TONTINE

# CHINA TONTINE WINES GROUP LIMITED
# 中國通天酒業集團有限公司

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 389)**

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

**FINANCIAL HIGHLIGHTS**

- Revenue increased by approximately 19.2% to approximately RMB323.6 million (2016: approximately RMB271.3 million).
- Gross profit decreased by approximately 16.3% to RMB70.4 million (2016: approximately RMB84.2 million).
- Loss and total comprehensive expense for the year attributable to owners of the Company amounted to approximately RMB39.6 million as compared with loss and total comprehensive expense attributable to owners of the Company of RMB93.3 million for the previous year.
- Basic loss per share was RMB1.96 cents as compared with basic loss per share of RMB4.63 cents for the previous year.

The board of directors (the "Board" or the "Directors") of China Tontine Wines Group Limited (the "Company") is pleased to announce the consolidated results and financial position of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 (the "Year"), prepared on the basis set out in Note 2.1, together with the comparative figures for the year ended 31 December 2016 as follows:

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

*For the year ended 31 December 2017*

| | *NOTES* | **2017** **RMB'000** | 2016 RMB'000 |
|---|---|---|---|
| Revenue | *3* | **323,559** | 271,333 |
| Cost of sales | | **(253,116)** | (187,164) |
| Gross profit | | **70,443** | 84,169 |
| Other income, gains and losses | *5* | **581** | 586 |
| Selling and distribution expenses | | **(65,469)** | (126,957) |
| Administrative expenses | | **(47,177)** | (60,612) |
| Finance costs | *6* | **(66)** | (21) |
| Change in fair value of biological assets | | **4,594** | 3,759 |
| Loss before tax | | **(37,094)** | (99,076) |
| Taxation | *7* | **–** | – |
| Loss and total comprehensive expense for the year | *8* | **(37,094)** | (99,076) |
| (Loss) profit and total comprehensive (expense) income for the year attributable to: | | | |
| Owners of the Company | | **(39,553)** | (93,291) |
| Non-controlling interests | | **2,459** | (5,785) |
| | | **(37,094)** | (99,076) |
| Loss per share | *10* | | |
| Basic *(RMB cents)* | | **(1.96)** | (4.63) |
| Diluted *(RMB cents)* | | **(1.96)** | (4.63) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2017*

| | *NOTES* | **31.12.2017** **RMB'000** | 31.12.2016 RMB'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | | **153,095** | 149,130 |
| Prepaid lease payments | | **51,414** | 54,138 |
| Biological assets | | **2,903** | 2,687 |
| | | **207,412** | 205,955 |
| **Current Assets** | | | |
| Inventories | | **257,744** | 299,860 |
| Trade receivables | *11* | **85,388** | 27,407 |
| Deposits and prepayments | | **5,575** | 14,157 |
| Tax recoverable | | **5,551** | 5,551 |
| Prepaid lease payments | | **2,723** | 2,723 |
| Bank balances and cash | | **153,647** | 181,683 |
| | | **510,628** | 531,381 |
| **Current Liabilities** | | | |
| Trade payables | *12* | **11,847** | 5,857 |
| Other payables and accruals | | **44,775** | 25,871 |
| Bank borrowing | | **–** | 7,096 |
| Tax liabilities | | **9,961** | 9,961 |
| | | **66,583** | 48,785 |
| **Net Current Assets** | | **444,045** | 482,596 |
| **Total Assets less Current Liabilities** | | **651,457** | 688,551 |
| **Capital and Reserves** | | | |
| Share capital | | **17,624** | 17,624 |
| Reserves | | **563,073** | 602,626 |
| Equity attributable to owners of the Company | | **580,697** | 620,250 |
| Non-controlling interests | | **70,760** | 68,301 |
| **Total Equity** | | **651,457** | 688,551 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2017*

## 1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Directors consider that the Company's ultimate holding company is Up Mount International Limited, a limited company incorporated in the British Virgin Islands (the "BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" of the annual report.

The consolidated financial statements are presented in Renminbi, which is also the functional currency of the Company.

The Company acts as an investment holding company.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

**Amendments to HKFRSs that are mandatorily effective for the current year**

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

| | |
|---|---|
| Amendments to HKAS 7 | Disclosure Initiative |
| Amendments to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses |
| Amendments to HKFRS 12 | As part of Annual Improvements to HKFRSs 2014-2016 Cycle |

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

**Amendments to HKAS 7 Disclosure Initiative**

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 32. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 32, the application of these amendments has had no impact on the Group's consolidated financial statements.

