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 2018

Contents

Financial Highlights

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profitability data		
Revenue	**160,488**	81,044
Gross profit	**60,387**	25,269
Profit (loss) and total comprehensive income (expense) for the period attributable to owners of the Company	**18,211**	(39,592)
Earnings (loss) per share		
– Basic (RMB cents)	**0.9**	(2.0)
– Diluted (RMB cents)	**0.9**	(2.0)

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Profitability ratios		
Gross profit margin	**37.6%**	31.2%
Net profit (loss) margin *(Note 1)*	**11.3%**	(48.9%)
Effective tax rate	**–**	–
Return on equity *(Note 2)*	**3.1%**	(6.6%)
Return on assets *(Note 3)*	**2.5%**	(5.6%)
Operating ratios (as a percentage of revenue)		
Advertising and marketing expenses	**1.3%**	38.6%
Staff costs	**7.9%**	14.6%

Notes:

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

2. Return on equity is equal to the profit (loss) and total comprehensive income (expense) 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 (loss) and total comprehensive income (expense) 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 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Assets, liabilities and equity data		
Non-current assets	**204,369**	207,412
Current assets	**511,324**	510,628
Current liabilities	**42,047**	66,583
Shareholders' equity	**598,430**	580,697
Non-controlling interests	**75,216**	70,760

	At 30 June 2018 (Unaudited)	At 31 December 2017 (Audited)
Other key financial ratios and information		
Current ratios *(Note 4)*	**12.2**	7.7
Quick ratios *(Note 5)*	**6.3**	3.8
Net asset value per share (RMB) *(Note 6)*	**0.33**	0.32
Inventory turnover days (days) *(Note 7)*	**571**	478
Trade receivables turnover days (days) *(Note 8)*	**94**	64
Trade payables turnover days (days) *(Note 9)*	**21**	15

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 181 days (for the six months ended 30 June 2018) and 365 days (for the year ended 31 December 2017).

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 181 days (for the six months ended 30 June 2018) and 365 days (for the year ended 31 December 2017).

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 181 days (for the six months ended 30 June 2018) and 365 days (for the year ended 31 December 2017).

10. The financial data of the Company for the year ended 31 December 2017 and information as to its consolidated financial position as at 31 December 2017 are extracted from the Company's annual report dated 16 March 2018.

Corporate Information

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

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Lai Chi Keung, Albert
Mr. Lam Yiu Por
Mr. Yang Qiang

COMPANY SECRETARY
Ms. Leung Ka Yan

AUDIT COMMITTEE
Mr. Lam Yiu Por *(Chairman)*
Mr. Lai Chi Keung, Albert
Mr. Yang Qiang

REMUNERATION COMMITTEE
Mr. Lam Yiu Por *(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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Ms. Leung Ka Yan

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Corporate Information

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Jilin Province
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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 2018: 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**", together with its subsidiaries, the "**Group**") is pleased to present herein the unaudited interim results of the Group for the six months ended 30 June 2018 (the "**Period**" or the "**period under review**").

INDUSTRY OVERVIEW

According to the National Bureau of Statistics of China, the gross domestic product (GDP) of China grew by 6.8% year-on-year in the first half of 2018[1]. The Chinese economy has continued to maintain its stable performance with good momentum for growth, which is in line with the market expectation. Due to the accelerated consumption upgrade in the economic sector of China, the consumption structure of the country is shifting towards a higher level. For the wine market, the consumption upgrade means that consumers are calling for wines with better quality and higher price.

At present, it is estimated that there are nearly 40 million habitual wine-drinkers in China[2]. With the trend of lowering age of domestic consumers and the expanding base of middle class and well-to-do class, habitual wine-drinkers remain on the rise. Chinese consumers are quickly maturing. Awareness and popularization of wine among the middle class and well-to-do class have improved, and the attitude of these two classes towards wine has also somewhat shifted. In the past, they drank wine mainly on business or social occasions, and now, they gradually drink wine to benefit their health, with an increasing brand awareness among consumers.

According to the data in the white paper for China's wine market, affected by the wine imports, domestic wine saw a decline of output of domestic wine as at the end of 2017, indicating a decline of output for 5 consecutive years since 2013[3]. Subject to year-on-year increase in the total volume of wine imports and the cutting of value-added tax (VAT) rate on imported goods by the Chinese government from 1 May 2018, domestic wine producers have to withstand certain pressure in the domestic market. In recent years, wine imports have gradually shifted their target to mid to low end market, intensifying their competition with domestic wine. Some domestic wine producers have targeted their products at mid to high end market in order to avoid cutting prices to compete with low-end wine imports. In addition, the shift towards mid to high end market is also useful for domestic wine producers to enhance their operating profit ratio.

1 http://www.stats.gov.cn/tjsj/zxfb/201807t20180717_1610160.html

2 http://www.lookvin.com/article/news/detail-48518.html

3 http://epaper.21jingji.com/html/2018-03/20/content_82209.htm

In the first half of 2018, the volume of wine products imported by China reached 1,336,000 kiloliters, representing an increase of 38.1% year-on-year[4]. China's wine consumer market is still dominated by red grape wine as sales of red grape wine account for more than 90% of the total sales of wine. That is different from mature wine markets such as the European market as red grape wine consumption in those countries approximately accounts for 54% of their static wines[5]. With the improving standard of living and the rise of the middle class, consumer groups and consumptions of wine also expand progressively in China. As estimated by Vinexpo and IWSR (International Wine & Spirits Research)[6], China's wine market is expected to grow by 30% in average yearly within the next 5 years.

