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

ANNUAL REPORT 2020

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Financial Highlights

	Year ended 31 December				
	2020	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profitability data					
Revenue	**107,881**	333,149	354,911	323,559	271,333
Gross (loss)/profit	**(62,491)**	74,102	76,485	70,443	84,169
Total comprehensive (expense)/income for the year attributable to owners of the Company and non-controlling interests	**(168,385)**	4,517	4,026	(37,094)	(99,076)
Total comprehensive expense for the year attributable to owners of the Company	**(162,160)**	(813)	(3,654)	(39,553)	(93,291)
Loss per share					
– Basic (RMB cents) *(Note 1)*	**(8.06)**	(0.04)	(0.18)	(1.96)	(4.63)
– Diluted (RMB cents) *(Note 2)*	**(8.06)**	(0.04)	(0.18)	(1.96)	(4.63)

	Year ended 31 December				
	2020	2019	2018	2017	2016
Profitability ratios					
Gross (loss)/profit margin	**(57.93%)**	22.2%	21.6%	21.8%	31.0%
Net loss margin	**(156.08%)**	(0.2%)	(1.0%)	(12.2%)	(34.4%)
Effective tax rate	**N/A**	N/A	N/A	N/A	N/A
Return on equity *(Note 3)*	**(33.78%)**	(0.1%)	(0.6%)	(6.6%)	(14.1%)
Return on assets *(Note 4)*	**(25.98%)**	(0.1%)	(0.5%)	(5.4%)	(11.9%)
Operating ratios (as a percentage of revenue)					
Advertising and marketing expenses	**16.14%**	0.6%	1.1%	10.6%	37.2%
Staff costs	**15.71%**	9.0%	8.2%	9.1%	13.8%
Research and development	**0%**	0%	0%	0%	1.5%

Notes:

1. The calculation of basic loss per share is based on the total comprehensive expense for the year attributable to owners of the Company divided by the weighted average number of ordinary shares in issue during the relevant period.

2. The calculation of diluted loss per share for the year ended 31 December 2020 does not assume the exercise of the Company's share options since their exercise would results in a decrease in loss per share.

3. Return on equity is equal to the total comprehensive expense for the year attributable to owners of the Company divided by the average balance of total equity attributable to owners of the Company as at the beginning of each year and as at the end of each year.

4. Return on assets is equal to the total comprehensive expense for the year attributable to owners of the Company divided by the average balance of total assets as at the beginning of each year and as at the end of each year.

Financial Highlights

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities data					
Non-current assets	**190,920**	226,922	207,377	207,412	205,955
Current assets	**349,283**	529,102	500,351	510,628	531,381
Current liabilities	**42,930**	92,746	52,723	66,583	48,785
Non-current liabilities	**2,380**	–	–	–	–
Shareholders' equity	**417,348**	579,508	576,565	580,697	620,250
Non-controlling interests	**77,545**	83,770	78,440	70,760	68,301

	Year ended/as at 31 December				
	2020	2019	2018	2017	2016
Other key financial ratios and information					
Current ratios *(Note 5)*	**8.1**	5.7	9.5	7.7	10.9
Quick ratios *(Note 6)*	**4.8**	3.5	5.0	3.8	4.7
Gearing ratio *(Note 7)*	**–**	–	–	–	0.01
Net asset value per share *(RMB) (Note 8)*	**0.25**	0.33	0.33	0.32	0.34
Inventory turnover days *(days) (Note 9)*	**408**	373	386	478	739
Trade receivables turnover days *(days) (Note 10)*	**296**	112	93	64	75
Trade payables turnover days *(days) (Note 11)*	**18**	17	17	15	18

Notes:

5. Current ratio equals current assets divided by current liabilities as at the end of each year.
6. Quick ratio equals current assets minus inventory, divided by current liabilities as at the end of each year.
7. Gearing ratio equals the debts incurred in the ordinary course of business divided by total assets as at the end of each year.
8. The calculation of net asset value per share is based on the total number of shares in issue at the end of the year.
9. Inventory turnover days are computed by dividing the average of the beginning and closing inventory balance in the respective financial year by cost of sales (excluding consumption tax and other taxes) and multiplied by 365 days.
10. Trade receivables turnover days are computed by dividing the average of the beginning and closing trade receivables balance in the respective financial year by revenue and multiplied by 365 days.
11. Trade payables turnover days are computed by dividing the average of the beginning and closing trade payables balance in the respective financial year by cost of sales (excluding consumption tax and other taxes) and multiplied by 365 days.

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Ms. Chan Suk Man Lora
(appointed on 22 January 2021)
Mr. Wong Kwok Kuen (resigned on 22 January 2021)

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Dr. 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
Ms. Chan Suk Man Lora
(appointed on 22 January 2021)
Mr. Wong Kwok Kuen (resigned on 22 January 2021)

LEGAL ADVISERS

As to Hong Kong law

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AS TO PRC LAW

Jingtian & Gongcheng Attorneys At Law
34/F, Tower 3, China Central Place
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Beijing 100025
The People's Republic of China

AUDITOR

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

Corporate Information

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2910-11, 29/F
Prosperity Millennia Plaza
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Hong Kong

HEAD OFFICE IN THE PRC

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Jilin Province
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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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
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Kuaidamao Town, Tonghua County
Jilin Province
The People's Republic of China

INVESTOR RELATIONS CONSULTANT

CorporateLink Limited
5th Floor, Chung Nam Building
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Wanchai, Hong Kong

COMPANY WEBSITE

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

SHARE INFORMATION

Listing date: 19 November 2009
Stock name: Tontine Wines
Number of issued shares as at 31 December 2020: 2,013,018,000 shares
Board lot: 2,000 shares

STOCK CODE

389

FINANCIAL YEAR-END DATE

31 December

Chairman's Statement

Dear shareholders,

2020 may be a toughest year in a decade for Chinese wine companies. The sudden impact of the novel coronavirus (COVID-19) (the "pandemic") has brought unprecedented challenges to the production and operation of the wine industry. Coupled with the external factors such as the spread of global pandemic, slowing economic growth, weak market consumption and impact of imported wine, as well as internal factors such as the industrial structure adjustment period of the wine industry and severe brand fragmentization, the wine industry ran into serious difficulties.