**New and revised HKFRSs in issue but not yet effective**

The Group has not early applied the following new and revised to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments[1] |
| HKFRS 16 | Leases[2] |
| HKFRS 17 | Insurance Contracts[4] |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[2] |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[2] |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1] |
| Amendments to HKAS 40 | Transfers of Investment Property[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle[2] |

[1] *Effective for annual periods beginning on or after 1 January 2018*
[2] *Effective for annual periods beginning on or after 1 January 2019*
[3] *Effective for annual periods beginning on or after a date to be determined*
[4] *Effective for annual periods beginning on or after 1 January 2021*

**HKFRS 9 *Financial Instruments***

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 Financial Instruments: Recognition and Measurement. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

**Impairment**

In general, the Directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the Directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables and bank balances. Such impairment recognised under expected credit loss model would increase the opening accumulated losses at 1 January 2018.

**HKFRS 15 *Revenue from Contracts with Customers***

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent consideration, as well as licensing application guidance.

The Directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the Directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

Except as mentioned above, the Directors of the Company do not anticipate that the application of the new and revised HKFRSs issued but not yet effective, will have a material effect on the Group's consolidated financial statements in the foreseeable future.

## 2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared on the historical cost basis, except for the biological assets that are measured at fair value less costs to sell at the end of each reporting period, as explained below.

Historical cost is generally based on the fair value of consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of assets*.

## 3. REVENUE

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

## 4. SEGMENT INFORMATION

The Group determines its reportable and operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the executive directors) of the Company in order to allocate the resources to the segment and to assess its performance. No operating segments identified by chief operating decision maker have been aggregated in arising at the reportable segments of the Group.

The Group is principally engaged in the business of manufacturing and sales of wine products. The Group is organised based on the region of wine products delivered.

The Group's reportable and operating segments under HKFRS 8 *Operating Segments* are identified based on different geographical zones of wine products delivered in People's Republic of China ("PRC") : North-East Region, Northern Region, Eastern Region, South-Central Region and South-West Region.

- North-East Region includes the provinces of Jilin, Heilongjiang and Liaoning.
- Northern Region includes provinces of Hebei, Shaanxi, Shanxi, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, city of Beijing and city of Tianjin.
- Eastern Region includes provinces of Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Zhejiang, and city of Shanghai.
- South-Central Region includes provinces of Guangdong, Hainan, Henan, Hubei and Hunan.
- South-West Region includes provinces of Qinghai, Sichuan, Yunnan, Guangxi Zhuang Autonomous Region and city of Chongqing.

The accounting policies of the reportable and operating segments are the same as those described in the summary of significant accounting policies.

No revenue from transactions with a single external customer amounted to 10 per cent or more of the Group's total revenue.

The Group's operations are located in the PRC and all revenue from external customers and non-current assets are attributed to and located in the PRC.

**Information about reportable and operating segment revenue, profit (loss), assets and liabilities**

| | North-East Region<br>*RMB'000* | Northern Region<br>*RMB'000* | Eastern Region<br>*RMB'000* | South-Central Region<br>*RMB'000* | South-West Region<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2017** | | | | | | |
| Segment revenue from external customers | **62,744** | **50,908** | **100,447** | **48,498** | **60,962** | **323,559** |
| Segment profit | **6,732** | **4,933** | **9,975** | **4,067** | **6,784** | **32,491** |
| **For the year ended 31 December 2016** | | | | | | |
| Segment revenue from external customers | 50,800 | 50,355 | 74,545 | 46,918 | 48,715 | 271,333 |
| Segment loss | (5,246) | (5,505) | (12,557) | (7,307) | (10,696) | (41,311) |
| **As at 31 December 2017** | | | | | | |
| Segment assets | **20,720** | **11,726** | **23,764** | **9,493** | **19,685** | **85,388** |
| Segment liabilities | **4,955** | **4,020** | **7,931** | **3,831** | **4,814** | **25,551** |
| **As at 31 December 2016** | | | | | | |
| Segment assets | 3,052 | 6,930 | 8,397 | 5,751 | 5,762 | 29,892 |
| Segment liabilities | 1,206 | 1,195 | 1,769 | 1,113 | 1,156 | 6,439 |