FINANCIAL REVIEW

For the six months ended 30 June 2018, the performance of the Group experienced obvious improvement, and even the Group achieved a surplus on a year-on-year basis. The satisfactory result of the Group was mainly attributable to the significant increase in the sales volume and revenue of sweet wines and dry wines. Overall gross profit of the Group registered a notable growth thanks to the remarkable year-on-year increase in the gross profit margin of sweet wines. On the other hand, the Group continued its efforts to enhance cost control and improve operating efficiency, allowing the Group to earn net profits during the period under review.

For the six months ended 30 June 2018, the Group's revenue increased by approximately 98.1% year-on-year to RMB160,488,000. Overall gross profit stood at RMB60,387,000 with the Group's gross profit margin adjusted to approximately 37.6% due to an increase in revenue. The profit attributable to the owners of the Company amounted to RMB18,211,000 for the period under review against a loss of RMB39,592,000 in the corresponding period last year. The basic and diluted earnings per share for the period under review was RMB0.9 cents (2017 corresponding period: basic and diluted loss per share of RMB2.0 cents).

4 http://s.askci.com/news/chanxiao/20180726/1503201126858.shtml

5 http://www.winechina.com/html/2018/02/201802293722.html

6 http://www.lookvin.com/article/news/detail-47668.html

Management Discussion and Analysis

The following table shows gross profit, gross profit margin and year-on-year comparison during the Period:

	Six months ended 30 June		Increase year-on-year
	2018	2017	
Overall gross profit (RMB'000)	**60,387**	25,269	+138.7%
Overall gross profit margin	**37.6%**	31.2%	+6.4 percentage points

During the period under review, selling and distribution expenses of the Group dramatically decreased by 65% year-on-year to RMB15,796,000, and advertising and promotion expenses even declined by 94% year-on-year to RMB2,048,000. Dramatic decline of these two expenses contributed to enhance overall operating efficiency of the Group, thus enabling the Group to record profits during the period under review.

For the six months ended 30 June 2018, the two production bases of the Group produced a total of 7,032 tonnes of various products, representing a year-on-year increase of 75%. As a result of the increase in output, the Group's total cost of sales during the period under review was RMB 100,101,000, representing an increase of approximately 79.5% over the corresponding period last year of the Group, of which raw material costs representing maximum proportion in total cost of sales increased by approximately 78.7% to RMB71,908,000.

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). During the period under review, the cost of raw materials accounted for approximately 72% 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 six months ended 30 June 2018:

	Six months ended June 30		
	2018	2017	**Change %**
	RMB'000	*RMB'000*	
Raw materials	**71,908**	40,241	79%
Production overheads	**8,011**	4,998	60%
Consumption tax and other taxes	**20,182**	10,536	92%
Total cost of sales	**100,101**	55,775	79%

OPERATION REVIEW

The stable development of domestic economy and the rapid rise of China's middle class allow greater access to wines, making wine-related consumption a part of the lifestyle. In terms of domestic wine consumption pattern, wine consumption has become more common and affordable and there is a shift away from consumption of high-end, expensive and luxurious hospitality brands. The Group placed its emphasis on promoting mid to low end wine products targeted at the daily consumption needs of the general public during the period under review, and intensified online promotion and personalized marketing pattern catering to young consumers. Different from the past promotion practices such as engaging ambassador with high pay and placement on traditional advertising platform, such innovative sales mode can not only greatly save market promotion costs for the Group, but also can effectively drive growth of sales of main products of the Group, which can be demonstrated by the strong performance of the Group.

As one of the Top 10 Chinese Wine Industry Brands, the Group is widely recognized among the industry and consumers. During the period under review, the Group's product quality was further recognized in the industry. In May 2018, Tontine White Ice Wine 2015 won a silver medal for China wine production region in CMB (Concours Mondial de Bruxelles) following its gold award received in 2017 in the International PAR Organic Wine Award with the highest score and the silver award received in the First China Tonghua Cup • International Sweet Wine Competition.

During the period under review, the Group continued re-deploying its resources to wine products with mid and low prices, and targeting sales of those products at the mass market. Besides that, the Group also doubled its efforts to promote its mid-end dry wine products which were well-received by the market.

The Group recorded a significant increase in the gross profit margin of its sweet wines during the period under review as the margin was raised by almost 10 percentage points year-on-year to 34.9%. Sweet wine products accounted for 54.4% of the total revenue of the Group in the first half of 2018. During the period under review, gross profit margin of dry wine products of the Group was 41.3%, a slight increase year on year. Dry wine products accounted for 40.9% of total sales of the Group in the first half of 2018. These two products accounted for 95.3% of the total revenue in the first half of 2018, a slight growth occurred as compared with the corresponding period of the previous year. During the period under review, revenues from brandy and other products such as white wine and ice wine respectively accounted for approximate 2.3% and 2.4% of total revenues of the Group in the first half of 2018. As at the end of the period under review, the Group offered a total of 145 types of wine products.

Output Volume and Sales

During the period under review, the Group's production facilities in Tonghua, Jilin Province and Yantai Baiyanghe, Shandong Province produced a total of 4,897 and 2,135 tonnes of wine products respectively.