Since 2018, the domestic wine industry has continued to experience "frosts", with decreasing in the output of domestic wine and declining in the import volume of foreign wine for two consecutive years. The "black swan" pandemic in 2020 made the wine industry even worse, and aggravated the operating difficulties of wine enterprises. The huge challenges faced by wine enterprises under the pandemic can by demonstrated by the declining in performance of numerous wine enterprises and operating pressure of some distributors.

In respect of imported wine, the spread of the pandemic around the world has brought serious impact and great uncertainty to the production and transportation of imported wine, with sharp drop in the import volume and import amount. As the biggest source of imported wine in China, the import volume of wine from Australia further declined after the introduction of anti-dumping duties against Australia in November 2020. However, this has alleviated the long-term disadvantaged competitive environment of domestic wine to a certain extent, and brought new hope to the domestic wine industry under the shadow of the pandemic.

The past special year is the best timing for domestic wine enterprises to achieve our own growth and think about long-term plan. For a long time, due to the low entry barriers in the domestic wine market, the entire industry has shown a state of brand fragmentization and low concentration, and then gradually entered the increasing market concentration and cyclical characteristics with resources gradually converging into leading and luxury brands. The outbreak of the pandemic is undoubtedly a catalyst for adjustment of industrial structure. Enterprises with great-leap-forward progress in quality and value through elaborate brand and adjusting marketing models in a timely manner by following the changes in social consumption patterns have clearly shown greater resilience under the test of the pandemic.

In 2020, the Group, like many other wine enterprises, has experienced a "cold winter" in the industry, but we have concentrated resources to overcome operational difficulties. The outbreak of the pandemic at the beginning of the year and the strict pandemic prevention measures of the PRC in the later period had a certain impact on the production of the wine industry and the whole terminal retail business, resulting in a decline in both the sales and revenue of the Group's wine products. Subject to strict responding to the government's pandemic prevention policy, the Group began to actively resume work and production in the second quarter, and promote the production and sales of products. Tontine Wines has maintained a pragmatic and prudent attitude to actively deploy in the special period of slow development, and accurately seized the changes in the market model to adjust marketing strategies in a timely manner, with a view to minimize the losses through effective cost control and benefit optimization.

The pandemic directly led to the disappearance of consumption scenario and a decline in consumer sentiment, but the Group did not stop the pace of development of consumer demand. In view of the current market situation adjusted by the pandemic, the Group has accurately analyzed the existing customer base and implemented targeted marketing strategies for end consumers such as independent consumption, personal consumption and household consumption. The Group has increased investment in media such as TV advertisements and actively promoted online sales. The Group successfully broadened the "online customer acquisition" model through deep connecting users with the most popular live selling. The Group has also actively promoted brand promotion through various activities such as wine gift promotion gatherings to boost sales and reduce inventory.

During the year, the Group continued to work aggressively to deepen the development path of "Characteristic Production Area + Unique Brand + Distinctive Experience" to develop more personalized products with regional features and products meeting consumers' needs on the basis of maintaining the market share of its major products, so as to continuously expand our product categories. In recent years, with the gradual enhancement of consumers' awareness of healthcare and wellness, the Group has leveraged its geographical region as the main producing region for ginseng to develop ginseng wine. With the outbreak of the pandemic in 2020, the Group has accelerated the implementation and lunching process of this special product. It is expected that healthcare wine products with Tontine features will help to further increase revenue sources of the Group. In addition, ice wine products with constant strong promotional efforts of the Group have been further supported by the policy of Tonghua government after being universally appraised in the market. To capitalise on the trend, the Group increased commitment to the production and promotion of ice wine, and sought to achieve better returns while enriching the consumer experience.

In 2020, the Group has actively deepened the digital transformation in sales and carried out a forward-looking strategic layout. During the Year, the Group successfully entered into a contract with AntChain and 58 Youpin (58優品). Each of the three parties has advantages in the upstream of the wine industry chain, data and financial services, as well as new retail. In the future, relying on the support policies of Tonghua government at all levels, the open ecosystem of AntChain, Internet financial services and technology platforms, the Group will make full use of the geographic advantages of raw materials of Tontine Wines and integrate into the new retail model of 58 Youpin (58優品) to further achieve an alliance between giants, complementary advantages, information sharing, mutual benefit and win-win, with a view to provide better quality products and more satisfying consumer experience for customers.

Chairman's Statement

The per capita consumption of wine in China still far behind the world average, and the consumption potential is huge. In addition, with the deepening of China's consumption upgrade and the rise of young mainstream consumers such as the post-90s and post-00s, wine is expected to gain more development potential. In 2020, affected by the COVID-19 pandemic and the international situation, the consumer market has undergone great changes, coupled with the adjustment of the wine industry structure, the wine market still has mounting uncertainties. It is expected that the impact of the pandemic on the wine industry of various countries will not be eliminated in the short term. Following the pandemic, they will still face the problems of industry norm. As a leading enterprise in the industry, in addition to adjusting short-term strategy to respond to the pandemic in a timely manner, the Group also carried out a more comprehensive long-term strategic plan, demonstrating the Group's ability to resist risks and flexibility to the market. After the baptism of the pandemic, leading and innovative enterprises that have demonstrated resilience during the period are expected to achieve breakthrough in adversity by leveraging their own competitive advantages.