**Reconciliations of reportable and operating segment revenue, profit (loss), assets and liabilities**

***Revenue***

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

| | **2017**<br>***RMB'000*** | 2016<br>*RMB'000* |
|---|---|---|
| **Total segment profit (loss)** | **32,491** | (41,311) |
| Unallocated amounts: | | |
| Change in fair value of biological assets | **4,594** | 3,759 |
| Other corporate income | **581** | 760 |
| Other corporate expenses | **(74,760)** | (62,284) |
| Consolidated loss before tax | **(37,094)** | (99,076) |

Reportable and operating segment profit (loss) represented the profit (loss) incurred by each segment without allocation of amortisation, depreciation, write off of inventories, change in fair value of biological assets, finance costs, other corporate expenses and other corporate income.

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Assets** | | |
| Total segment assets | **85,388** | 29,892 |
| Other unallocated amounts | | |
| Property, plant and equipment | **153,095** | 149,130 |
| Prepaid lease payments | **54,137** | 56,861 |
| Biological assets | **2,903** | 2,687 |
| Inventories | **257,744** | 299,860 |
| Deposits and prepayments | **5,575** | 11,672 |
| Tax recoverable | **5,551** | 5,551 |
| Bank balances and cash | **153,647** | 181,683 |
| Consolidated total assets | **718,040** | 737,336 |

Reportable and operating segment assets represent trade receivables and prepaid other taxes.

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Liabilities** | | |
| Total segment liabilities | **25,551** | 6,439 |
| Other unallocated amounts | | |
| Trade payables | **11,847** | 5,857 |
| Other payables and accruals | **19,224** | 19,432 |
| Bank borrowing | **–** | 7,096 |
| Tax liabilities | **9,961** | 9,961 |
| Consolidated total liabilities | **66,583** | 48,785 |

Reportable and operating segment liabilities comprise certain other tax payables and other creditors.

**Revenue from major products**

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sweet wines | **184,607** | 144,281 |
| Dry wines | **126,448** | 109,566 |
| Brandy | **6,239** | 6,010 |
| Others | **6,265** | 11,476 |
| | **323,559** | 271,333 |

## 5. OTHER INCOME, GAINS AND LOSSES

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bank interest income | **501** | 760 |
| Net foreign exchange gain (loss) | **46** | (155) |
| Gain (loss) on disposal of property, plant and equipment | **34** | (19) |
| | **581** | 586 |

## 6. FINANCE COSTS

The costs represent the interest on bank borrowing.

## 7. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Provision for the PRC EIT was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws applicable to the subsidiaries operated in the PRC.

The taxation for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Loss before tax | **(37,094)** | (99,076) |
| Tax credit at income tax rate of 25% (2016: 25%) | **(9,274)** | (24,769) |
| Tax effect of expenses not deductible for tax purpose | **10,018** | 12,518 |
| Tax effect of tax loss not recognised | **3,718** | 12,606 |
| Utilisation of tax losses previously not recognised | **(4,462)** | (355) |
| Taxation for the year | **–** | – |

## 8. LOSS AND TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Loss and total comprehensive expense for the year has been arrived at after charging (crediting): | | |
| Auditor's remuneration | **2,120** | 1,589 |
| Cost of inventories recognised as an expense | **184,941** | 151,553 |
| Depreciation of property, plant and equipment | **10,666** | 10,597 |
| Amortisation of prepaid lease payments | **2,724** | 2,724 |
| *Less:* amounts included in property, plant and equipment | **(1,786)** | (1,786) |
| | **938** | 938 |
| Research and development costs recognised as an expense (included in administrative expenses) | **–** | 4,100 |
| Staff costs, including directors' remuneration | | |
| – salaries and other benefits costs | **17,509** | 19,307 |
| – sales commission | **7,448** | 5,938 |
| – retirement benefits schemes contributions | **4,360** | 4,262 |
| – share-based payments (included in administrative expenses) | **–** | 8,025 |
| | **29,317** | 37,532 |
| Write off of inventories (included in cost of sales) | **27,517** | 1,684 |
| Advertising and promotion expenses (included in selling and distribution expenses) | **34,141** | 101,044 |

## 9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the years ended 31 December 2017 and 2016, nor has any dividend been proposed since the end of the reporting period.