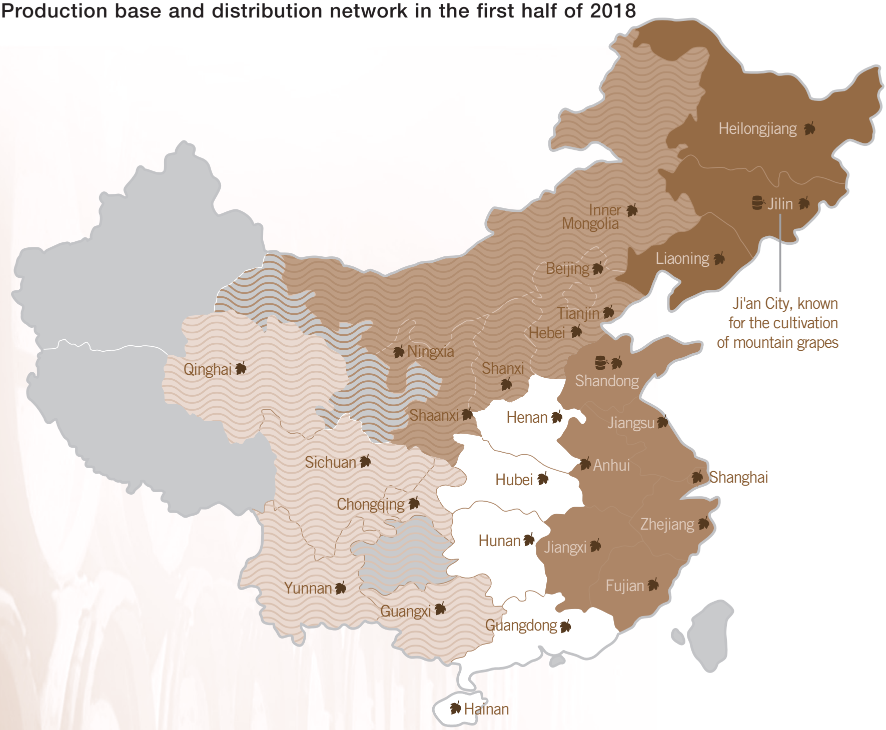
During the period under review, the total sales volume of the Group increased by approximately 63.4% to 7,938 tonnes, and the overall output of the Group increased significantly from the corresponding period of last year. Given the trend of rejuvenation of the wine industry at the end of 2017, and as part of its greater efforts to publicize its products and raise awareness of its products among consumers, the Group had launched a marketing campaign in which any buyer of our products can get free products, which campaign stimulated consumer spending. Thanks to the promotional activities conducted in the second half of 2017, products of the Group have been recognized by consumers, contributing to notable increase in the sales during the period under review. Average selling price per tonne was raised by approximate 21.2% to RMB20,219 as compared with the corresponding period of last year, which is also one of the driving forces of the overall gross profit growth of the Group. The average selling price of other products including white wine and ice wine reached its highest, amounting to RMB70,204 per tonne; while the average selling price per tonne of sweet wine and dry wine with the most sales volume was RMB16,743 and RMB 26,778 per tonne respectively.

The Group sells the majority of its 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 and other sub-distributors for further sales distribution.

As at 30 June 2018, the Group's products were sold through 107 distributors in 20 provinces, 3 autonomous regions and 3 direct-controlled municipalities of China, a slight increase as compared with last year. During the Period, the Group conducted stringent distributors' performance audit and eliminated underperformed distributors and at the same time increased the number of distributors to optimise its distribution network.

China Tontine Wines Group Limited

Production base and distribution network in the first half of 2018

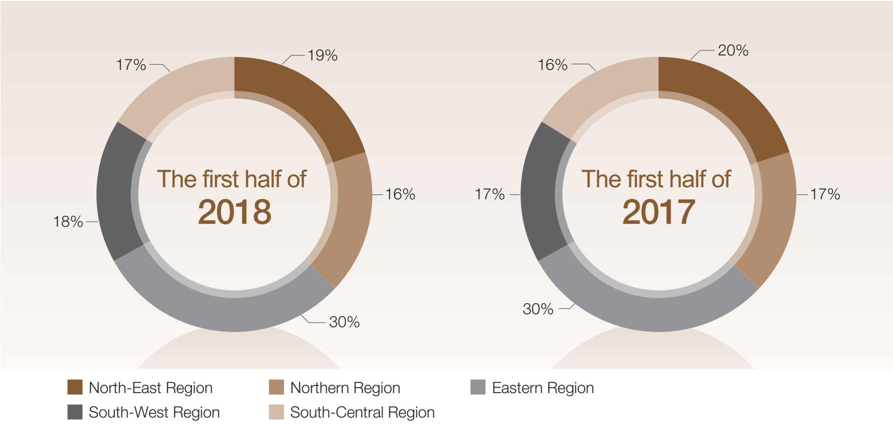


Notes:

1. **North-East Region** includes the Provinces of Heilongjiang, Jilin and Liaoning.
2. **Northern Region** includes the Provinces of 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 Qinghai, Sichuan, Yunnan, Guangxi Zhuang Autonomous Region and city of Chongqing.
6. Distribution Network.
7. Production Base.

Regional market performance

The pie charts below show the breakdown of revenues from different regional markets of the Group in the first half of 2018 and the first half of 2017:



	The first half of 2018	The first half of 2017
North-East Region	19%	20%
Northern Region	16%	17%
Eastern Region	30%	30%
South-West Region	18%	17%
South-Central Region	17%	16%

In terms of regional revenue, the Eastern region remained the largest market of the Group during the period under review, with revenue amounting to RMB47,961,000, representing 30% of the total revenue, up by approximately 99% year-on-year. Wine products were generally well received in this region, as it covered those prosperous provinces in China with a relatively high per-capita income level. However, the competition in this region was more severe than others due to its consumption concentration.