Wang Guangyuan
Chairman

29 March 2021

2020 Key Events

2020

The white ice wine under Lingge series was awarded the Certificate of Superior Icewine Brand in the 7th Top China Wine Conference Award 2019-2020

2020

"Tontine red ice wine" was awarded Gold Award from 2020 International Leading Wine & Spirits Quality Awards

2020

"Tontine Yaaru Wine", a self-developed distilled grape liquor product was awarded Superior Award from 2020 International Leading Wine & Spirits Quality Awards

INDUSTRY OVERVIEW

With the sudden impact of COVID-19 in 2020, the global business environment had a severe negative impact. According to the national output data of winemaking industry in 2020 of China Alcoholic Drinks Association (中國酒業協會), under the impact of the pandemic, China's wine output continued to decline in 2020. In 2020, the total winemaking output of above-set-scale enterprises in national winemaking industry was 54,007,400 kiloliters, representing a year-on-year decrease of 2.21%[1]. The output of wine was 413,300 kiloliters, representing a year-on-year decrease of 6.0%. In particular, during the peak of the outbreak of the pandemic from January to February 2020, the cumulative value of national wine output was 36,000 kiloliters, representing a cumulative decline of 67.6%, which recorded the largest decline in recent years[2].

According to the General Administration of Customs of the PRC, since 2018, China's wine import volume has continued to decline. In 2020, affected by the COVID-19 pandemic, with a decline of approximately 30%. Under the impact of the pandemic, wine exhibitions across the world have been cancelled, which directly affected the overall sales of wine. Imported wines have been further impacted by production restrictions and a sharp increase in freight as a result of the pandemic. The Ministry of Commerce of the PRC launched anti-dumping and countervailing duty investigations against imported wines originating from Australia in containers of 2 liters or less in August 2020, and successively announced the preliminary ruling on "anti-dumping and countervailing duty" investigations against Australian wines on 27 November and 10 December 2020, deciding to call additional security deposit on Australian wines. Multiple factors have resulted in a significant decline in the imported volume of wine, the cumulative wine import volume was 471 million liters in 2020, representing a year-on-year decrease of 28.8%; while the import amount was US$2.83 billion, representing a year-on-year decrease of 19.9%[3]. With the restriction of imported wine, the market has seen a shortage of imported wine with an increase in the price of mid-and high-end imported wine.

However, from a different perspective, the domestic wine industry has been squeezed by imported wines for a long time. The sharp decline in imported wine as a result of the pandemic has provided potential and opportunities for the development of domestic wine. As the biggest source of imported wine in China, the anti-dumping against Australia has helped to improve the competition landscape of wine. Domestic wine enterprises are expected to seize the opportunity to increase their domestic market share.

According to the "14th Five-Year Plan" Development Guide for the Chinese Alcohol Beverage Industry (Draft for Comment) (《中國酒業「十四五」發展指導意見(徵求意見稿)》), it is estimated that by the end of the "14th Five-Year Plan" in 2025, the output of wine industry will reach 700,000 kiloliters, representing an increase of 75.0% as compared with that by the end of the "13th Five-Year Plan", with an average annual increase of 11.8%. The sales revenue will reach RMB20.0 billion, representing an increase of 66.7% as compared with that by the end of the "13th Five-Year Plan". Profits of RMB4.0 billion will be achieved, representing an increase of 300.0% as compared with that by the end of the "13th Five-Year Plan". Leading wine enterprises have successively announced the targets of the "14th Five-Year Plan", approaching the industry turning point.[4]

1 https://jiu.china.com/dailyexpress/13003082/20210319/37250674.html
2 https://www.meijiu.com/xinwen/43003/
3 https://www.163.com/dy/article/G0VE6IOG0522KE2O.html
4 http://www.cfoodw.com/n/29258.html

FINANCIAL REVIEW

In 2020, the spread at early stage of the pandemic had a severe impact on the global economy. The ever-evolving pandemic and its spread across the world resulted in the suspension of long-cycled production and operation activities. The wine industry, which has been in continuous declining, had encountered greater challenges under the impact of the pandemic. The business development of the Group was significantly affected, and product sales and revenue were significantly reduced.

For the year ended 31 December 2020, the Group recorded the total revenue of RMB107,881,000, representing a year-on-year decrease of approximately 68%. During the year under review, sweet wine and dry wine remained the major sources of sales revenue, both of which accounted for 84.7% of the total revenue of the Group. The total comprehensive expenses for the year attributable to owners of the Company and non-controlling interests amounted to RMB168,385,000 (2019: the total comprehensive income for the year attributable to owners of the Company and non-controlling interests: RMB4,517,000). The loss for the year was mainly attributable to (i) a decrease in revenue of the Group, which was mainly due to lower demand for wine products, in particular the postponement, restriction or cancellation of gatherings, meetings and banquets, etc. since the outbreak of the COVID-19 in early 2020; the lower revenue for the year resulted to a gross loss as compared to the gross profit for 2019; (ii) the write-off of certain obsolete and slow-moving inventories, impairment loss on right-of-use assets and property, plant and equipment and the provision for expected credit losses on trade receivables; and (iii) increased selling and distribution expenses for brand building, sales and marketing of the Group's products.

During the year under review, the overall gross loss of the Group amounted to RMB62,491,000. In 2020, the sudden pandemic severely disrupted the production and sales pace of the Group's wine for the whole year. In the first half of 2020, the outbreak of the pandemic had brought the Group's sales during the golden period of the Spring Festival, which is supposedly the peak of wine consumption throughout the year, nearly to a complete halt, making the excess inventories unable to be reduced. The Group proactively responded to the government's call for pandemic prevention and stopped production in the whole county for a long period of time. After the pandemic had eased, the Group's capacity utilization rate remained at a relatively low level after the resumption of work. Due to severe setbacks in consumer demand, order volume of products dropped sharply. In the second half of 2020, the ever-evolving pandemic in North-East region continued to affect the Group's production and product sales. The excess inventories in the first half of the year and the sluggish sales in the second half of the year led to a significant decrease in the Group's annual output, resulting in a significant increase in unit costs. Under high cost pressure, the Group's operations recorded gross losses.

