			
Share capital	*13*	**17,624**	17,624
Reserves		**709,207**	687,892
Equity attributable to owners of the Company		**726,831**	705,516
Non-controlling interests		**77,538**	74,086
Total Equity		**804,369**	779,602

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Statutory reserves RMB'000 (Note b)	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2015 (audited)	**17,624**	**910,541**	**86,360**	**130,634**	**8,259**	**(464,684)**	**688,734**	**67,505**	**756,239**
Adjustments (see note 2)	**-**	**-**	**-**	**-**	**-**	**7,201**	**7,201**	**-**	**7,201**
At 1 January 2015 (restated)	**17,624**	**910,541**	**86,360**	**130,634**	**8,259**	**(457,483)**	**695,935**	**67,505**	**763,440**
Profit and total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**9,604**	**9,604**	**2,307**	**11,911**
At 30 June 2015 (unaudited)	**17,624**	**910,541**	**86,360**	**130,634**	**8,259**	**(447,879)**	**705,539**	**69,812**	**775,351**
At 1 January 2016 (audited)	17,624	910,541	86,360	130,634	5,899	(455,474)	695,584	74,086	769,670
Adjustments (see note 2)	–	–	–	–	–	9,932	9,932	–	9,932
At 1 January 2016 (restated)	17,624	910,541	86,360	130,634	5,899	(445,542)	705,516	74,086	779,602
Profit and total comprehensive income for the period	–	–	–	–	–	13,290	13,290	3,452	16,742
Recognition of equity-settled share-based payments (see note 14)	–	–	–	–	8,025	–	8,025	–	8,025
At 30 June 2016 (unaudited)	17,624	910,541	86,360	130,634	13,924	(432,252)	726,831	77,538	804,369

Notes:

(a) Special reserve represents the difference between the nominal value of the shares of the Company issued and the aggregate of the nominal value of the issued shares and the share premium of the holding company for which the shares of the Company have been issued in exchange upon a corporate reorganisation to rationalise the Group structure prior to listing of the Company's share on The Stock Exchange of Hong Kong Limited.

(b) In accordance with the relevant laws and regulations of the People's Republic of China ("PRC"), the PRC subsidiaries are required to provide for PRC statutory reserves, including enterprise expansion fund and general reserve fund, by way of appropriations from its net profit (based on the PRC statutory financial statements of the subsidiaries) but before dividend distributions.

All appropriations to the funds are made at the discretion of the board of directors of the subsidiaries. The board of directors shall decide on the amounts to be appropriated based on the profitability of each subsidiary each year.

The enterprise expansion fund may be used to increase registered capital of the PRC subsidiaries subject to approval from the relevant PRC authorities. The general reserve fund may be used to offset accumulated losses or increase the registered capital of the subsidiaries subject to approval from the relevant PRC authorities.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
NET CASH FROM OPERATING ACTIVITIES	**77,515**	70,589
INVESTING ACTIVITIES		
Refund received from deposits paid for acquisition of property, plant and equipment	**7,343**	–
Interest received	**380**	381
Purchase of property, plant and equipment	**(1,423)**	–
Proceeds from disposal of property, plant and equipment	**–**	1,424
NET CASH FROM INVESTING ACTIVITIES	**6,300**	1,805
NET INCREASE IN CASH AND CASH EQUIVALENTS	**83,815**	72,394
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**201,942**	172,613
Effect of foreign exchange rate changes	**42**	–
CASH AND CASH EQUIVALENTS AT 30 JUNE represented by bank balances and cash	**285,799**	245,007

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

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards issued by HKICPA that are mandatorily effective for the current interim period.

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 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

Amendments to HKAS 16 and HKAS 41 *Agriculture: Bearer Plants*

The Group has applied the amendments to HKAS 16 and HKAS 41 *Agriculture: Bearer Plants* for the first time in the current interim period. The Amendments to HKAS 16 *Property, Plant and Equipment* and HKAS 41 *Agriculture* define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

Summary of the effects of the above change in Amendments to HKAS 16 and HKAS 41

The effects of the change in Amendments to HKAS 16 and HKAS 41 described above on the results for the current and preceding interim periods by line items presented in the condensed consolidated statement of profit or loss and other comprehensive income are as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Increase in cost of sales	**(1,245)**	(992)
Increase in change in fair value of biological assets	**1,431**	1,591
Net increase in profit for the period attributable to owners of the Company	**186**	599

2. PRINCIPAL ACCOUNTING POLICIES – continued

Summary of the effects of the above change in Amendments to HKAS 16 and HKAS 41 – continued

The effects of the change in Amendments to HKAS 16 and HKAS 41 described above on the condensed consolidated statement of financial position of the Group as at the end of the immediately preceding financial year, i.e. 31 December 2015, are as follow:

	As at 31 December 2015 (originally stated)	**Adjustments**	**As at 31 December 2015 (restated)**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	130,686	14,695	145,381
Biological assets	7,620	(4,763)	2,857
Total effect on net assets	138,306	9,932	148,238
Accumulated losses and total effect on equity	(455,474)	9,932	(445,542)

