TONTINE

China Tontine Wines Group Limited
中國通天酒業集團有限公司

(Incorporated in Bermuda with limited liability)
Stock Code: 389

Interim Report
2019

Contents

Financial Highlights

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profitability data		
Revenue	**164,854**	160,488
Gross profit	**42,018**	60,387
Profit and total comprehensive income for the period attributable to owners of the Company	**6,693**	18,211
Earnings per share		
– Basic (RMB cents)	**0.3**	0.9
– Diluted (RMB cents)	**0.3**	0.9

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Profitability ratios		
Gross profit margin	**25.5%**	37.6%
Net profit margin *(Note 1)*	**4.1%**	11.3%
Effective tax rate	**–**	–
Return on equity *(Note 2)*	**1.2%**	3.1%
Return on assets *(Note 3)*	**0.9%**	2.5%
Operating ratios (as a percentage of revenue)		
Advertising and marketing expenses	**1.2%**	1.3%
Staff costs	**6.6%**	7.9%

Notes:

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

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

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

Financial Highlights

	At 30 June 2019 *RMB'000* (Unaudited)	At 31 December 2018 *RMB'000* (Audited)
	Six months ended 30 June	
Assets, liabilities and equity data		
Non-current assets	**207,050**	210,100
Current assets	**537,956**	497,628
Current liabilities	**81,247**	52,723
Shareholders' equity	**583,258**	576,565
Non-controlling interests	**80,501**	78,440

	At 30 June 2019 (Unaudited)	At 31 December 2018 (Audited)
	Six months ended 30 June	
Other key financial ratios and information		
Current ratios *(Note 4)*	**6.6**	12.2
Quick ratios *(Note 5)*	**4.2**	6.3
Net asset value per share (RMB) *(Note 6)*	**0.33**	0.33
Inventory turnover days (days) *(Note 7)*	**388**	571
Trade receivables turnover days (days) *(Note 8)*	**109**	94
Trade payables turnover days (days) *(Note 9)*	**12**	21

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 2019) and 365 days (for the year ended 31 December 2018).

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 2019) and 365 days (for the year ended 31 December 2018).

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 2019) and 365 days (for the year ended 31 December 2018).

10. The financial data of the Company for the year ended 31 December 2018 and information as to its consolidated financial position as at 31 December 2018 are extracted from the Company's annual report dated 15 March 2019.

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lai Chi Keung, Albert
Mr. Cheng Vincent
Mr. Yang Qiang

COMPANY SECRETARY

Mr. Wong Kwok Kuen

AUDIT COMMITTEE

Mr. Cheng Vincent *(Chairman)*
Mr. Lai Chi Keung, Albert
Mr. Yang Qiang

REMUNERATION COMMITTEE

Mr. Cheng Vincent *(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

Mr. Wang Guangyuan
Mr. Wong Kwok Kuen

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1703, 17/F
COFCO Tower
No. 262 Gloucester Road
Causeway Bay, Hong Kong

HEAD OFFICE IN THE PRC

No. 2199, Tuanjie Road
Tonghua County
Jilin Province
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
4th Floor, North Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

LEGAL ADVISERS

As to Hong Kong law

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place
Hong Kong

As to Bermuda law

Conyers Dill & Pearman
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

As to PRC law

Jingtian & Gongcheng Attorneys At Law
34/F, Tower 3, China Central Place
77 Jianguo Road
Chaoyang District
Beijing 100025
PRC

AUDITOR

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Unit 701, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China Tower Branch
1 Garden Road
Hong Kong

Agriculture Bank of China
Tonghua County Branch
No.679 Changzheng Road
Kuaidamao Town, Tonghua County
Jilin Province
PRC

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 2019:
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 the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2019 (the "**Period**" or the "**period under review**").

INDUSTRY OVERVIEW

In the first half of 2019, the wine industry in China was still undergoing adjustments and faced various challenges. In June 2019, the output of wine enterprises with a revenue over RMB20 million per annum reached 43,000 kiloliters, representing a year-on-year decrease of 6.5%; and the total output of wine enterprises with a revenue over RMB20 million per annum for the six months ended 30 June 2019 reached 245,000 kiloliters, representing a decrease of 19.9%[1]. In addition, the growth of earnings of domestic wine enterprises was confronted with challenges as a result of the slowdown of economic growth.

As for consumption data, according to the industry forecast of Vinexpo/IWSR, the consumption volume of wine in China will increase from 153,500,000 cases in 2017 to 156,600,000 cases in 2022[2]. Imported wines still have a significant share of the market, though the consumer awareness of domestic wine brands has improved. Since January 2019, Australia has become the third country for which China has reduced the tariffs on imported wines to zero, following New Zealand and Chile. China's door towards new world wines has been widened up and domestic wines will face continuous competition from imported wines. However, in the first half of 2019, as a result of destocking of importers and the fall of RMB exchange rate, the volume and amount of wine imported to China both declined for the first time. In the first six months of 2019, the volume and amount of wine imports decreased by 12.9% and 9.2%[3], respectively. There are indications that more opportunities will be released for domestic wines in the future as the market of imported wines is getting saturated.