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

	For the year ended 31 December		Year-on-year change
	2020	2019	
Overall gross (loss)/profit (RMB'000)	**(62,491)**	74,102	–184.3%
Overall gross (loss)/profit margin	**(57.9%)**	22.2%	–80.1 percentage points

During the year under review, the Group's selling and distribution expenses amounted to RMB32,220,000, representing an increase of 8.0% as compared with last year. Under the impact of the pandemic, almost all offline wine exhibitions were cancelled, and the traditional physical marketing model was severely impacted. In the first half of the year, the Group commenced to adjust marketing strategy in a timely manner to meet the changing market conditions. The Group actively deployed online sales and broadened the "online customer acquisition" model. At the same time, it actively promoted the brand through activities such as free wine and wine gift promotion gatherings at food and beverage stalls. In the second half of 2020, with the intensified restrictions on imported wine and the gradual recovery of consumer demand, the Group seized the opportunity to increase promotion investment in TV advertisements and other channels to promote the domestic consumers' habits towards domestic wine, resulting in a year-on-year increase of approximately 794% to RMB17,416,000 in the advertising and promotion expenses during the Year.

During the year under review, the pandemic directly led to a sharp decline in overall output throughout the year. The total cost of sales of the Group was RMB170,372,000, representing a year-on-year decrease of 34.2%. The major raw materials required for 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 Year, the cost of raw materials of the Group was RMB149,869,000, representing a year-on-year decrease of approximately 28.3%, which accounted for approximately 88.0% 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 year ended 31 December 2020:

	For the year ended 31 December		Year-on-year change
	2020	2019	
	RMB'000	*RMB'000*	
Total cost of raw materials	**149,869**	208,990	–28.3%
Production overheads	**7,355**	9,193	–20.0%
Consumption tax and other taxes	**13,148**	40,864	–67.8%
Total cost of sales	**170,372**	259,047	–34.2%

OPERATION REVIEW

At the beginning of 2020, the outbreak of the pandemic and the continuous confirmed cases in some particular areas in the PRC have brought the toughest pressure and challenges for the Group in recent years. The Group's annual production and sales, market expansion activities and other aspects were severely affected. On the other hand, given the reduction of output in global wine as a result of the pandemic, the Group has continuously adjusted marketing strategies and methods, and actively expanded product and brand promotion, seeking to seize opportunities to fill the market gap left by imported wines.

For a long time, China's wine brand building has been insufficient, and there is a relatively big disparity in the wine popularity between China and other foreign countries. Imported brands are people's preference for wine brands. During the Year, the restrictions on imported wine as a result of the pandemic and the introduction of anti-dumping policies against Australia have reversed the current wine trade deficit to a certain extent. Despite the heavy blow brought by the pandemic to the Group's production and operation, the Group was not limited by the short-term crisis, and it continuously strengthened the upgrade of its internal organizational structure, management system and operating mechanism during the pandemic. With years of experience in the industry, the Group keenly seized this excellent opportunity to realize the speedy advancement of domestic wine, and made active deployments from marketing investment to long-term strategy.

Through the integration of new marketing models such as the new media platform "live selling", in the special stage of social suspension caused by the pandemic and the limitation of traditional marketing channels, the Group still successfully built new marketing scenarios, through close integration of online and offline marketing and increased advertising and promotion efforts in new media and other ways to increase brand exposure and reduce inventory.

The Group has continued to further deepen the development path of "Characteristic Production Area + Unique Brand + Distinctive Experience" to proactively develop more personalized products with regional features including ginseng wine and ice wine to meet current consumption demand on the basis of maintaining the market share of its major products. During the year under review, the total number of product category of the Group reached 131. In addition, the Group proactively engaged in the digital transformation to further connect the trust relationship with users by scientific and technological means. Based on the in-depth cooperation with the Tonghua government, the Group successfully entered into contract with AntChain and 58 Youpin（58優品）. Each of the three parties has advantages in the upstream of the wine industry chain, data and financial services, as well as new retail. With the empowerment of science and technology, the Group has been committed to creating a wine culture system with Tontine brand features, reaching out China's wine to the world, improving the homogeneity of the industry, stabilizing the practice of differentiation, and enhancing the added value of products.

Management Discussion and Analysis

As one of the “Top 10 Chinese Wine Industry Brands”, the Group is committed to producing high quality wine, and its product maintained recognition in the industry and the market. In May 2020, the white ice wine under Lingge series produced by the Group were awarded the “2019-2020 Quality Ice Wine Brand” at the 7th China Wine Conference hosted by the Wine and Spirits Sub-Council of China-Europe Association for Technical and Economic Cooperation. This award is another award for the Lingge series products after the Lingge series of “Jiang Xin Arctic Red Ice (2016)” won the silver medal in “The Belt and Road” International Wine Competition in 2019. In December, in the only authoritative and professional competition with the features of “Chinese market and international standards” at home and abroad – 2020 International Leading Wine & Spirits Quality Awards (ILA), the Tontine red ice wine and distilled grape liquor of Yaaru Wine（雅羅白）produced by the Group won a gold medal and quality award in the competition, respectively. In addition, distilled grape liquor of Yaaru Wine（雅羅白）, the Group’s best-selling product, also won the bronze medal in the 2020 Tonghua Tourism Product Competition (2020通化市旅遊產品大賽）and the 2020 Jilin Tourism Product Competition (2020吉林省旅遊產品大賽）.

OUTPUT VOLUME AND SALES

For the year ended 31 December 2020, the output of all categories of products manufactured by the two production bases of the Group located in Tonghua City, Jilin Province and Baiyanghe, Shandong Province reached a total of 5,011 tonnes.

The Group mainly sells its grape wine products to distributors, who in turn distribute our products to supermarkets, cigarette and liquor specialty stores, food and beverage outlets such as restaurants and hotel restaurants and other third-party retailers or sell and distribute products directly to end consumers and other distributors. In 2020, as a result of the special situations of the pandemic and changes in consumer preferences, the Group began to gradually use new media platforms to build new marketing scenarios, and generate revenue for the Company by selling goods through livestreaming.

For the year ended 31 December 2020, the Group’s products were sold through 106 distributors located in 20 provinces, 3 autonomous regions and 4 municipalities in China. During the year under review, the Group continued to optimize its sales network, strengthened the standardization management of distributors, strictly controlled sales and distribution expenses, and at the same time, in response to the special situations of the pandemic, the Group increased subsidies to its distributors for their’ sales activities to further enhance their marketing enthusiasm. In the second half of the year, the Group made greater effort in sales meetings and actively invited distributors to participate in the meeting to effectively help distributors to increase their turnover.