## 10. LOSS PER SHARE

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Loss for the year attributable to owners of the Company and loss for the purposes of calculating the basic and diluted loss per share | **(39,553)** | (93,291) |

| | **2017 & 2016** |
|---|---|
| | *Number of shares* |
| **Number of shares** | |
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **2,013,018,000** |

For the years ended 31 December 2017 and 2016, the computation of diluted loss per share does not assume the exercise of the Company's share options since their exercise would result in a decrease in loss per share.

## 11. TRADE RECEIVABLES

The Group allows a credit period of 30 to 90 days to its trade customers except for the new customers which payment is made when wine products are delivered. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 – 30 days | **56,001** | 18,274 |
| 31 – 60 days | **29,387** | 9,133 |
| | **85,388** | 27,407 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer.

No trade receivable balance is past due and no impairment allowance is provided at the end of the reporting period.

## 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:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 – 30 days | **9,171** | 288 |
| 31 – 60 days | **2,676** | 5,569 |
| | **11,847** | 5,857 |

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

The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

According to the National Bureau of Statistics of Mainland China, the gross domestic product of Mainland China grew by 6.9%[1] year on year in 2017, which was the first time for Mainland China's economic growth rate to recover from the downturn and take on the stable tendency with good momentum since 2011. The overall economy continued with stable and healthy development. Affected by climate changes and excess capacity of wine products worldwide, the total output of wine products in the past year decreased to 24.7 billion liters[2], setting a new low over the past 50 years. On the other hand, wine farmers preferred to produce high-price wine products with raw wine for higher profits, leading to the slight decline in the output and export of low-price wine products.

As one of the five largest wine consuming countries in the world, Mainland China consumed approximately 1.73 billion liters[3] in 2017, recording a slight rise as compared with that in 2016. The wine output throughout the country in 2017 was approximately 1 billion liters with a year-on-year decline of approximately 11.96%[4]. Currently China has a grape planting area of 847,000 hectares[5], ranking the second in the world above France and next to Spain. However, Mainland China's wine output only ranks the 7th in the world.

According to the statistical data of Mainland China customs, the gross wine imported into Mainland China amounted to 0.746 billion liters[6] in 2017 with a year-on-year increase of approximately 16.88%, and the import amount recorded a year-on-year increase of 17.96%. Confronted with the increase in the quantity of imported products, domestic wine manufacturers undertook more pressure on sales and price reduction, domestic medium and low-price wine products experienced intensified competition, gradually forming the dominance by one company.

Domestic consumer structure has excited changes in recent years, leading to fundamental changes in the consumption pattern. The middle class with relatively young age, good education, good financial capacity and more open attitudes towards imported wine products has gradually become the main stream in the wine consumption in Mainland China, contributing to an increase in the quantity of imported wine products, especially medium and high-end wine products. With the gradually rational wine consumption, consumers prefer more professional sales service, more brand choices and more affordable products. Therefore, domestic wine enterprises adjust their industrial and product structures, improve the product quality in response to market changes, and strengthen the direct communication with consumers, in order to enhance the marketing effect, as well as develop innovative marketing mode to increase the market coverage.

1. http://www.stats.gov.cn/tjsj/zxfb/201801/t20180118_1574917.html
2. http://www.wine-world.com/culture/zx/20171215141408337
3. http://www.winesinfo.com/html/2017/12/27-75870.html
4. http://cj.sina.com.cn/articles/view/1245286342/4a398fc6001002xg3?cre=tianyi&mod=pcpager_fin&loc=2&r=9&doct=0&rfunc=100&tj=none&tr=9
5. http://money.people.com.cn/n1/2017/1030/c42877-29615488.html
6. http://www.wineonline.cn/14028.html

## FINANCIAL REVIEW

During the Year, the overall operation of the Group experienced obvious improvement. With a large investment in advertising and marketing expenses in the previous year, the Group established wide brand recognition in the market, and realised strong growth of the sales volume of wine products in the Year. Since the investment in the product marketing and brand building achieved phased results, the Group made large adjustments in advertising and marketing expenses in the Year, which effectively reduced the marketing expenditure.

For the year ended 31 December 2017, the Group's revenue increased by approximately 19.2% year-on-year to approximately RMB323,559,000. Overall gross profit stood at RMB70,443,000 with the Group's gross profit margin of 21.8%. The loss attributable to the owners of the Company amounted to RMB39,553,000 for the Year with a large decline compared with RMB93,291,000 in the last year. The basic loss per share for the Year was RMB1.96 cents (2016: basic loss per share of RMB4.63 cents).