The effects of the change in Amendments to HKAS 16 and HKAS 41 described above on the condensed consolidated statement of financial position of the Group as at the beginning of the comparative period, i.e. 1 January 2015, are as follows:

	As at 1 January 2015 (originally stated)	**Adjustments**	**As at 1 January 2015 (restated)**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	139,896	11,945	151,841
Biological assets	7,470	(4,744)	2,726
Total effect on net assets	147,366	7,201	154,567
Accumulated losses and total effect on equity	(464,684)	7,201	(457,483)

2. PRINCIPAL ACCOUNTING POLICIES – continued

	Impact on basic earnings per share Six months ended 30 June		Impact on diluted earnings per share Six months ended 30 June	
	2016	2015	**2016**	2015
	RMB cents	*RMB cents*	***RMB cents***	*RMB cents*
Figures before adjustments	**0.7**	0.4	**0.7**	0.4
Adjustment arising from change in accounting policy in relation to application of Amendments to HKAS 16 and HKAS 41	**–**	0.1	**–**	0.1
Figures after adjustments	**0.7**	0.5	**0.7**	0.5

3. REVENUE

Revenue represents the net amounts received and receivable for goods sold less returns and discounts.

4. SEGMENT INFORMATION

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

	North-East Region	Northern Region	Eastern Region	South-Central Region	South-West Region	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2016 (unaudited)						
Segment revenue from external customers	**36,736**	**33,580**	**47,160**	**30,732**	**29,856**	**178,064**
Segment profit	**10,700**	**10,360**	**10,809**	**7,284**	**6,379**	**45,532**
For the six months ended 30 June 2015 (unaudited) (restated)						
Segment revenue from external customers	23,011	28,683	39,617	22,978	24,791	139,080
Segment profit	5,746	8,124	10,175	5,344	5,498	34,887

4. SEGMENT INFORMATION – continued

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	
	2016 (unaudited)	2015 (unaudited) (restated)
	RMB'000	*RMB'000*
Profit		
Total segment profit	**45,532**	34,887
Unallocated amounts:		
Bank interest income	**380**	381
Other corporate expenses	**(29,170)**	(23,357)
Consolidated profit before tax	**16,742**	11,911

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

	North-East Region *RMB'000*	Northern Region *RMB'000*	Eastern Region *RMB'000*	South-Central Region *RMB'000*	South-West Region *RMB'000*	Total *RMB'000*
As at 30 June 2016 (unaudited)						
Segment assets	**20,169**	**15,539**	**21,442**	**14,713**	**14,188**	**86,051**
Segment liabilities	**1,911**	**1,628**	**2,232**	**1,495**	**1,465**	**8,731**
As at 31 December 2015 (audited)						
Segment assets	9,948	18,948	26,387	12,818	16,601	84,702
Segment liabilities	2,007	2,653	3,688	2,164	2,469	12,981

4. SEGMENT INFORMATION – continued

	At 30 June 2016 (unaudited) *RMB'000*	At 31 December 2015 (audited) (restated) *RMB'000*
Assets		
Total segment assets	**86,051**	84,702
Other unallocated amounts		
Property, plant and equipment	**141,830**	145,381
Prepaid lease payments	**58,223**	59,585
Deposits paid for acquisition of property, plant and equipment	**–**	7,343
Biological assets	**4,288**	2,857
Inventories	**286,569**	312,719
Deposits and other receivables	**12,900**	12,153
Tax recoverable	**5,551**	5,551
Bank balances and cash	**285,799**	201,942
Consolidated total assets	**881,211**	832,233

	At 30 June 2016 (unaudited) *RMB'000*	At 31 December 2015 (audited) *RMB'000*
Liabilities		
Total segment liabilities	**8,731**	12,981
Other unallocated amounts		
Trade payables	**35,906**	9,307
Other payables and accruals	**22,202**	20,382
Tax liabilities	**10,003**	9,961
Consolidated total liabilities	**76,842**	52,631

5. PROFIT BEFORE TAX

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
		(restated)
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging:		
Cost of inventories recognised as an expense	**93,853**	70,168
Depreciation of property, plant and equipment	**5,882**	6,290
Amortisation of prepaid lease payments	**1,362**	1,362
Less: amounts included in property, plant and equipment	**(893)**	(893)
	469	469
Net foreign exchange loss	**72**	6
Share-based payments (included in administrative expenses)	**8,025**	–
Advertising and promotion expenses (included in selling and distribution expenses)	**750**	6,047

6. TAXATION

At the end of both reporting periods, the Group still has unused tax losses available to offset future profits, no tax provision was provided accordingly during the periods.

7. 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	
	2016	2015
	(unaudited)	(unaudited)
		(restated)
	RMB'000	*RMB'000*
Earnings		
Profit for the period attributable to owners of the Company and earnings for the purposes of calculating the basic and diluted earnings per share	**13,290**	9,604

7. EARNINGS PER SHARE – continued

	At 30 June 2016 & 2015 (unaudited) *Number of shares*
Number of shares	
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	2,013,018,000

For the six months ended 30 June 2016, the computation of diluted earnings per share does not assume the exercise of the Company's share options as the exercise prices of the options were higher than the average market price per share from the date of grant to period end date.