During the period under review, the revenue of North-East region, as the production base of Tonghua, Jilin, reached RMB30,905,000, accounting for 19% of the total revenue up by approximately 93% as compared with the corresponding period last year. This region was ranked the second largest market of the Group. The market performance of the North-East region was relatively steady, which was mainly attributable to high acceptance and favorable brand recognition of the Group's products in the locality.

During the period under review, the revenue in the Northern region recorded RMB26,154,000, accounting for 16% of the total revenue. The revenue in the South-West region recorded RMB28,538,000, accounting for 18% of the total revenue. The revenue in the South-Central region recorded RMB26,930,000, accounting for 17% of the total revenue.

BUSINESS INDICATOR REVIEW

Inventory turnover days

The inventory turnover days of the Group as at the end of the period under review stood at 571 days, decreased sharply from 1,161 days in the corresponding period last year, mainly due to sales growth in the first half of 2018, which reduced inventory turnover.

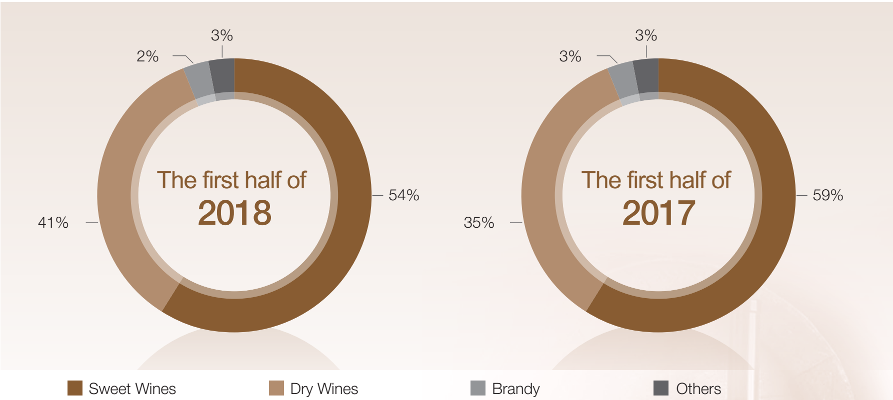
Trade account receivables turnover days

As at 30 June 2018, the trade account receivables turnover days of the Group stood at 94 days. Trade account receivables slightly decreased to RMB81,757,000 as compared with the beginning of the Period.

OPERATION ANALYSIS BY PRODUCT

The pie charts below show the breakdown of revenue from different wine products of the Group in the first half of 2018 and the first half of 2017:

	For the six months ended 30 June 2018		For the six months ended 30 June 2017		
	Revenue RMB'000	% of total revenue	Revenue RMB'000	% of total revenue	Change %
Sweet Wines	87,264	54%	47,886	59%	82%
Dry Wines	65,581	41%	28,103	35%	133%
Brandy	3,786	2%	2,839	3%	33%
Others	3,857	3%	2,216	3%	74%
Total	160,488	100%	81,044	100%	98%



Sweet wines

For the six months ended 30 June 2018, sweet wines continued to contribute the most to the Group's output and sales. Its revenue for the first half of 2018 amounted to RMB87,264,000, representing an increase of 82% as compared with the corresponding period last year. Their contributions to gross profit grew by 151.7% to RMB30,488,000, accounting for 50.5% of the total gross profit of the Group. During the period under review, the increasing sales revenue of sweet wine is primarily attributable to the "Buy and Get Free" marketing campaign designed to further publicize the Group's products, and enhance consumers' awareness of the product so as to induce stimulation of consumer spending. Thanks to the promotional activities conducted in the second half of 2017, products of the Group have become more recognized by consumers, contributing to notable increase in the sales during the period under review. During the period under review, the Group further adjusted its product structure by removing varieties with low gross profit and developing varieties with relatively high gross profit, which boosted growth of the comprehensive gross profits from sweet wine. Due to the increase in sales of the sweet wine, gross profit margin from sweet wine was raised by nearly 3 percentage points year-on-year.

Dry wines

During the period under review, the sales revenue from dry wines amounted to RMB65,581,000, significantly increased by 133% year-on-year, and its gross profits were raised by 137% to RMB27,070,000. The year-on-year growth of sales revenue from the dry wine is mainly attributable to the improved awareness of dry wine among consumers. With the rise in their standard of living, their high adaptability to the taste for wine, and their crave for low-sugar and healthy catering, customer preference tilted more to dry wines. During the period under review, contributions of dry wine to gross profit accounted for 44.8% of the total gross profit, which is comparable with that of last year.

Brandy

During the period under review, the Group's revenue from brandy reached approximately RMB3,786,000; and its gross profit margin was 25.8%, accounting for approximately 1.6% of the overall gross profit.

Other products

Other products of the Group include high-end ice wines and white wines. Ice wine is a high-end product, but in recent years, the Group has further developed mid-end ice wine products in order to embrace market demands. During the Period, the Group has intensified promotion of the mid-end wine products, and those products were well received. Sales revenue of the mid-end wine experienced a slight year-on-year increase as a result of its increased sales volume. In the first half of 2018, the Group's revenue from ice wines was RMB2,642,000, with gross profit margin increasing to 48.1%. Other products only accounted for 3.1% in aggregate of the Group's overall gross profit during the period under review.