1 http://www.haicent.com/list.asp?id=81577
2 https://www.jiuyejia.com/p/113450.html
3 http://www.winesinfo.com/html/2019/7/12-81222.html

In respect of the wine categories, red grape wine is still the mainstream of consumption, accounting for 55% of the global market[4], but the market share is declining year by year. It is expected that the market share of white wines and rose red wines will continue to grow in the future. The overall wine market will exhibit a trend of segmentation, while the quality wines with higher value for money will be more attractive to the consumers.

In respect of the consumer structure, the youngest "millennials" in China have reached the legal drinking age in 2019, thus they will become a new force to promote the upgrading of wine consumption, and the consumer base will continue to expand. As anticipated by Vinexpo, the global wine consumption will reach US$207 billion by the end of 2022, and the overall market consumption will increase by 2.15%. Currently, the domestic wine market consumption ranks third, closely following the United States and France. It is expected that China will surpass France and become the world's second most valuable wine market by the end of 2020[5]. The wine market in China has great potential for development.

FINANCIAL REVIEW

In the first half of 2019, the Group continued its good momentum in 2018 and its performance continued to improve and recorded profit. This was mainly attributable to the fact that on the one hand, the Group adapted to the changes in market demands, and timely adjusted the product structure on the basis of maintaining the market share of major products, which resulted in a year-on-year increase in revenue for the Period; on the other hand, the Group adhered to its pragmatic and prudent development strategy to further improve the operating efficiency, therefore selling and distribution expenses, advertising and promotion expenses maintained at a low level.

For the six months ended 30 June 2019, the Group recorded the total revenue of RMB164,854,000, representing a year-on-year increase of approximately 2.7%. Among which the sweet wine and dry wine remained the major sources of sales revenue, both of which accounted for 86.5% of the total revenue of the Group. The sales revenue from other wine products (including ice wine and white wine) achieved an exponential growth during the period under review, representing a year-on-year increase of approximately 412.0%.

4 https://www.jiuyejia.com/p/113450.html

5 https://fortuneinsight.com/web/posts/226719

Management Discussion and Analysis

During the period under review, the overall gross profit of the Group amounted to RMB42,018,000, which was lower than that of the corresponding period of last year, mainly due to adjustments to product portfolios, the increase in costs of sales and strategic adjustments to the selling prices of certain products during the Period. In the face of the increasingly intensified competition in the wine market, the Group strived to optimize the product portfolios against the market demand. During the Period, the Group focused on enhancing the acceptance of products by customers through marketing strategies (e.g. reducing initial selling prices) to improve the sales of ice wines, which resulted in an increase in the costs of sales accordingly. Together with relatively high costs of raw materials and of production, the gross profit of ice wines was reduced. On the other hand, the Group, so long as it would be overall profit-making, strategically reduced the selling prices of certain products and launched promotional activities of buying with freebies from time to time to increase its market share, which caused pressure on the overall gross profit margin. During the period under review, the profit and total comprehensive income for the period attributable to owners of the Company and non-controlling interests amounted to RMB8,754,000.

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

	Six months ended 30 June		**Year-on-year change**
	2019	2018	
Overall gross profit (RMB'000)	**42,018**	60,387	– 30.4%
Overall gross profit margin	**25.5%**	37.6%	– 12.1 percentage points

During the Period, the Group's overall gross profit margin was 25.5%. The sweet wine and dry wine, being the major products, were still the top contributors for the gross profit, both of which accounted for approximately 93.1% of the total gross profit.

During the period under review, the Group continued to improve its operating efficiency. The Group's selling and distribution expenses amounted to RMB15,801,000, remaining at the same level as the corresponding period of last year. In response to changes in consumer market, the Group continued to adjust its marketing strategies, slashed advertising investment in traditional media and turned to make wider use of new media for promotion and marketing, resulting in the corresponding decrease by approximately 5% in the advertising and promotion expenses to RMB1,949,000.

During the period under review, the total cost of sales of the Group was RMB122,836,000, representing a year-on-year increase of 22.7%. Such increase was mainly due to the increase of raw materials cost and additional written off of inventory of RMB4,038,000 included in cost of sales. The major raw materials required for the production of wine products of the Group consist of grape, grape juice, yeast, additives and packaging materials which include bottles, bottle caps, labels, corks and packaging boxes. During the Period, the cost of raw materials of the Group was RMB95,553,000, representing a year-on-year increase of approximately 32.9%, which accounted for approximately 77.8% of the total cost of sales of the Group.

The following table sets forth the breakdown of the costs required for production by the Group for the six months ended 30 June 2019:

	For the six months ended 30 June		
	2019	2018	**Change %**
	(RMB'000)	*(RMB'000)*	
Raw materials	**95,553**	71,908	32.9%
Production overheads	**6,632**	8,011	–17.2%
Consumption tax and other taxes	**20,651**	20,182	2.3%
Total cost of sales	**122,836**	100,101	22.7%

Management Discussion and Analysis

OPERATION REVIEW

Facing competition pressure from imported wines, domestic wines has explored a development path that combines local culture and consumption feature of China to build up domestic brands with regional characteristics, high quality and cost-effectiveness on the basis of difference between production regions and grape variety. On top of this, it was essential for domestic wine manufacturers to conduct omni-channel brand marketing by collaborating with platforms, distributors and new retailers to meet the new trend of consumption scenarios and consumption custom brought by the new generation of consumers, so as to win the competition with imported wines.