8. DIVIDENDS

No dividends were declared and distributed during the six months period ended 30 June 2016. The directors of the Company have determined that no dividend will be paid in respect of the period.

9. PROPERTY, PLANT AND EQUIPMENT

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

	RMB'000
At 1 January 2016 (audited) (restated)	145,381
Additions	2,331
Depreciation for the period	(5,882)
At 30 June 2016 (unaudited)	141,830

10. BIOLOGICAL ASSETS

Movements of the vines are summarised as follows during the period:

	RMB'000
At 1 January 2016 (audited) (restated)	2,857
Change in fair value of biological assets	1,431
At 30 June 2016 (unaudited)	4,288
At 1 January 2015 (audited) (restated)	2,726
Change in fair value of biological assets	1,591
At 30 June 2015 (unaudited) (restated)	4,317

No agricultural produce was harvested for both periods. All grapes are usually harvested annually from August to November of each year. As at the periods ended 30 June 2016 and 2015, the Group has engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the fair values of grapevines.

11. TRADE RECEIVABLES

The Group allows a credit period of 90 days to its trade customers except for such new customers which payment is made when goods are delivered. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	At 30 June 2016 (unaudited) ***RMB'000***	At 31 December 2015 (audited) *RMB'000*
0 – 30 days	**25,745**	42,484
31 – 60 days	**44,189**	22,001
61 – 90 days	**16,117**	20,217
	86,051	84,702

12. TRADE PAYABLES

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

	At 30 June 2016 (unaudited)	At 31 December 2015 (audited)
	RMB'000	*RMB'000*
0 – 30 days	**9,058**	3,706
31 – 60 days	**26,848**	4,221
61 – 90 days	**–**	1,380
	35,906	9,307

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

13. SHARE CAPITAL

	Number of ordinary shares	**Amount**
	'000 at HK$0.01 per share	*HK$'000*
Authorised:		
At 1 January 2016 (audited) and 30 June 2016 (unaudited)	10,000,000	100,000
Issued:		
At 1 January 2016 (audited) and 30 June 2016 (unaudited)	2,013,018	20,131
Shown in the condensed consolidated financial statements		
At 30 June 2016 (unaudited)	RMB equivalent	17,624

14. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company:

The Company's share option scheme (the "Scheme") was adopted by the shareholders of the Company on 19 November 2009 for the primary purpose of providing incentives to eligible participants including directors, employees, supplier of goods and services, consultant, adviser, contractor, business partner or service partner.

The following table discloses movements of the Company's share options granted under the Scheme during the current interim period:

Category of participant	Date of grant	Outstanding at 1.1.2016	Granted during the period	Lapsed/ forfeited during the period	Exercised during the period	Outstanding at 30.6.2016
A director	9 May 2016	–	16,550,000	–	–	16,550,000
Employees	18 May 2012	40,000,000	–	–	–	40,000,000
	9 May 2016	–	99,300,000	–	–	99,300,000
		40,000,000	99,300,000	–	–	139,300,000
Total		40,000,000	115,850,000	–	–	155,850,000

On 9 May 2016, the Company granted share options to one of its directors and eligible employees to subscribe for a total of 115,850,000 shares of HK$0.01 each in the Company with exercise price of HK$0.263 per share under the Scheme.

Date of grant	Number of options	Exercisable period	Exercise price
18 May 2012	40,000,000 (31 December 2015: 40,000,000)	18 May 2012 to 17 May 2017	HK$0.71
9 May 2016	115,850,000 (31 December 2015: N/A)	9 May 2016 to 8 May 2021	HK$0.263

14. SHARE-BASED PAYMENT TRANSACTIONS – continued

For share options granted during the current interim period, the closing price of the share of the Company was HK$0.255 on the date of grant. Binomial Option Pricing Model had been used to estimate the fair value of the Company's options. The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of the Company's option varies with different variables of certain subjective assumptions. The inputs into the model are as follows:

Date of grant	9 May 2016
Share price as at grant date	HK$0.255
Exercise price	HK$0.263
Expected volatility	48.12%
Risk-free rate	0.96%
Expected dividend yield	0.00%

The Company recognised the total expense of RMB8,025,000 for the period ended 30 June 2016 (30 June 2015: nil) in relation to share options granted by the Company.

15. CAPITAL COMMITMENTS

Save as disclosed elsewhere in the condensed consolidated financial statements, the significant capital commitments are as follows:

	At 30 June 2016 (unaudited) *RMB'000*	At 31 December 2015 (audited) *RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment, development of wine estate and wine cellar contracted for but not provided in the condensed consolidated financial statements	**6,855**	22,744
Capital expenditure in respect of acquisition of property, plant and equipment, development of wine estate and wine cellar authorised but not contracted for	**100,752**	74,089

16. RELATED PARTIES TRANSACTIONS

Compensation of key management personnel

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

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Short-term benefits	**3,046**	2,396
Post-employment benefits	**207**	37
Share-based payments	**8,025**	–
	11,278	2,433

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.