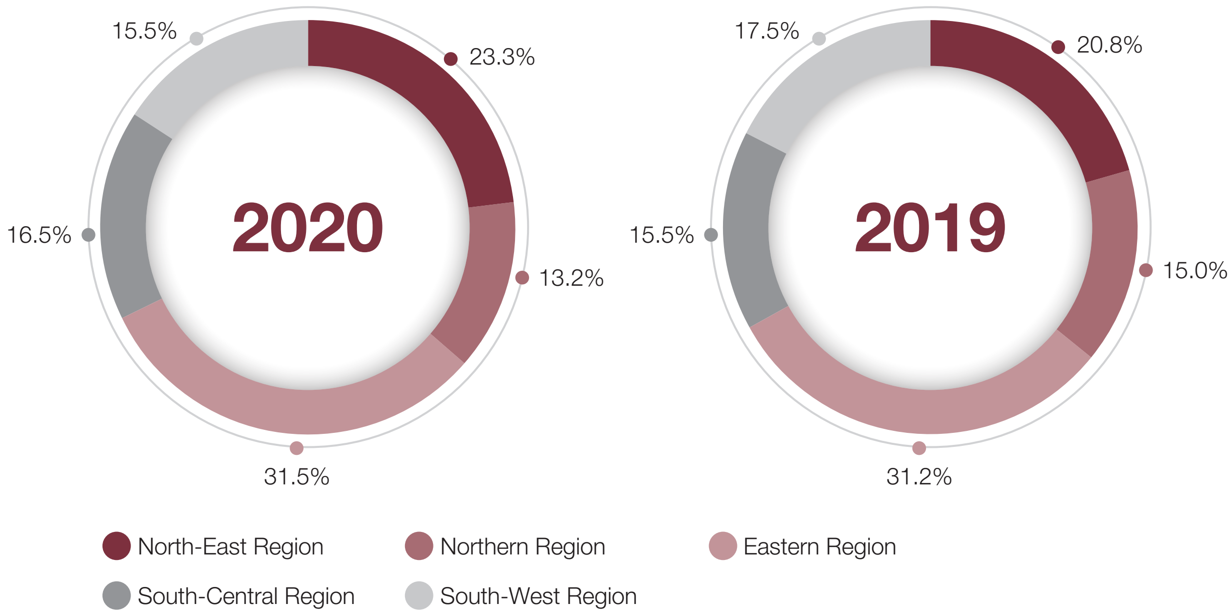
Production base and distribution network in 2020

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 2020 and 2019 is set out below:



Benefiting from the developed economy and culture with per capita income and consumption level of residents ranking to the front domestically, the Eastern Region remained the largest market of the Group. During the year under review, the Group recorded a total revenue of RMB34,005,000 in the Eastern Region market, accounting for 31.5% of the total revenue.

As the second largest market of the Group, the North-East region is also the production base of Tonghua, Jilin. The Group maintained more stable sales volume in the region than others as a result of the geographical advantage during the pandemic. During the year under review, the revenue in the North-East Region was RMB25,088,000, accounting for 23.3% of the total revenue and representing an increase of 2.5 percentage points as compared with the corresponding period last year.

During the year under review, the sales revenue from the Northern Region was RMB14,204,000, while the sales revenue from the South-Central Region and South-West Region were RMB17,805,000 and RMB16,779,000, respectively. Revenue from each of the above three regions accounted for 13.2%, 16.5% and 15.5% of the total revenue.

BUSINESS INDICATOR REVIEW

Inventory turnover days

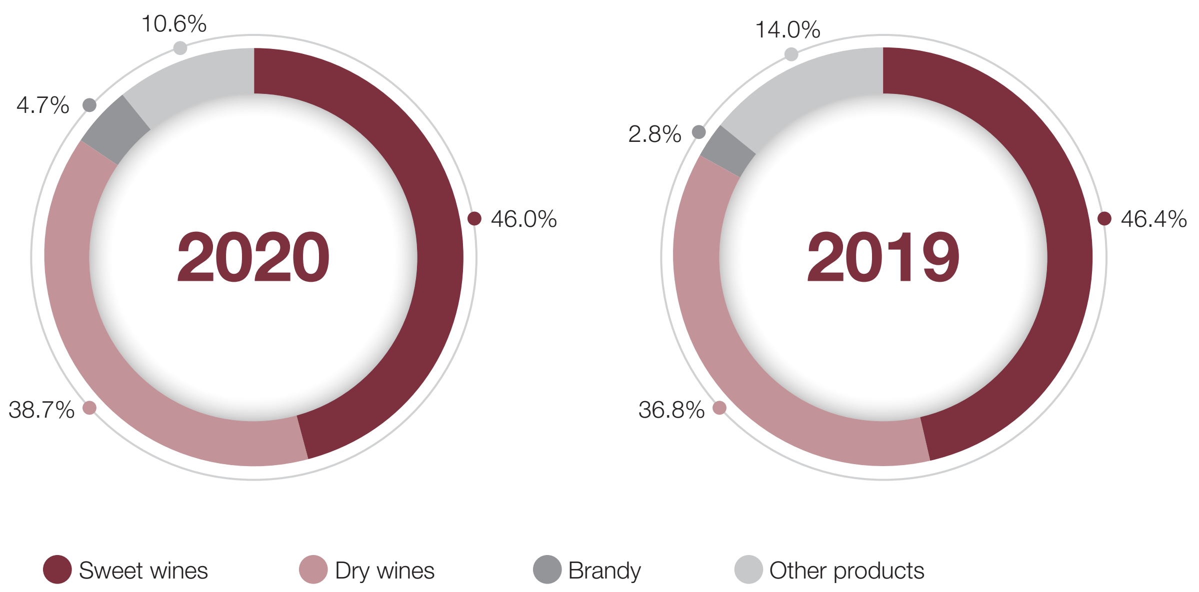
The inventory turnover days of the Group as at the end of the Period stood at 408 days as compared with 373 days in last year, the increase in days was mainly due to a relatively longer time for the realisation of inventory during the Year. The Company had taken corresponding measures to optimise the internal structure so as to speed up the realisation of inventory.