In the face of the above changes in the wine market, the Group has made strategic adjustments to the portfolio during the period under review: on the one hand, we placed huge emphasis on product quality in a bid to solidify the market share of our major products while penetrated in sub-segment markets based on the diverse needs of consumers and launched personalized and customized products according to the various consumption scenes, for example, targeting the hot pot dining scene, the Group has released a new sweet wine featuring a youthfulness taste tendency and has received positive feedback from the consumers who are keen on the Sichuan spicy hot pot. On the other hand, the Group continued to explore regional characteristics and seize the opportunity of developing ice grape industry in Tonghua region. The ice wine product, which enjoyed vigorous promotion during the period under review, has been favored by the market and therefore resulting in a significant increase in sales volume thereof, which indirectly but also effectively enhanced the reputation and acceptance among the consumers towards this very product. During the Period, the Group had launched 3 new products in total and its total number of product category was hence increased to 152.

As one of the "Top 10 Chinese Wine Industry Brands", the Group pays great attention on product's quality as always and commits to producing high quality wine. With the above efforts, the Group was successfully selected as "Member of China Food Safety Initiative convention"（中國食品安全倡議公約成員單位）in May 2019. In addition, "Tontine Red Ice Wine 2016" won a bronze medal for the 13th G100 International Wine & Spirits Competition (G100國際葡萄酒及烈酒評選）, marking the Group as the sole awarded enterprise in Tonghua.

Output Volume and Sales

For the six months ended 30 June 2019, the output of all categories of products manufactured by the two production bases of the Group located in Tonghua, Jilin Province and Baiyanghe, Shandong Province reached 7,587 tonnes in aggregate, representing an increase of approximately 7.9% year on year.

The Group mainly sells its grape wine products to distributors, who in turn distribute our products to supermarkets, cigarette and liquor specialty stores, food and beverage outlets such as restaurants and hotel restaurants and other third-party retailers or sell and distribute products directly to end consumers and other distributors. At the same time, in response to changes in consumer habits, the Group had begun to gradually develop e-commerce sales channels and undertake corporate orders to sell customized products.

For the six months ended 30 June 2019, the Group's products were sold through 105 distributors located in 20 provinces, 3 autonomous regions and 4 municipalities in China. During the period under review, the Group continued to optimize its sales network, strengthen the standardized management of distributors and strictly control its sales and distribution expenses. At the same time, the Group also aroused the sales enthusiasm of distributors through marketing campaign in which any buyer of certain products can get complimentary products.

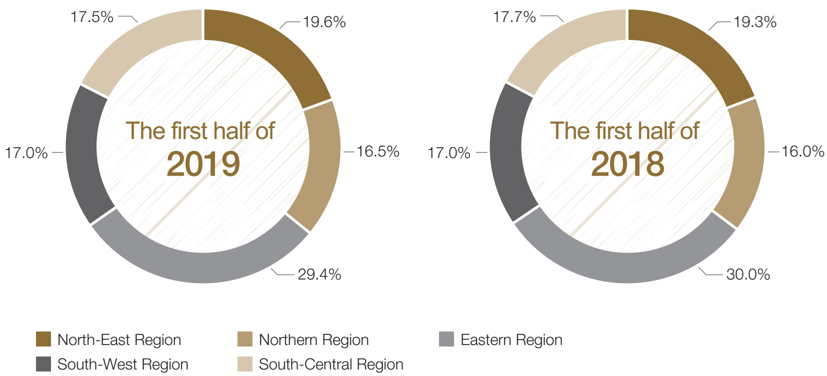
Production base and distribution network in 2019

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 breakdown of revenues from different regional markets of the Group in the first half of 2019 and the first half of 2018 is set out below:



	For the six months ended 30 June			
	2019		2018	
	Revenue ***(RMB'000)***	**Percentage of total revenue**	Revenue *(RMB'000)*	Percentage of total revenue
North-East Region	**32,387**	**19.6%**	30,905	19.3%
Northern Region	**27,224**	**16.5%**	26,154	16.3%
Eastern Region	**48,411**	**29.4%**	47,961	29.9%
South-Central Region	**28,004**	**17.0%**	26,930	16.8%
South-West Region	**28,828**	**17.5%**	28,538	17.7%
Total	**164,854**	**100.0%**	160,488	100.0%

The largest market of the Group is the Eastern region, the most developed region of the national economy and culture with per capita income and consumption level ranking to the front domestically as well as the region with the most fierce competition in terms of the sales of wines across the country. During the period under review, the Group recorded revenue from the Eastern region of totally RMB48,411,000, representing 29.4% of the total revenue.

The North-East region is the second largest market of the Group. As the production base of Tonghua, Jilin locates in this region, the Group therefore enjoys relatively strong local brand recognition. During the period under review, we recorded a revenue of RMB32,387,000 from this region, which contributed to 19.6% of the total revenue and increased by 4.8% year-on-year.