BUSINESS PROSPECTS

The intensified trade war between China and the U.S. has become the biggest challenge to the global economic development as these two giant economic powers have either mutually imposed import restrictions or greatly raised the tariff. On the other hand, the conclusion of the agreement on tariff and reduction of trade barriers between the U.S. and the European Union didn't thoroughly ease the concerns of the European public about protectionism of the U.S. Those uncertainties will to certain extent generate psychological pressure on domestic consumer market.

Management Discussion and Analysis

China cuts its rate imposed on wine imports from this year onwards, which will deal a blow at domestic wine manufacturers. Output of domestic wines has been declining for five consecutive years. In 2017, domestic wine products approximately accounted for 61% of the market share in China, while wine imports grew by 15%. Despite rapid increase in the volume of wine imports in recent years, there are many sub-standard and cheap OEM wines imported into China. Domestic consumers have gradually become mature as far as wine consumption is concerned, and they no longer blindly believe that the quality of imported wine is surely better than that of domestic wine, after they have experienced imported wine for some years. In recent years, domestic wine quality has been enhanced constantly. Tontine Wines is one of examples as its ice red grape wine won a gold award respectively in the Asia Wine Quality Competition and the International Organic Wine Award.

In China, wine consumption has been shifted 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. These consumers have international dimension and they pay high regard to price performance in terms of wine consumption. Considering the consumption motive and needs of these consumers, brand differentiation emerged. Hence, an enterprise should also adjust its marketing planning and retail direction to keep pace with the market.

With the improvement in quality of domestic wine, and increasing diversification of consumption demands, especially the process of consumers developing themselves from the entry level to advanced level in every aspect of wine, during which they will have increasingly high expectation towards the wine, personalized segment will appear on the market, offering better development opportunity to domestic wine. Domestic wine producers should hold and explore the market, and it is also very important to stabilize and improve the quality of wine products in order to ensure their quality safety, thus establishing consumers' trust in the quality of domestic wine and even their loyalty to domestic wine brand. As a response to personalized requirements of consumers for the product, the Group will continue focusing on the target consumers to strengthen their recognition and awareness of our products by way of systematic branding and promotion, and the Group will also put more efforts into the promotion of its high-end and high-price products – ice wine and wine produced from its winery.

Jilin Tongtian Winery established by the Group for the development of high-end products has completed its calibration, and it is expected to be put into operation gradually this year. Leveraging on the strengths of the winery, the Group plans to produce 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 of wines produced by the winery.

Actively leveraging on its strengths of extensive business connections and resources in the northeast China, the Group seeks to achieve diversified development of its own business and the relevant sectors. The Group is currently conducting feasibility study on investment in agricultural projects with economic benefits, in order to exploit fully its advantages in location and industry resources to expand its business and sources of revenue.

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 2018 (2017 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 2018, the Group's cash and cash equivalents were substantially denominated in RMB and amounted to approximately RMB160,092,000. The Group has sufficient financial resources and a strong cash position to satisfy the working capital requirements of its business development, operations and capital expenditures.

Capital commitments and charges on assets

The Group made capital expenditure commitments of approximately RMB14,615,000 contracted but not provided for in the condensed consolidated financial statements as at 30 June 2018. These commitments were required mainly to support the Group's production capacity expansion.

As at 30 June 2018, none of the Group's assets was pledged (30 June 2017: 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 2018, the Group employed a work force of 502 in Hong Kong and in the PRC (31 December 2017: 498). The total salaries and related costs (including Directors' fee) for the Period amounted to approximately RMB12.7 million (2017: RMB11.8 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, suppliers of goods and services, consultants, advisers, contractors, business or service partners.

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 1.1.2018	Granted during the Period	Lapsed/ cancelled during the Period	Exercised during the Period	Outstanding at 30.6.2018
Zhang Hebin (Director)	9 May 2016	0.263	16,550,000	–	–	–	16,550,000
Employees	9 May 2016	0.263	82,750,000	–	–	–	82,750,000
Total			99,300,000	–	–	–	99,300,000

Please refer to Note 17 to the Condensed Consolidated Financial Statements contained in this interim report for further details of the outstanding share options granted under the Scheme as at the end of 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 2017, 16 March 2018 (being the date of the annual report of the Company for the year ended 31 December 2017) and 30 June 2018:

– the total number of shares available for issue by the Company under the Scheme Mandate Limit was 9,734,000 shares, 9,734,000 shares and 9,734,000 shares respectively, representing approximately 0.48%, 0.48% 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 99,300,000 shares, 99,300,000 shares and 99,300,000 shares respectively, representing approximately 4.9%, 4.9% and 4.9% 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 2018, 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 of Hong Kong Limited (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 of shares *(Note 1)*	Approximate percentage of shareholding *(Note 4)*
Mr. Wang Guangyuan	The Company	Interest of a controlled corporation	675,582,720 (L) *(Note 2)*	33.56%
Mr. Zhang Hebin	The Company	Interest of a controlled corporation	132,467,200 (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 2018.

(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 2018.

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 2018.