Trade receivables turnover days

As at 31 December 2020, the trade receivables turnover days of the Group stood at 296 days (2019: 112 days), and the trade receivables were RMB65,726,000 (2019: RMB108,969,000), the increase in trade receivables turnover days of the Group was mainly due to the significant decrease in sales.

OPERATION ANALYSIS BY PRODUCT

The breakdown of revenue from different wine products of the Group in 2020 and 2019 is set out below:



Sweet Wines

Sweet wines contribute the most to the Group's sales volume and output. As at 31 December 2020, the Group's sales revenue from sweet wines amounted to RMB49,605,000, accounting for 46.0% of its total revenue. Due to the impact of the pandemic, the output and sales volume of this type of product declined as compared with that of last year. Due to an increase in the average cost per tonne, the operations of sweet wines experienced a gross loss.

Dry Wines

As at 31 December 2020, the Group's sales revenue from dry wine products amounted to a total of RMB41,754,000, accounting for 38.7% of the Group's total revenue. Although dry wines, like sweet wines, experienced an increase in average selling price per tonne during the year under review, dry wines experienced a gross loss during the Year due to the decline in output and sales volume.

Brandy

During the year under review, in order to meet the preferences of consumers, the Group launched the "Apple-type" brandy, which was well received by the market. The sales revenue of brandy products was RMB5,115,000, accounting for 4.7% of the total revenue. Sales revenue and sales volume dropped significantly as compared with that of last year as a result of the impact of the pandemic.

Other products

The Group's other wine products include high-end ice wines and white wines (Yaaru Wine（雅羅白）), and recorded sales revenue of RMB11,407,000 during the Year, representing a substantial decrease over the corresponding period of last year as a result of the pandemic, its proportion of total revenue fell to 10.6% from 14.0% in last year. The ice wine products with strong promotional efforts of the Group since last year have been well received by consumers. As the "hometown of ice wine", the Tonghua government issued a policy encouraging the enlargement of the advantages of mountain grapes in 2020, announcing provision of subsidies for the cultivation of mountain grapes for three years, which will further reduce the production cost of ice wine and enhance the competitive advantage of products. In addition, the public awareness of healthcare was enhanced due to the pandemic, the Group has promoted the development of ginseng wine with excellent healthcare effects through soaking ginseng in the popular Yaaru Wine（雅羅白）product, which has been overall recognized by customers.

BUSINESS PROSPECTS AND FUTURE OUTLOOK

In 2020, the once-in-a-century COVID-19 pandemic caused severe disruptions to global economies. Even though the pandemic was under effective control in mainland China, it was still spread all over the world. According to the World Economic Outlook issued by the International Monetary Fund (IMF) in October, it is estimated that the global economy would shrink by 4.4% in 2020. Entering 2021, the emergence of vaccines and the commencement of mass vaccination in various countries will bring hope to alleviate the global pandemic.

Benefiting from effective prevent and control of the pandemic, and China's economic recovery is faster than expected, with a growth of 2.3% in 2020. China has made a strong recovery from the historic contraction in the early months of 2020, becoming the only country to achieve positive growth among major economies in the world in 2020. According to the Two Sessions previously held, China has set a gross domestic product (GDP) growth target of more than 6% in the main expected goals for economic and social development in 2021. It is believed that a clearer external economic environment will be provided for the further recovery of various industries.

The pandemic in 2020 is a double-edged sword for the wine industry. Under the dual influence of the restrictions on imported food caused by the pandemic and the introduction of anti-dumping policies against Australia, the volume and amount of imported wine declined sharply, domestic wines which had been squeezed by the imported wine in terms of market share for a long time having opportunities to linger on, further accelerating the growth of the wine industry. In the new market situation, low-end brands will be gradually eliminated, and boutique brands and industry-leading brands will be able to further demonstrate their competitive advantages. The changes in consumption scenarios and marketing models brought about by the pandemic have facilitated enterprises to further complete the construction of "online + offline" three-dimensional consumption scenarios, in-depth interaction between consumers and brands and the further rise of "new retail". It is believed that the wine industry will increase effort on and accelerate the integration after bottoming out.

In addition, China and the United States reached a first-phase agreement for trade relations in 2020, which eased trade conflicts. However, there are still many contradictions in the fields of commerce, intellectual property, and geopolitics. We have yet to see whether the two countries can establish a lasting co-existence relationship.

According to the report of New Trends in China's Wine Consumption in 2020 (《2020中國酒類消費新趨勢》), people aged from 25 to 31 are the majority, and the structural trends in cities at different levels offer great potentials for the domestic consumer market. Rejuvenation is an inevitable development trend of the wine industry. On the basis of fully exploring new cultures and new social platforms, wine enterprises should seize this group of "new users" who emphasize express individuality, diversified aesthetics, and diverse needs to create characterized wine brands under the new era and new consumption. In the new era, the Group will keep abreast of the mainstream trend of the new marketing model to improve and expand its product quality and marketing channels. By applying the new retail model and implementing new media promotion strategies, the Group has its diversified marketing channels to better meet the preferences of new generation of general consumer.

The Group will continue to make use of the channels and customer resources accumulated over the years in the sale of wine products to sell its other products. The Group will implement sharing of its marketing channels through its existing marketing channels of wine products to achieve cost sharing in developing marketing channels while expanding new revenue sources. The increase in types of products to be sold will also help boost the effectiveness of its sales platforms.

The Group continued to launch new products and develop personalized and customized products, which have successfully attracted a group of high-quality customers and established a clear brand image. In the coming year, the Group will continue to focus on developing more personalized products with regional features and customized products targeting corporate and group customers, actively explore market segments and expand its product portfolio. While effectively maintaining its existing market share, the Group will continue to attract more new customers through product upgrading to expand its customer base. “Regionalization” plus “Characterization” will still be the dominant development direction for brand product differentiation.