During the period under review, the sales revenue from the Northern Region increased by nearly 6% year-on-year to RMB27,224,000, while the sales revenue from the South-West Region and the South-Central Region were RMB28,828,000 and RMB28,004,000, respectively. Each of the above three regions accounted for 16.5%,17.5% and 17.0% of the total revenue.

BUSINESS INDICATOR REVIEW

Inventory turnover days

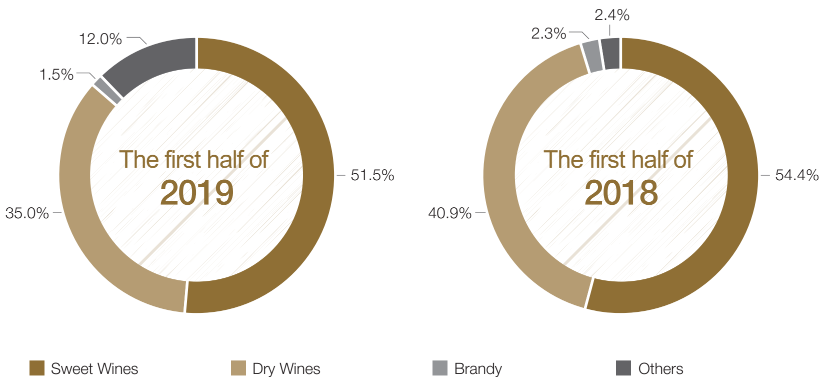
The inventory turnover days of the Group as at the end of the period under review stood at approximately 388 days, decreased sharply from 571 days in the corresponding period last year, mainly due to the marketing campaign designed to enhance product promotion and stimulate consumer spending as well as certain other measures to reduce the inventories in the first half of 2019, which reduced inventory turnover.

Trade account receivables turnover days

As at 30 June 2019, the trade account receivables turnover days of the Group stood at 109 days and the trade account receivables was RMB101,355,000.

OPERATION ANALYSIS BY PRODUCT

The breakdown of revenue from different wine products of the Group in the first half of 2019 and the first half of 2018 is set out below:



	For the six months ended 30 June 2019		For the six months ended 30 June 2018		
	Revenue *(RMB'000)*	**% of total revenue**	Revenue *(RMB'000)*	% of total revenue	**Change %**
Sweet Wines	**84,880**	**51.5%**	87,264	54.4%	–2.7%
Dry Wines	**57,626**	**35.0%**	65,581	40.9%	–12.1%
Brandy	**2,599**	**1.5%**	3,786	2.3%	–31.4%
Others	**19,749**	**12.0%**	3,857	2.4%	412.0%
Total	**164,854**	**100.0%**	160,488	100.0%	2.7%

Sweet Wines

Sweet wines contribute the most to the Group's sales and output. As of 30 June 2019, the Group's revenue from sweet wines amounted to RMB84,880,000, accounting for 51.5% of its total revenue and representing a slight adjustment of approximately 2.7% as compared with the corresponding period of last year. The sales of such products were satisfactory during the period under review and recorded an increase of 3.1% as compared with the corresponding period of last year. Due to the downward adjustment of the average selling price per tonne, the gross profit from sweet wines decreased and represented 43.9% of the Group's total gross profit, with the gross profit margin of 21.7%. During the period under review, the Group strengthened the layout of the segment market of such products and launched differentiated and personalized products for different consumption scenarios, and the new products introduced with the hot pot scenario recorded favorable sales and were well received among consumers.

Dry Wines

As of 30 June 2019, dry wines contributed the most to the Group's gross profit. During the period under review, the sales revenue from dry wines amounted to a total of RMB57,626,000, accounting for 35.0% of the Group's total revenue. The average selling price per tonne was slightly higher than that of the corresponding period of last year, which resulted in the slight decrease in sales volume. However, dry wines remained the product category of highest gross profit margin of the Group, with the gross profit margin reaching 35.9%. During the period under review, such products recorded a gross profit of RMB20,687,000, accounting for 49.2% of the Group's total gross profit.

Brandy

During the period under review, the Group's sales revenue from brandy amounted to RMB2,599,000, accounting for 1.5% of the total revenue.

Other products

Other products of the Group include ice wines and white wines. Both their sales volume and revenue achieved significant growth during the period under review. During the Period, such products recorded sales revenue of RMB19,749,000, increased by 412.0% year-on-year. The percentage of total revenue increased to 12.0% from 2.4% for the corresponding period of last year; the gross profit contribution was RMB2,337,000, accounting for 5.6% of the total gross profit. Driven by the encouragement of ice grape cultivation in the Tonghua area and the vigorous development of the ice grape industry, the Group seized the opportunity to focus on the development and promotion of ice wines during the period under review. Such products have won numerous international awards with their high quality, and their taste is also comparable to that of products from famous ice wine producing areas such as Canada. During the period under review, the Group strengthened product promotion through lowering the initial selling price and other measures, which received rather active response in the market. Therefore, such products have become the Group's new revenue growth engine and also help to further consolidate the Group's brand recognition and influence in the middle and high-end markets.