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

| | **For the year ended 31 December** | | |
|---|---|---|---|
| | **2017** | 2016 | Year-on-year |
| Overall gross profit *(RMB'000)* | **70,443** | 84,169 | –16.3% |
| Overall gross profit margin | **21.8%** | 31.0% | –9.2 percentage points |

During the Year, the loss recorded by the Group declined substantially, which was mainly attributable to sales growth, achievements in brand building, a substantial decrease in the advertising and promotion expenses in the second half of the Year, and reduced administrative expenses with the decline in share option granted during the year ended 31 December 2016.

For the year ended 31 December 2017, the total cost of sales of the Group was RMB253,116,000, which included a write off of obsolete and slow moving inventories of RMB27,517,000.

Major raw materials required for producing wine products of the Group are grapes, grape juice, yeast and additives as well as packaging materials (including bottles, bottle caps, label, corks and packaging boxes). With the increase in the output and paper cost, the overall cost of raw materials rose year-on-year by 42.0% to RMB199,564,000 and accounted for approximately 78.8% of the Group's total cost of sales.

The following table sets forth the breakdown of the costs required for production of the Group for the year ended 31 December 2017:

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2017** | 2016 | Change |
| | ***(RMB'000)*** | *(RMB'000)* | *%* |
| Raw materials | **199,564** | 140,497 | +42.0% |
| Production overheads | **13,218** | 10,816 | +22.2% |
| Consumption tax and other taxes | **40,334** | 35,851 | +12.5% |
| **Total cost of sales** | **253,116** | 187,164 | +35.2% |

## OPERATION REVIEW

The wine industry in Mainland China was confronted with competition caused by increasing quantity and types of imported products in recent years. Among domestic brands, the sales volume of the wine manufacturer with the largest sales volume accounted for half of the total revenue of 15 domestic listing wine enterprises in the past five years, so other enterprises in the industry scrambled for the remaining market share by cutting the price in the low and medium-price market.

During the Year, the Group concentrated resources in the expansion of sales of low and medium-priced wine products in response to the market development. Meanwhile, it reduced the types of products to concentrate marketing and sales resources in several products that could gain market acceptance. As at the end of the Year, the Group had 133 types of wine products.

The Group's product quality has been further recognised in the market and industry. "Tontine Xuanniya Ice Red Grape Wine" produced by Tonghua Tongtian Winery Co., Ltd. won the gold award in the "8th Asian Wine Competition (2017)" held in March 2017, while "Tontine Xuanniya Ice White Grape Wine" won the silver award. In July, "Tontine Beibinghong Ice Wine (Icewine Red)" won the gold award in the International PAR Organic Wine Award with the highest score. "Tontine White Ice Wine" won the silver award in the "First China Tonghua Cup • International Sweet Wine Competition" held in December 2017.

### Output Volume and Sales

During the Year, the Group's production facilities in Tonghua, Jilin Province and Yantai Baiyanghe, Shandong Province produced a total of 12,560 tonnes and 4,019 tonnes of wine products respectively. The overall output of the Group in the Year reached 16,579 tonnes; the product sales volume began to have a sharp recovery in the second half of the Year, and the total sales volume in the Year rose to 16,382 tonnes by approximately 4.8% as compared with that last year, which reflected that the large investment of the Group in advertising and marketing expenses in the previous year achieved phased results. The average selling price per tonne was adjusted upwards by about 13.8% to RMB19,751 as compared to the corresponding period of the previous year.

The Group sells the majority of its products to distributors, who distribute 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. For the year ended 31 December 2017, the Group's products were sold through 113 distributors in 20 provinces, 3 autonomous regions and 4 direct-controlled municipalities of Mainland China.

During the Year, the Group actively expanded the online sales platform to broaden the sales channels and increase the sales volume in the long term with the consumption pattern catering for the young generation. During the Year, the Group gradually improved the ratio of online sales through online e-platform, including Jiuxian.com and other channels. Meanwhile, the Group actively cooperated with leading wine industries and used their domestic chain sales platforms and e-commerce platforms to expand product coverage of the Group. On the other hand, the Group also devoted itself to developing wine retail sharing alliance direct to the consumers, in order to strengthen the direct communication with consumers, and lay foundation for the future launch of vintage wine products.