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

As at 30 June 2018, 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	Number of underlying shares subject to outstanding options *(Note 6)*	Approximate percentage of shareholding
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	16,550,000	7.40%
Clever Growth Limited *(Note 5)*	Beneficial owner	157,726,000		7.84%
Mr. Yan Shaohua 晏紹華	Interest in a controlled corporation *(Note 5)*	157,726,000		7.84%
	Beneficial owner	79,856,000		3.97%
		237,582,000		11.81%

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) Clever Growth Limited is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Yan Shaohua. Mr. Yan Shaohua is deemed to be interested in all the shares held by Clever Growth Limited under Part XV of the SFO.

(6) The percentage of shareholding is calculated on the basis of 2,013,018,000 shares in the Company in issue as at 30 June 2018.

All the interests stated above represent long positions. As at 30 June 2018, 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 2018 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 had 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.

Audit Committee Review

The interim results for the Period are unaudited and have not been reviewed by the auditors of the Company.

The audit committee of the Company (comprised all the independent non-executive Directors) had reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the risk management and internal controls, as well as reviewed the Group's unaudited condensed consolidated interim financial statements for the Period.

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
24 August 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**160,488**	81,044
Cost of sales		**(100,101)**	(55,775)
Gross profit		**60,387**	25,269
Other income, gains and losses	*5*	**54**	240
Selling and distribution expenses		**(15,796)**	(44,530)
Administrative expenses		**(23,714)**	(23,646)
Finance costs	*6*	**–**	(64)
Change in fair value of biological assets		**1,736**	1,559
Profit (loss) before tax	*7*	**22,667**	(41,172)
Taxation	*8*	**–**	–
Profit (loss) and total comprehensive income (expense) for the period		**22,667**	(41,172)
Profit (loss) and total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**18,211**	(39,592)
Non-controlling interests		**4,456**	(1,580)
		22,667	(41,172)
Earnings (loss) per share	*9*		
Basic (RMB cents)		**0.9**	(2.0)
Diluted (RMB cents)		**0.9**	(2.0)

Condensed Consolidated Statement of Financial Position

At 30 June 2018

	Notes	30 June 2018 (Unaudited) *RMB'000*	31 December 2017 (Audited) *RMB'000*
Non-current Assets			
Property, plant and equipment	*11*	**149,678**	153,095
Prepaid lease payments		**50,052**	51,414
Biological assets	*12*	**4,639**	2,903
		204,369	207,412
Current Assets			
Inventories		**246,809**	257,744
Trade receivables	*13*	**81,757**	85,388
Deposits and prepayments		**14,392**	5,575
Tax recoverable		**5,551**	5,551
Prepaid lease payments		**2,723**	2,723
Bank balances and cash		**160,092**	153,647
		511,324	510,628
Current Liabilities			
Trade payables	*15*	**6,931**	11,847
Other payables and accruals		**25,155**	44,775
Tax liabilities		**9,961**	9,961
		42,047	66,583
Net Current Assets		**469,277**	444,045
Total Assets Less Current Liabilities		**673,646**	651,457
Capital and Reserves			
Share capital	*16*	**17,624**	17,624
Reserves		**580,806**	563,073
Equity attributable to owners of the Company		**598,430**	580,697
Non-controlling interests		**75,216**	70,760
Total Equity		**673,646**	651,457

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	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*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2017 (Audited)	17,624	910,541	86,360	130,634	13,924	(538,833)	620,250	68,301	688,551
Loss and total comprehensive expense for the period	–	–	–	–	–	(39,592)	(39,592)	(1,580)	(41,172)
Share option lapsed (note 17)	–	–	–	–	(5,899)	5,899	–	–	–
At 30 June 2017 (Unaudited)	17,624	910,541	86,360	130,634	8,025	(572,526)	580,658	66,721	647,379
At 31 December 2017 (Audited)	17,624	910,541	86,360	130,634	6,926	(571,388)	580,697	70,760	651,457
Effect arising from initial application of HKFRS 9 (note 2)	–	–	–	–	–	(478)	(478)	–	(478)
At 1 January 2018	17,624	910,541	86,360	130,634	6,926	(571,866)	580,219	70,760	650,979
Profit and other comprehensive income for the period	–	–	–	–	–	18,211	18,211	4,456	22,667
At 30 June 2018 (Unaudited)	17,624	910,541	86,360	130,634	6,926	(553,655)	598,430	75,216	673,646

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 2018

	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**7,474**	(15,953)
INVESTING ACTIVITIES		
Interest received	**54**	244
Purchase of property, plant and equipment	**(1,083)**	(1,963)
NET CASH USED IN INVESTING ACTIVITIES	**(1,029)**	(1,719)
FINANCING ACTIVITIES		
Proceeds from bank borrowing	**–**	829
Repayment of bank borrowings	**–**	(6,748)
Interest paid	**–**	(64)
NET CASH USED IN FINANCING ACTIVITIES	**–**	(5,983)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,445**	(23,655)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**153,647**	181,683
Effect of foreign exchange rate changes	**–**	(15)
CASH AND CASH EQUIVALENTS AT 30 JUNE represented by bank balances and cash	**160,092**	158,013

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

2. PRINCIPAL ACCOUNTING POLICIES – continued

Application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") – continued

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15")

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue,* HKAS 11 *Construction Contracts* and the related interpretations.

Revenue from sale of wines directly to distributors is recognised when the control of goods has transferred, being when the goods are accepted by the customers. The customers have fall discretion over the goods, and there is no un-fulfilled obligation that could affect the customer's acceptance of the good.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Difference at the date of initial application, if any, is recognised in the opening accumulated losses and comparative information has not been restated and only applied to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") – continued

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation.