BUSINESS PROSPECTS

Influenced by long-term uncertainties such as Sino-US trade tensions and Brexit, global economic growth remained sluggish in the first half of 2019. In August this year, trade tensions between China and the United States escalated again, and geopolitical instabilities remained. It is expected that the global economy will continue to be under downward pressure in the second half of 2019. According to the report of World Economic Outlook, global economic growth was forecasted to slow down to 3.2% in 2019[6].

According to the National Bureau of Statistics, in the first half of 2019, China's economy ran smoothly, with GDP growth rate of 6.3%, down 0.5 percentage point from the same period last year. Weak economic growth and many uncertainties have weakened consumer demand and market sentiment in a certain extent. The wine industry in China is also facing many challenges.

6 https://www.imf.org/zh/Publications/WEO/Issues/2019/07/18/WEOupdateJuly2019

Management Discussion and Analysis

In the imported wine sector, total wine imports in 2018 amounted to 716,549 kiloliters, dropped nearly 9% year on year[7], marking the first decline in nearly six years. In the first half of 2019, the decline further expanded, and the import amount also fell sharply. The imported wine entered a continuous downward consolidation period. In the domestic wine sector, the wine production in China has been declining year after year, which is still in the stage of industry restructuring due to the change of consumption pattern. With the increasingly fierce competition in the wine market, it is expected that the market share will continue to concentrate on strong brands, top brands and quality wineries.

In addition, it should not be neglected that with the maturation of consumers' knowledge of wine and the continuous influx of new consumers of the post-95s and post-00s generation, consumers' pursuit of wine has become more individualized, healthy and personal experience-oriented. Therefore, high-performance and cost-effective red wines of high quality and under famous brands will become more popular in the Chinese wine market in the future. Exploring market segments and developing differentiated and customized products have become an important direction for the Group to achieve a breakthrough in the future.

The Group will follow the trend of consumption change in domestic wine market in a practical and prudent manner in the second half of 2019 to further optimize its product portfolio. Except for exploiting continuously the benefits generating from its geographic advantage to maintain its current market share for its major products, the Group will also actively seek opportunities in segmental markets and diversify its product portfolio by persistently developing more personalized products with regional features and corporate-oriented customized products. On the other hand, the Group will capture the opportunity from the encouraging policy for the ice wine industry in Tonghua to further focus on the marketing of ice wine products so as to expand the revenue sources of the Group, while continue promoting self-developed distilled grape liquor "Tongtian Yaaru Wine「雅羅白」" to increase its market presence with the aim of building it to be a liquor brand with specific Tongtian characteristics.

In respect of high-end own brand products, the Group will pay continuous attention to the trend of change in middle and high-end wine market. By leveraging on the advantage of mountain grapes in Northeast production base, the Group will keep developing new products with its own brand characteristics and deploy high end winery brand as the important force of entering into the middle and high-end wine market.

7 https://xueqiu.com/1229970637/129869510

Under the pressure of imported wine and the changing of consumers' structure, the Group would seize the opportunities emerging from new retail by fully utilizing the channel advantage of distributor network and e-commerce platforms. By adapting to the favor of the new generation of consumers and marketing through new media, the Group intends to strengthen brand promotion so as to increase the market recognition of Tongtian brand and its reputation as well as consolidate and expand the customer base, which would build unbreakable cornerstone for the further development of the Group.

FINANCIAL MANAGEMENT AND TREASURY POLICY

The Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). Accordingly, there has been no significant exposure to foreign exchange fluctuation.

In view of the minimal foreign currency exchange risk, the Directors will closely monitor the foreign currency movement instead of entering into any foreign exchange hedge arrangement.

The Group will continue to pursue a prudent treasury management policy and is in a good and healthy liquidity position with sufficient cash to cope with daily operations and future development demands for capital.

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

Interim Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (2018 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 and bank borrowing. As at 30 June 2019, the Group's cash and cash equivalents were substantially denominated in RMB and amounted to approximately RMB221,669,000. The Group has sufficient financial resources and a positive cash position to satisfy the working capital requirements of its business development, operations and capital expenditures.

Capital commitments and charges on assets

The Group made capital expenditure commitments of approximately RMB3,711,000 contracted but not provided for in the condensed consolidated financial statements as at 30 June 2019. These commitments were required mainly to support the Group's production capacity expansion.

As at 30 June 2019, the Group's property, plant and equipment of RMB9,887,000 was pledged to secure the bank borrowing granted to the Group (30 June 2018: 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 2019, the Group employed a work force of 492 in Hong Kong and in the PRC (31 December 2018: 502). The total salaries and related costs (including Directors' fee) for the Period amounted to approximately RMB12,412,000 (2018 corresponding period: RMB12,700,000).