Realizing the importance of refining products, the Group remains committed to creating wine series products with more Tontine features to enhance the Group’s overall profitability. With the release of the policy of medicine and food homology for ginseng, coupled with customers’ increasing awareness and recognition of the medicinal and health value of ginseng.

Affected by the pandemic, people’s health awareness has greatly increased, and consumers will pay more attention to health features of their drinking choices. The wine industry has ushered in a “new health” era, which will benefit the wine industry in the long run. Prior to the outbreak of the pandemic, the Group had begun to deploy healthy wine products. The yield of ginseng in Jilin Province accounts for 85% of China’s total yield of ginseng, and the place of ginseng production is mainly in Tonghua. By making full use of this geographical advantage, the Group has developed ginseng wine with excellent healthcare effects through soaking ginseng in the popular Yaaru Wine（雅羅白）product, which is expected to be marketed in the new year. In addition, in line with the Tonghua government’s policy to strongly encourage the cultivation of mountain grapes, the Group will continue to vigorously promote the popular ice wine products, so that more consumers have the opportunity to experience such products with regional features. The Group will also deepen the development path of “Characteristic Production Area + Unique Brand + Distinctive Experience” with the help of these products with regional features.

With the continuous structural adjustment of the wine industry in China, manufacturers and distributors are facing more complex and severe challenges in all aspects of the business environment, refinement of products have become a consensus, and the transformation and upgrading of enterprises are imminent in the industry. Under the heavy pressure, the Group will further leverage its existing advantages to consolidate its existing market position.

In 2021, recovering from the sentiment of "black swan" pandemic, the Group will continue to accurately keep abreast of the changing trends of consumption scenarios and demand in the domestic wine market with a pragmatic and prudent attitude. The Group will adhere to brand leadership, optimize product structure, and continue to put forward new requirements for product quality, technology and health standards. It will also speed up its pace of development of new products to enrich the types of health products. In view of the restricted development of imported wines under the pandemic and anti-dumping policies, it is expected that there will be further shortage of imported wines and increasing price of mid- and high-end imported wines in the future. Some important customers have indicated that there is still good demand for imported wines and hope the Group to launch more high quality red wines produced from mid-and high-end imported raw wines. Based on the Group's accurate analysis of the changes in customer demand preferences, in the future, apart from the Group's strengthening of the production and sales of domestic wines while maintaining the market share of its major products, it will actively explore the development of emerging market segments and is expected to launch some mid- and high-end imported wines to meet the ever increasing consumer demand and to better expand the Group's revenue base.

As a leading enterprise in the industry, the Group actively implements digital marketing to break through bottlenecks by scientific and technological means, continuing to bring consumers a better consumer experience. During the Year, the Group successfully reached strategic cooperation with AntChain and 58 Youpin（58優品）. In the future, through constant deepening and strengthening of strategic cooperation in related sectors, the Group will strive to lead the industry innovation, bring new momentum to the development of the wine industry, and embrace the new era of domestic wine revolution.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wang Guangyuan（王光遠）, aged 59, was appointed as our executive Director on 8 September 2008. He is also the chairman and a member of the nomination committee of our Board and the chief executive officer of our Company. Mr. Wang is one of the founding management team members of Tonghua Tongtian Winery Co., Ltd*（通化通天酒業有限公司） ("Tonghua Tongtian") since its establishment in 2001. He is responsible for the overall business strategy, development and management of our Group. Prior to establishing our Group, from November 1986 to August 2000, he served with Tonhwa Winery Limited（通化葡萄酒股份有限公司）, a wine company currently listed on the Shanghai Stock Exchange, and in September 1995, he was promoted as a deputy general manager. Mr. Wang is currently a member of the People's Representative of Tonghua City 8th People's Congress（通化市第八屆人民代表大會）and a member of the Standing Committee of Tonghua County 16th People's Congress（通化縣第十六屆人民代表大會代表常委）, the Chairman of Tonghua County Industry and Commerce Association（通化縣工商業聯合會）and the Vice-Chairman of Jilin Chamber of Commerce（吉林商會）. Mr. Wang was awarded as the "Outstanding Worker of Tonghua County 1996-2001" (1996-2001年通化縣勞動模範）by People's Government of Tonghua County（通化縣人民政府）in October 2002. He was also conferred with the title of "Excellent Sales Manager"（優秀銷售總經理）jointly by China Winery Industry Association Grape Wine Sub-branch（中國釀酒工業協會葡萄酒分會）and China Agriculture Association Grape Sub-branch（中國農學會葡萄分會）in June 2006. He was certified as a senior economist by the Ministry of Finance of the PRC（中華人民共和國財政部）on 29 May 2003. Mr. Wang obtained a bachelor's degree in business management from Jilin University（吉林大學）in July 1993. Mr. Wang is the brother of Ms. Wang Lijun, an executive Director of our Company.

Mr. Wang is beneficially interested in the entire issued share capital of Up Mount International Limited ("Up Mount"), a substantial shareholder of our Company, and is also a director of Up Mount.

Mr. Zhang Hebin（張和彬）, aged 60, was appointed as our executive Director on 8 September 2008. He is one of the founding management team members of Tonghua Tongtian since its establishment in 2001. Prior to May 2011, he was primarily responsible for sales, marketing and products promotion of our Group. Since May 2011, he has assumed responsibility for and is in charge of the merger and acquisition activities of our Group. Prior to joining our Group, from April 1984 to August 2000, he worked with Tonhwa Winery Limited（通化葡萄酒股份有限公司）, a wine company currently listed on the Shanghai Stock Exchange, and in February 1986, he was promoted as a district sales manager. He obtained a junior college diploma of economic management from the Party School of Jilin Province Government（吉林省委黨校）and graduated in July 1991.