Under HKFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") – continued

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 – continued

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") – continued

2.1.2 Summary of effects arising from initial application of HKFRS 15

For sale of goods, revenue is recognised when the customer obtains the control of the goods and the Group has present right to payment and the collection of the consideration is probable.

The application of HKFRS 15 does not have a material impact on the timing and amounts of revenue recognised in the respective reporting period.

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* ("HKFRS 9")

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets and lease receivables) and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses, without restating comparative information.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* ("HKFRS 9") – continued

2.2.1 *Key changes in accounting policies resulting from application of HKFRS 9 – continued*

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* ("HKFRS 9") – continued

2.2.1 *Key changes in accounting policies resulting from application of HKFRS 9 – continued*

Classification and measurement of financial assets – continued

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* ("HKFRS 9") – continued

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 – continued

Classification and measurement of financial assets – continued

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* ("HKFRS 9") – continued

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 – continued

Impairment under ECL model – continued

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

Significant increase in credit risk

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* ("HKFRS 9") – continued

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 – continued

Impairment under ECL model – continued

Significant increase in credit risk – continued

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* ("HKFRS 9") – continued

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 – continued

Impairment under ECL model – continued

<u>Significant increase in credit risk – continued</u>

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

<u>Measurement and recognition of ECL</u>

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* ("HKFRS 9") – continued

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 – continued

Impairment under ECL model – continued

Measurement and recognition of ECL – continued

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.2.2.

2.2.2 Summary of effects arising from initial application of HKFRS 9

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables.

As at 1 January 2018, the additional credit loss allowance of RMB478,000 has been recognised against accumulated losses. The additional loss allowance is charged against the trade receivables.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

	31 December 2017 (Audited) *RMB'000*	HKFRS 9 *RMB'000*	1 January 2018 (Adjusted) *RMB'000*
Non-current Assets			
Property, plant and equipment	153,095	–	153,095
Prepaid lease payments	51,414	–	51,414
Biological assets	2,903	–	2,903
	207,412	–	207,412
Current Assets			
Inventories	257,744	–	257,744
Trade receivables	85,388	(478)	84,910
Deposits and prepayments	5,575	–	5,575
Tax recoverable	5,551	–	5,551
Prepaid lease payments	2,723	–	2,723
Bank balances and cash	153,647	–	153,647
	510,628	(478)	510,150
Current Liabilities			
Trade payables	11,847	–	11,847
Other payables and accruals	44,775	–	44,775
Tax liabilities	9,961	–	9,961
	66,583	–	66,583
Net Current Assets	444,045	(478)	443,567

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards – continued

	31 December 2017 (Audited) *RMB'000*	HKFRS 9 *RMB'000*	1 January 2018 (Adjusted) *RMB'000*
Total Assets Less Current Liabilities	651,457	(478)	650,979
Capital and Reserves			
Share capital	17,624	–	17,624
Reserves	563,073	(478)	562,595
Equity attributable to owners of the Company	580,697	(478)	580,219
Non-controlling interests	70,760	–	70,760
Total Equity	651,457	(478)	650,979

3. REVENUE

Revenue from sale of goods is recognised at point in time when the customer obtains the control of the goods and the Group has present right to payment and the collection of the consideration is probable.

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 2018 (Unaudited)						
Segment revenue from external customers	30,905	26,154	47,961	26,930	28,538	160,488
Segment profit	9,996	7,561	12,668	7,099	7,201	44,525
For the six months ended 30 June 2017 (Unaudited)						
Segment revenue from external customers	16,048	14,085	24,158	12,663	14,090	81,044
Segment loss	(4,386)	(2,443)	(4,581)	(2,938)	(3,354)	(17,702)

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	
	2018 (Unaudited) ***RMB'000***	2017 (Unaudited) *RMB'000*
Total segment profit (loss)	**44,525**	(17,702)
Unallocated amounts:		
Change in fair value of biological assets	**1,736**	1,559
Other corporate income	**54**	244
Other corporate expenses	**(23,648)**	(25,273)
Consolidated profit (loss) before tax	**22,667**	(41,172)

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 2018 (Unaudited)						
Segment assets	16,991	13,183	27,277	9,578	14,728	81,757
Segment liabilities	4,578	4,019	7,613	4,244	4,476	24,930
As at 31 December 2017 (Audited)						
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

4. SEGMENT INFORMATION – continued

	At 30 June 2018 (Unaudited) *RMB'000*	At 31 December 2017 (Audited) *RMB'000*
Assets		
Total segment assets	81,757	85,388
Other unallocated amounts		
Property, plant and equipment	149,678	153,095
Prepaid lease payments	52,775	54,137
Biological assets	4,639	2,903
Inventories	246,809	257,744
Deposits and prepayments	14,392	5,575
Tax recoverable	5,551	5,551
Bank balances and cash	160,092	153,647
Consolidated total assets	715,693	718,040
Liabilities		
Total segment liabilities	24,930	25,551
Other unallocated amounts		
Trade payables	6,931	11,847
Other payables and accruals	225	19,224
Tax liabilities	9,961	9,961
Consolidated total liabilities	42,047	66,583

4. SEGMENT INFORMATION – continued

Revenue from major products

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Sweet wines	**87,264**	47,886
Dry wines	**65,581**	28,103
Brandy	**3,786**	2,839
Others	**3,857**	2,216
	160,488	81,044

5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Bank interest income	**54**	244
Loss on write-off of property, plant and equipment	**–**	(4)
	54	240

6. FINANCE COSTS

The costs represent the interest on bank borrowing.