Share Option Scheme

The Company's share option scheme (the "Old Scheme") adopted by the shareholders of the Company on 19 November 2009 was terminated on 10 May 2019 upon the adoption of a new share option scheme (the "New Scheme") by the Company's shareholders at the annual general meeting held on 10 May 2019 for the primary purpose of enabling the Company to grant options to subscribe for ordinary shares of HK$0.01 each in the Company to eligible participants (including directors, employees, suppliers of goods and services, consultants, advisers, contractors, business and service partners of the Group) to recognize and reward their contributions and/or as incentives for retaining them for their contribution or potential contribution to the Group for its long-term growth and development. Details of the New Scheme were set out in the Company's circular dated 29 March 2019.

The following table discloses the movements of the options granted by the Company under the Old Scheme during the six months ended 30 June 2019:

Grantee(s)/Category of participant(s)	Date of grant	Exercise price *HK$*	Outstanding at 1.1.2019	Granted during the Period	Lapsed/ cancelled during the Period	Exercised during the Period	Outstanding at 30.6.2019
Zhang Hebin (Director)	9 May 2016	0.263	16,550,000	–	–	–	16,550,000
Employees	9 May 2016	0.263	49,650,000	–	–	–	49,650,000
Total			66,200,000	–	–	–	66,200,000

As at 30 June 2019, there were outstanding options granted under the Old Scheme attaching subscription rights to subscribe for an aggregate of 66,200,000 shares in, representing approximately 3.29% of the issued share capital of the Company (that is, 2,013,018,000 shares). No further options can be granted under the Old Scheme upon its termination.

Please refer to Note 17 to the Condensed Consolidated Financial Statements contained in this report for further details of the outstanding options granted under the Old Scheme as at the end of the Period.

The maximum number of shares in the Company which may be granted under the New Scheme must not exceed 201,301,800 shares (the "Scheme Mandate Limit"), representing 10% of the Company's issued share capital as at 10 May 2019 (being the date of the Company's annual general meeting in which the New Scheme was adopted by its shareholders). As at 30 June 2019, the Scheme Mandate Limit had not been utilized.

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 2019, 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 2019.

(2) Interests in share options of the Company

Name of Director	Date of grant	Exercisable period	Exercise price	Number of underlying shares subject to the outstanding options	Approximate percentage of shareholding
			HK$		*(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 2019.

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 2019.

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

As at 30 June 2019, 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 2019.

All the interests stated above represent long positions. As at 30 June 2019, 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 2019 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.

Corporate Governance and Other Information

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 disclosure. 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
23 August 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**164,854**	160,488
Cost of sales		**(122,836)**	(100,101)
Gross profit		**42,018**	60,387
Other income, gains and losses	*5*	**(129)**	54
Selling and distribution expenses		**(15,801)**	(15,796)
Administrative and the operating expenses		**(18,429)**	(23,714)
Finance costs	*6*	**(352)**	–
Change in fair value of biological assets		**1,447**	1,736
Profit before tax	*7*	**8,754**	22,667
Taxation	*8*	**–**	–
Profit and total comprehensive income for the period		**8,754**	22,667
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**6,693**	18,211
Non-controlling interests		**2,061**	4,456
		8,754	22,667
Earnings per share	*9*		
Basic (RMB cents)		**0.3**	0.9
Diluted (RMB cents)		**0.3**	0.9

Condensed Consolidated Statement of Financial Position

At 30 June 2019

	Notes	30 June 2019 (Unaudited) *RMB'000*	31 December 2018 (Audited) *RMB'000*
Non-current Assets			
Property, plant and equipment	*11*	**152,073**	155,739
Right-of-use assets		**50,051**	51,413
Biological assets	*12*	**4,926**	2,948
		207,050	210,100
Current Assets			
Inventories		**199,798**	238,126
Trade receivables	*13*	**101,355**	96,342
Deposits and prepayments		**9,583**	4,756
Current tax recoverable		**5,551**	5,551
Bank and cash balances		**221,669**	152,853
		537,956	497,628
Current Liabilities			
Trade payables	*14*	**3,475**	9,686
Other payables and accruals		**27,811**	33,076
Bank borrowing	*15*	**40,000**	–
Current tax liabilities		**9,961**	9,961
		81,247	52,723
Net Current Assets		**456,709**	444,905
Total Assets Less Current Liabilities		**663,759**	655,005
Capital and Reserves			
Share capital	*16*	**17,624**	17,624
Reserves		**565,634**	558,941
Equity attributable to owners of the Company		**583,258**	576,565
Non-controlling interests		**80,501**	78,440
Total Equity		**663,759**	655,005

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	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 2018 (Audited)	17,624	910,541	86,360	130,634	6,926	(571,866)	580,219	70,760	650,979
Profit and total 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
At 1 January 2019 (Audited)	17,624	910,541	86,360	132,721	4,617	(575,298)	576,565	78,440	655,005
Profit and total comprehensive income for the period	–	–	–	–	–	6,693	6,693	2,061	8,754
At 30 June 2019 (Unaudited)	17,624	910,541	86,360	132,721	4,617	(568,605)	583,258	80,501	663,759