**Regional market performance**

In terms of regional revenue, the Eastern region remained the largest market of the Group during the Year, with the sales revenue amounting to 31.0% of the total revenue, up by 4 percentage points year-on-year. During the Year, the revenue of this region reached nearly RMB100 million, up by 34.8% year-on-year.

North-East region as the production base of Tonghua, Jilin, was mainly attributable to high acceptance of the Group's brand and commands geographical advantages. The revenue of this region increased 23.5% year-on-year to approximately RMB62,744,000, amounting to 19.4% of the total revenue. Ranked the second largest market of the Group, the local consumption of wine is becoming increasingly popular and allows the market operation to maintain steady development.

The revenue in the Northern region recorded a year-on-year increase of 1.1%, to RMB50,908,000, accounting for 15.7% of the total revenue. The revenue in the South-West region recorded a year-on-year increase of 25.1%, accounting for 18.8% of the total revenue. The revenue in the South-Central region recorded a year-on-year increase of 3.4%, accounting for 15.1% of the total revenue.

## BUSINESS INDICATOR REVIEW

**Inventory turnover days**

The inventory turnover days of the Group during the Year stood at 478 days, representing a decrease of 261 days as compared to that as at the end of 2016. This was attributable to an increase in sales during the Year, resulting in the acceleration of inventory turnover and write off of certain obsolete and slow moving inventories.

### Trade account receivables turnover days

As at 31 December 2017, the trade account receivables turnover days of the Group stood at 64 days, representing a substantial improvement as compared to 75 days of the previous year. Due to the sale growth in the fourth quarter of the Year, trade account receivables increased as compared with the beginning of the Year to RMB85,388,000.

## OPERATION ANALYSIS BY PRODUCT

During the Year, the low-margin sweet wine products accounted for 57.1% of the total revenue of the Group in 2017, being the only product that had a year-on-year increase in proportion among different wine products, while other product recorded a year-on-year decrease in proportion of the total revenue of the Group during the Year. The high-margin dry wine products accounted for 39.1%. These two wine products accounted for 96.2% of the total revenue in 2017, representing an increase of 2.6 percentage points as compared to the previous year. During the Year, brandy accounted for 1.9% of the total revenue in 2017. Other wine products such as white wines and ice wines accounted for 1.9% of the total revenue.

### Sweet wines

Sweet wines still contributed the most to the Group's output and sales for the year ended 31 December 2017. Its revenue for the Year amounted to RMB184,607,000, representing a year-on-year increase of 27.9%. While its gross profit decreased to RMB34,842,000 with the gross profit margin decreasing to 18.9%, representing a decrease of 6.1 percentage points as compared with last year. Sweet wines' gross profit accounted for 49.5% of the overall gross profit of the Group in 2017, representing a year-on-year increase of 6.7 percentage points.

### Dry wines

The sales revenue from dry wines amounted to RMB126,448,000 during the Year, up by 15.4% year-on-year. And its gross profit decreased by 21.2% year-on-year to RMB33,722,000 with the gross profit margin decreasing by 12.4 percentage points to 26.7%. Dry wines' gross profit accounted for 47.9% of the overall gross profit of the Group in 2017, representing a year-on-year decrease of 3.1 percentage points.

### Brandy

During the Year, the Group's revenue from brandy increased by 3.8% year-on-year to approximately RMB6,239,000. This product line contributed a gross profit of approximately RMB603,000, representing a year-on-year decrease of 13.7%. Its gross profit margin decreased to 9.7%. This product line only accounted for 0.9% of the overall gross profit.

### Other products

During the Year, still suffering the impact brought by the movement encouraging thrift and saving initiated by the Chinese Government, the revenue of the other products of the Group, including high-end ice wines and white wines, decreased by 45.4% year-on-year to RMB6,265,000, with the segment's gross profit decreasing by 72.5% year-on-year to RMB1,276,000. Its average gross profit margin was 20.4%. During the Year, the other products accounted for a considerably small proportion of the Group's overall gross profit, which was merely 1.8%.

## BUSINESS PROSPECTS

Wine products have become popular in the Chinese market with gradually larger room for marketing and sales. It is expected that 2018 will witness the end of market adjustment. Affected by imported products, the domestic first and second-tier wine markets are relatively saturated, while the second and third-tier markets still have potential for growth. The reduction of grape output from the old world brings about the rise in the price of raw materials and reduction of wine output, imposing price hike pressure of imported wine products. On the other hand, with the domestic consumption upgrading and further understanding of wine products, consumers have greater demands for vintage wine products from high-end wineries, bringing about opportunities for domestic vintage wineries.