7. PROFIT (LOSS) BEFORE TAX

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Profit (loss) before tax has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	**79,170**	45,238
Write-off of inventories (included in cost of sales)	**–**	804
Depreciation of property, plant and equipment	**5,393**	5,673
Amortisation of prepaid lease payments	**1,362**	1,362
Less: amounts included in property, plant and equipment	**(893)**	(893)
	469	469
Advertising and promotion expenses (included in selling and distribution expenses)	**2,048**	36,661

8. TAXATION

During the six months ended 30 June 2018 and 2017, the Group had utilised certain unused tax losses to offset against the current tax charges. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

9. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings (loss)		
Earnings (loss) for the period attributable to owners of the Company and earnings (loss) for the purposes of calculating the basic and diluted earnings (loss) per share	**18,211**	(39,592)

	At 30 June 2018 & 2017 (Unaudited) Number of shares
Number of shares	
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	2,013,018,000

For the six months ended 30 June 2017, the computation of diluted loss per share does not assume the exercise of the Company's share options since the exercise would result in a decrease in loss per share.

For the six months ended 30 June 2018, the computation of diluted earnings per share does not assume the exercise of the Company's share options as the exercise price of the options was higher than the average market price per share during the six months ended 30 June 2018.

10. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the periods ended 30 June 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

11. PROPERTY, PLANT AND EQUIPMENT

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

	RMB'000
At 1 January 2018 (Audited)	153,095
Additions	1,976
Depreciation for the period	(5,393)
At 30 June 2018 (Unaudited)	149,678

12. BIOLOGICAL ASSETS

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

	RMB'000
At 1 January 2018 (Audited)	2,903
Change in fair value of biological assets	1,736
At 30 June 2018 (Unaudited)	4,639
At 1 January 2017 (Audited)	2,687
Change in fair value of biological assets	1,559
At 30 June 2017 (Unaudited)	4,246

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 2018 and 2017, the Group has engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the fair values of grapevines.

13. TRADE RECEIVABLES

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

	At 30 June 2018 (Unaudited) *RMB'000*	At 31 December 2017 (Audited) *RMB'000*
0 – 30 days	**27,528**	56,001
31 – 60 days	**29,710**	29,387
61 – 90 days	**24,519**	–
	81,757	85,388

Details of the impairment assessment are set out in Note 14.

14. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO ECL MODEL

Trade receivables

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed based on provision matrix as at 30 June 2018.

	Average loss rate	**Gross carrying amount**	**Impairment loss allowance**	**Net carrying amount**
		RMB'000	*RMB'000*	*RMB'000*
0 – 30 days	0.42%	27,643	115	27,528
31 – 60 days	0.83%	29,960	250	29,710
61 – 90 days	1.25%	24,829	310	24,519
		82,432	675	81,757

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking macroeconomic data that is available without undue cost or effort.

14. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO ECL MODEL – continued

Trade receivables – continued

Allowance for impairment of trade receivables

The movement in the allowance for impairment in respect of trade receivables during the current interim period was as follows:

	RMB'000
Balance at 1 January 2018 *(note)*	478
Net remeasurement of loss allowance	197
Balance at 30 June 2018 (Unaudited)	675

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

15. 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 2018 (Unaudited) *RMB'000*	At 31 December 2017 (Audited) *RMB'000*
0 – 30 days	**4,094**	9,171
31 – 60 days	**2,837**	2,676
	6,931	11,847

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

16. SHARE CAPITAL

	Number of ordinary shares *'000 at HK$0.01 per share*	Amount *HK$'000*
Authorised:		
At 1 January 2017 (Audited), 30 June 2017 (Unaudited), 1 January 2018 (Audited) and 30 June 2018 (Unaudited)	10,000,000	100,000
Issued and fully paid:		
At 1 January 2017 (Audited), 30 June 2017 (Unaudited), 1 January 2018 (Audited) and 30 June 2018 (Unaudited)	2,013,018	20,131
Shown in the condensed consolidated financial statements at 1 January 2017 (Audited), 30 June 2017 (Unaudited), 1 January 2018 (Audited) and 30 June 2018 (Unaudited)	RMB equivalent	17,624

17. 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, consultants, advisers, contractors, business or service partners.

Date of grant	Number of outstanding options as at 30 June 2018	Exercisable period	Exercise price
9 May 2016	99,300,000 (31 December 2017: 99,300,000)	9 May 2016 to 8 May 2021	HK$0.263

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

Category of participant	Date of grant	Outstanding at 1.1.2018	Granted during the period	Lapsed during the period	Exercised during the period	Outstanding at 30.6.2018
A director	9 May 2016	16,550,000	–	–	–	16,550,000
Employees	9 May 2016	82,750,000	–	–	–	82,750,000
Total		99,300,000	–	–	–	99,300,000

18. CAPITAL COMMITMENTS

The significant capital commitments are as follows:

	At 30 June 2018 (Unaudited) *RMB'000*	At 31 December 2017 (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	**14,615**	14,615

19. 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	
	2018 (Unaudited) *RMB'000*	2017 (Unaudited) *RMB'000*
Short-term benefits	**3,104**	3,701
Post-employment benefits	**206**	219
	3,310	3,920

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