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 2019

	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
NET CASH FROM OPERATING ACTIVITIES	**28,873**	7,474
INVESTING ACTIVITIES		
Interest received	**339**	54
Purchase of property, plant and equipment	**(78)**	(1,083)
Proceeds from disposal of property, plant and equipment	**34**	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**295**	(1,029)
FINANCING ACTIVITIES		
Proceeds from bank borrowing	**40,000**	–
Interest paid	**(352)**	–
NET CASH FROM FINANCING ACTIVITIES	**39,648**	–
NET INCREASE IN CASH AND CASH EQUIVALENTS	**68,816**	6,445
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**152,853**	153,647
CASH AND CASH EQUIVALENTS AT 30 JUNE represented by bank and cash balances	**221,669**	160,092

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

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 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

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

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

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

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" ("HKFRS 16")

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

<u>Short-term leases and leases of low-value assets</u>

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" ("HKFRS 16") – continued

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 – continued

As a lessee – continued

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" ("HKFRS 16") – continued

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 – continued

As a lessee – continued

Right-of-use assets – continued

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment", the same line item as that within which the corresponding underlying assets would be presented if they were owned. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" ("HKFRS 16") – continued

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 – continued

As a lessee – continued

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 "Financial Instruments" and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" ("HKFRS 16") – continued

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 – continued

As a lessee – continued

Lease liabilities – continued

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" ("HKFRS 16") – continued

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 – continued

As a lessee – continued

Lease liabilities – continued

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" ("HKFRS 16") – continued

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" ("HKFRS 16") – continued

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 – continued

As a lessee – continued

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;
- elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payment relating to the right to use of the underlying assets and should be adjusted to reflect the discounting effect at transition. However, the adjustments to present value is insignificant to be recognised at the date of initial application, 1 January 2019.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" ("HKFRS 16") – continued

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 – continued

As a lessee – continued

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised right-of-use assets of RMB51,413,000 at 1 January 2019.

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets
	RMB'000
Reclassification from	
– Prepaid lease payments	51,413
By class:	
Leasehold lands	51,413

Note: Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB2,723,000 and RMB48,690,000 were reclassified to right-of-use assets.

2. PRINCIPAL ACCOUNTING POLICIES – continued

2.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases" ("HKFRS 16") – continued

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 – continued

As a lessee – continued

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	RMB'000	*RMB'000*	*RMB'000*
Non-current Assets			
Prepaid lease payments	48,690	(48,690)	–
Right-of-use assets	–	51,413	51,413
Current Assets			
Prepaid lease payments	2,723	(2,723)	–

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

3. REVENUE

The Group manufactures and sells wine products to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to products.

4. SEGMENT INFORMATION

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

	North-East Region *RMB'000*	Northern Region *RMB'000*	Eastern Region *RMB'000*	South-Central Region *RMB'000*	South-West Region *RMB'000*	Total *RMB'000*
For the six months ended 30 June 2019 (Unaudited)						
Segment revenue from external customers	32,387	27,224	48,411	28,004	28,828	164,854
Segment profit	4,967	4,041	6,927	3,718	2,565	22,218
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

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	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Total segment profit	**22,218**	44,525
Unallocated amounts:		
Change in fair value of biological assets	**1,447**	1,736
Finance costs	**(352)**	–
Other corporate income	**339**	54
Other corporate expenses	**(14,898)**	(23,648)
Consolidated profit before tax	**8,754**	22,667

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 2019 (Unaudited)						
Segment assets	16,779	16,261	35,442	14,763	18,110	101,355
Segment liabilities	2,355	1,979	3,520	2,036	2,096	11,986
As at 31 December 2018 (Audited)						
Segment assets	20,773	18,908	25,462	10,759	20,440	96,342
Segment liabilities	3,626	2,523	4,298	2,222	2,682	15,351

4. SEGMENT INFORMATION – continued

	At 30 June 2019 (Unaudited) *RMB'000*	At 31 December 2018 (Audited) *RMB'000*
Assets		
Total segment assets	**101,355**	96,342
Other unallocated amounts		
Property, plant and equipment	**152,073**	155,739
Right-of-use assets	**50,051**	51,413
Biological assets	**4,926**	2,948
Inventories	**199,798**	238,126
Deposits and prepayments	**9,583**	4,756
Current tax recoverable	**5,551**	5,551
Bank and cash balances	**221,669**	152,853
Consolidated total assets	**745,006**	707,728
Liabilities		
Total segment liabilities	**11,986**	15,351
Other unallocated amounts		
Trade payables	**3,475**	9,686
Bank borrowing	**40,000**	–
Other payables and accruals	**15,825**	17,725
Current tax liabilities	**9,961**	9,961
Consolidated total liabilities	**81,247**	52,723

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	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Sweet wines	**84,880**	87,264
Dry wines	**57,626**	65,581
Brandy	**2,599**	3,786
Others	**19,749**	3,857
	164,854	160,488

5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Bank interest income	**339**	54
Loss on disposal of property, plant and equipment	**(80)**	–
Exchange loss	**(388)**	–
	(129)	54

6. FINANCE COSTS

The costs represent the interest on bank borrowing.