The management believes that the local wine market will still be affected by imported wine products in 2018. The wine price will be higher due to the reduction of global output, which will probably lead to a higher proportion of adulterated wine in the imported wine, directly affecting the consumers' confidence in the imported wine and choice, and indirectly bringing positive impacts on the sales of the wine products of the Group and local manufacturers.

The chase for branded wine products has turned more pronounced among Chinese consumers, especially amid the shifting of consumption from high-end products driven by public/corporate-financed banqueting to mid-to-high end products targeted at middle class and younger generation of the 80s and 90s. The management believes that only household brands with high credibility can support the Group's foothold in China's fiercely competitive wine market. In response to consumers' personalised demands for products, the Group will continue to enhance the target consumer group's recognition and identification of the Group's products through systematic brand building and promotion. In addition, the Group will strengthen the direct communication with consumers to promote its ice wine and wine produced from its winery.

Jilin Tongtian Winery established by the Group for the development of high-end products has completed the final stage of calibration. It is expected that it will be put into operation in 2018 with small-batch products launched to the market. Leveraging on the strengths of the winery, the Group plans to produce the mid-to-high end products with its own brand characteristics through the fully integrated operation all the way from grape plantation to wine brewing. The winery with proprietary mid-to-high end wines would also be advantageous to deepening the Group's brand building efforts. Tongtian Winery has an annual capacity of 500 tonnes. The Group will flexibly adjust the output according to the market reaction to the proprietary brands produced by the winery.

Since it is suitable to produce ice wine in the Northeast China, the Group began to introduce high-quality wine varieties for the research and development and production of ice wine two years ago, and reserved the grape juice for the fermentation of high-end ice wine. The Group conducted trial production of a small number of ice wine products, which received high recognition from the market.

With the popularisation of grape wine knowledge among domestic consumers, and the commencement of production of the winery, the Group will strengthen the promotion of vintage wine with proprietary brands, especially ice wine for its superiority in variety under environment-friendly cultivation. Such rare product enjoys higher gross profit margin, and expanding its sales will be conducive to the enhancement of the overall operating performance of the Group.

In terms of business expansion, the Group will explore the feasibility of investment in the upstream and downstream business of the Group, for instance, acquiring enterprises with online wine sales platform or traditional distribution channels to extend the business downstream and reduce intermediate marketing expenses, thereby enhancing the overall profitability. Moreover, acquiring overseas winery has gradually become an industry development trend. The Group also will not preclude the seeking of a closer exploration of such type of investment.

Located in the northeast China with abundant agricultural products, the Group has built credibility and extensive business connections in the local area. It will also conduct feasibility study on investment in agricultural projects with economic benefits, in order to extend its business to other agriculture-related fields, which may assist in the furtherance of the principal activities of the Group.

The Group entered into a memorandum of understanding for the possible acquisition of 25.53% equity interests in Beijing Wangjiu Electronic Commerce Co., Ltd.（北京網酒網電子商務股份有限公司）in the second half of 2017 to seek possible expansion of the Group's wine purchase platform. Although the possible transaction did not come to fruition and was terminated in November 2017, the Group will continue to proactively explore opportunities for the cooperation with other e-commerce platforms for wine products, in order to establish an eco-business model of wine to realise the direct contact between the Group and target consumers. Please refer to the Company's announcements dated 21 August and 30 November 2017 for details.

The wine market in China will be filled with both opportunities and challenges in 2018. The rise in the price of imported grape provides broad market space for mid and low-price products in China. On the other hand, operators shall adjust the operation mode in response to domestic consumption upgrading and consumers' changing and personalised demands. The management will uphold the strategy of maintaining a strong financial position, and adopt a prudent and pragmatic approach to explore a road map for the stable development of the Group. It will also maintain sufficient cash on hand to flexibly respond to changes in the market and grasp acquisition opportunities.

## FINANCIAL MANAGEMENT AND TREASURY POLICY

The Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). Also, the Group's cash and cash equivalents were mostly denominated in RMB. Accordingly, there has been no significant exposure to foreign exchange fluctuation. In view of the minimal foreign currency exchange risk, the Directors would 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.