7. PROFIT BEFORE TAX

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Profit before tax has been arrived at after charging:		
Cost of inventories recognised as an expense	**109,564**	79,170
Write-off of inventories (included in cost of sales)	**4,038**	–
Loss allowance for trade receivables	**539**	197
Depreciation of property, plant and equipment	**4,523**	5,393
Depreciation of right-of-use assets	**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)	**1,949**	2,048

8. TAXATION

During the six months ended 30 June 2019 and 2018, 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 PER SHARE

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Earnings for the period attributable to owners of the Company and earnings for the purposes of calculating the basic and diluted earnings per share	**6,693**	18,211

	At 30 June 2019 & 2018 (Unaudited) Number of shares
Number of shares	
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	2,013,018,000

For the six months ended 30 June 2019 and 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 2019 and 2018.

10. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the periods ended 30 June 2019 and 2018, 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 2019 (Audited)	155,739
Additions	971
Disposals	(114)
Depreciation for the period	(4,523)
At 30 June 2019 (Unaudited)	152,073

12. BIOLOGICAL ASSETS

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

	RMB'000
At 1 January 2019 (Audited)	2,948
Change in fair value of biological assets	1,447
Increase due to cultivation	531
At 30 June 2019 (Unaudited)	4,926

No agricultural produce was harvested for the current interim period. All grapes are usually harvested annually from August to November of each year. As at the periods ended 30 June 2019, 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 2019 (Unaudited) *RMB'000*	At 31 December 2018 (Audited) *RMB'000*
0 – 30 days	**38,691**	38,560
31 – 60 days	**30,757**	27,410
61 – 90 days	**11,889**	30,372
91 – 180 days	**18,634**	–
181 – 365 days	**1,384**	–
	101,355	96,342

Reconciliation of loss allowance for trade receivables:

	RMB'000
Balance at 1 January 2019	776
Increase in loss allowance for the year	539
Balance at 30 June 2019	1,315

14. TRADE PAYABLES

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

	At 30 June 2019 (Unaudited) ***RMB'000***	At 31 December 2018 (Audited) *RMB'000*
0 – 30 days	**1,468**	7,420
31 – 60 days	**2,007**	2,266
	3,475	9,686

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

15. BANK BORROWING

During the current interim period, the Group had withdrawn a bank borrowing amounting to RMB40,000,000 (31 December 2018: nil). The new bank borrowing raised is denominated in Renminbi and carries interest at variable rate of 164.5% of the loan prime rate of the National Interbank Loan Center. The new bank borrowing was secured by certain property, plant and equipment of the Group amounting to RMB9,887,000 and 75% equity interest in Jilin province Hongruigaoke Petroleum Equipment Co., Ltd. 吉林省宏瑞高科石油裝備有限公司 held by Mr. Wang Guangyuan, the chairman of the board of directors and chief executive officer of the Company, and guaranteed by an independent entity.

16. SHARE CAPITAL

	Number of ordinary shares *'000 at HK$0.01 per share*	Amount *HK$'000*
Authorised:		
At 1 January 2018 (Audited), 30 June 2018 (Unaudited), 1 January 2019 (Audited) and 30 June 2019 (Unaudited)	10,000,000	100,000
Issued and fully paid:		
At 1 January 2018 (Audited), 30 June 2018 (Unaudited), 1 January 2019 (Audited) and 30 June 2019 (Unaudited)	2,013,018	20,131
Shown in the condensed consolidated financial statements at 1 January 2018 (Audited), 30 June 2018 (Unaudited), 1 January 2019 (Audited) and 30 June 2019 (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 "Old Scheme") adopted by the shareholders of the Company on 19 November 2009 was terminated on 10 May 2019 upon the adoption of a new share option scheme (the "New Scheme") by the Company's shareholders on 10 May 2019 for the primary purpose of enabling the Company to grant options to subscribe for ordinary shares of HK$0.01 each in the Company to eligible participants (including directors, employees, suppliers of goods and services, consultants, advisers, contractors, business and service partners of the Group) to recognize and reward their contributions and/or as incentives for retaining them for their contribution or potential contribution to the Group for its long-term growth and development.

The outstanding share options of the Company as at 31 December 2018 and 30 June 2019 are set out below:

Date of grant	Number of outstanding options as at 31 December 2018 and 30 June 2019	Exercisable period	Exercise price
9 May 2016	66,200,000	9 May 2016 to 8 May 2021	HK$0.263

17. SHARE-BASED PAYMENT TRANSACTIONS – continued

The following table discloses the movements of the share options granted by the Company under the Old Scheme during the six months ended 30 June 2019:

Category of participant	Date of grant	Outstanding at 1.1.2019	Granted during the period	Lapsed/ cancelled during the period	Exercised during the period	Outstanding at 30.6.2019
A director	9 May 2016	16,550,000	–	–	–	16,550,000
Employees	9 May 2016	49,650,000	–	–	–	49,650,000
Total		66,200,000	–	–	–	66,200,000

As at 30 June 2019, no share options were granted by the Company under the New Scheme.

18. CAPITAL COMMITMENTS

The significant capital commitments are as follows:

	At 30 June 2019 (Unaudited) ***RMB'000***	At 31 December 2018 (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	**3,711**	3,711

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	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Short-term benefits	**2,223**	3,104
Post-employment benefits	**154**	206
	2,377	3,310

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