## LIQUIDITY AND FINANCIAL RESOURCES

Our working capital was healthy and positive and we generally financed our operation with internal cash flows generated from operations for the past years. The Company had raised an unsecured and unguaranteed short term bank borrowing in 2016 amounting to RMB7,096,000, with interest rate of 2.25% below the Hong Kong Dollar prime rate and effective interest rate carried at 3% per annum, and such borrowing was fully repaid in 2017. The Group's gearing ratio (being the debts incurred in the ordinary course of business divided by total assets as at the end of the financial year) was zero as at 31 December 2017. As at 31 December 2017, the Group's cash and cash equivalents amounted to approximately RMB153,647,000. 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

As at 31 December 2017, the Group made capital expenditure commitments of approximately RMB14,615,000 contracted but not provided in the consolidated financial statements. These capital commitments were provided by cash generated from operations. As at 31 December 2017, none of the Group's assets was pledged (2016: nil).

## REMUNERATION POLICY, EMPLOYMENT BENEFITS AND SHARE OPTION SCHEME

Quality and dedicated staff are our most important assets and are indispensable to our success in the competitive market. As part of our corporate culture, we strive to ensure a strong team spirit among our employees for them to contribute towards our corporate objectives. In achieving the goal, we offer competitive remuneration packages commensurate with the industry level and provide various fringe benefits, including trainings, medical, insurance coverage as well as retirement benefits to the employees in Hong Kong and in China. A share option scheme has also been adopted with the primary purpose of motivating our employees to optimise their contributions to the Group and to reward them for their performance and dedications. Employees are encouraged to enroll in external professional and technical seminars, and other training programs and courses to update their technical knowledge and skills, enhance their market awareness and improve their business acumen. The Group reviews its human resources and remuneration policies periodically with reference to local legislation, market conditions, industry practice and assessment of the performance of the Group and individual employees (including Directors). As at 31 December 2017, the Group employed a work force of 498 (including Directors) in Hong Kong and in China (2016: a work force of 572). The total salaries and related costs (including the Directors' fee) for the Year amounted to approximately RMB29,317,000 (2016: RMB37,532,000 (included one off share option expenses of RMB8,025,000)).

## CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2017 (2016: Nil).

## DIVIDEND

The Directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2017 (2016: Nil).

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 30 April 2018 to Friday, 4 May 2018 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting (the "AGM") of the Company to be held on Friday, 4 May 2018. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Hong Kong by 4:30 p.m. on Friday, 27 April 2018.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Year.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for securities transactions by Directors and relevant employees of the Group who, because of office or employment, are likely to be in possession of unpublished inside information in relation to the Group's securities. The Directors and such relevant employees are required to strictly follow the Model Code when dealing in the securities of the Company. The Directors and such relevant employees, after specific enquiries by the Company, confirmed their compliance with the required standards set out in the Model Code throughout the Year.

## CORPORATE GOVERNANCE

Throughout the Year, the Company had applied the principles and complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules, save for the deviation from Code Provision A.2.1, which states that 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 currently performs these two roles. Mr. Wang Guangyuan is responsible for the overall business strategy and development and management of the Group. The Board considers that Mr. Wang Guangyuan, by serving as 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 decisions to be effectively made, which is beneficial to the management and the development of the Group's business. Therefore, Mr. Wang Guangyuan assumes the dual roles of being the chairman of the Board and CEO of the Company notwithstanding the aforementioned deviation.

## AUDIT COMMITTEE

The audit committee of the Company (comprising 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 Group's risk management and internal controls systems, as well as reviewed the Group's audited annual results for the Year.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE COMPANY AND OF THE STOCK EXCHANGE

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.tontine-wines.com.hk). The annual report for the year ended 31 December 2017 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

## ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere gratitude to our management and all our staff for their continuous efforts and whole-hearted devotion. We are also truly grateful to our shareholders, investors, business partners and customers for their enormous support and trust.

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

Hong Kong, 16 March 2018

*As at the date of this announcement, the Executive Directors are Mr. Wang Guangyuan, Mr. Zhang Hebin and Ms. Wang Lijun and the Independent Non-executive Directors are Mr. Lai Chi Keung, Albert, Mr. Lam Yiu Por and Mr. Yang Qiang.*

*This document is prepared in both English and Chinese. In the event of inconsistency, the English text of this document shall prevail over the Chinese text.*