Ms. Wang Lijun (王麗君), aged 53, was appointed as our executive Director on 2 May 2017. She joined our Group in January 2010 as executive manager. In December 2010, she was promoted to deputy general manager and is responsible for administration and human resources matters of all the Company's subsidiaries in the PRC. Prior to joining our Company, from August 2006 to September 2009, she worked in Dubon Property and Casualty Insurance Company Limited Jilin branch (都邦財產保險股份有限公司吉林分公司) as business general manager and was responsible for business management. From July 1994 to August 2006, she was the deputy general manager in China Pacific Life Insurance Company Limited Tonghua branch (中國太平洋人壽保險股份有限公司通化中心支公司) and responsible for administration matters. Ms. Wang graduated from Jilin Industry University (吉林工業大學) with a bachelor's degree in accounting in July 1998. Ms. Wang is the sister of Mr. Wang Guangyuan, the chairman of our Board, the chief executive officer and an executive Director of our Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Cheng Vincent (鄭嘉福), aged 57, was appointed as our independent non-executive Director on 17 November 2018. He is also the chairman of the audit committee and the remuneration committee of our Board. Dr. Cheng obtained a doctorate degree in Business Administration from European University in Switzerland in October 2016, a master's degree in Business Administration from Deakin University in Australia (as a joint program of Deakin University and CPA Australia) in May 2003 and a bachelor of arts degree in Accountancy from the City University of Hong Kong (formerly known as City Polytechnic of Hong Kong) in November 1993. Dr. Cheng was admitted as a fellow of CPA Australia in December 2000, a fellow of the Institute of Chartered Secretaries and Administrators in October 2000, a fellow of HKICPA in April 2008 and a fellow of the Taxation Institute of Hong Kong in September 2010. He was also recognised by the Taxation Institute of Hong Kong as a certified tax adviser (CTA HK) in September 2010.

Dr. Cheng has years of experience in the fields of finance and accountancy. From December 1987 to September 2000, Dr. Cheng was employed with a financial planning firm and was promoted to chief accountant (Hong Kong) before he left. During October 2000 to February 2002, Dr. Cheng had been a project manager responsible for fund raising activities and relationship management in a company in Australia which is principally engaged in chemical and pharmaceutical business and was subsequently listed on the Growth Enterprise Market (now known as GEM) of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). From May 2003 to July 2010, Dr. Cheng had joined Continental Holdings Limited, a company engaged in consumer goods business and listed on the main board of the Stock Exchange (stock code: 513), and had held various positions (including project manager, head of finance and accounts department, company secretary and qualified accountant) during his tenure of service. In January 2011, Dr. Cheng was appointed as the deputy finance director of a multi-disciplinary architecture firm and is currently its finance director.

Dr. Cheng had been the independent non-executive director of Nanjing Sinolife United Company Limited (a company listed on the main board of the Stock Exchange (stock code: 3332)) from August 2013 to October 2018. He is currently an independent non-executive director of Flying Financial Service Holdings Limited (a company listed on GEM of the Stock Exchange (stock code: 8030)).

Mr. Lai Chi Keung, Albert（黎志強）, aged 59, was appointed as our independent non-executive Director on 28 October 2009. He is also the chairman of the nomination committee, as well as a member of the audit committee and the remuneration committee of our Board. Mr. Lai has over 30 years' experience in the jewelry industry. He had worked for and held key management positions in various established jewelry companies, both listed and private, in Hong Kong and overseas. Mr. Lai has rich experience in sales management, marketing, distribution channel and resource planning strategies.

Mr. Yang Qiang（楊強）, aged 60, was appointed as our independent non-executive Director on 15 January 2016. He is also a member of the audit committee, the remuneration committee and the nomination committee of our Board. Mr. Yang holds a bachelor's degree in mechanical engineering from Beijing Institute of Technology（北京理工大學）. He is experienced in the wine industry in the PRC and has been serving as the secretary of the expert committee of the Grape and Fruit Wine of the China National Food Industry Association（中國食品工業協會葡萄酒、果酒專家委員會）for many years.

SENIOR MANAGEMENT

Mr. Wang Jun（王軍）, aged 58, has been appointed as the chief winemaker of our Company since 1 January 2017. Prior to joining our Group, from August 1985 to January 2014, he served various positions in Tonhwa Winery Limited（通化葡萄酒股份有限公司）, a wine company currently listed on the Shanghai Stock Exchange, including director of chief engineer's office, director of research office, head of technical division, director of research institute and general manager. In 2014, Mr. Wang joined Hangzhou Oriental Culture Tourism Group（杭州東方文化園旅業集團）as general manager of one of its subsidiaries, Liaoning Northern Latitude 41 Degrees Wine Company Limited（遼寧北緯41度酒業有限公司）. He has been a member of the China Alcoholic Drinks Association（中國酒業協會）, China Food Industry Association（中國食品工業協會）, Wine Expert Panel of National Wine Quality Inspection Center（國家葡萄酒質檢中心葡萄酒專家組）and a national liquor judge since 1997. Mr. Wang was appointed as an international judge by Union Internationale des Oenologues（國際釀酒師聯盟）in 2008, certified as the first batch of state level senior winemaker（高級釀酒師）and first-class sommelier（一級品酒師）in 2012, and elected as a member of the First National Wine Brewing Standard Technology Committee Grape Wine Sub-branch（首屆全國釀酒標準化技術委員會葡萄酒分會）in 2014. He graduated from Food Science & Engineering of Dalian Institute of Light Industry（大連輕工業學院）(currently known as Dalian Polytechnic University（大連工業大學）) with a college diploma of industrial fermentation in August 1985.

* *For identification purposes only*

Mr. Yu Dazhou（于大洲）, aged 65, is the vineyard manager and winemaker of our Company and he joined our Group in August 2003. He is responsible for overseeing and managing the vineyards of the local grape farmers whom we have entered into long-term contracts with, in order to ensure optimal quality control throughout the entire growing, nurturing and harvesting stages of grape growing as well as the early production stage of base wine production from freshly harvested grapes. From May 1979 to December 1997, Mr. Yu worked at Ji'An Winery Factory（集安葡萄酒廠）, and he was promoted to a deputy general manager in July 1988 and was responsible for technology. Mr. Yu worked in Ji'an Forestry Winery Factory（集安森林葡萄酒廠）from 1997 until it was acquired by our Group in 2003. Mr. Yu was appointed as a member of the 2nd National Jury Panel for Wine（第二屆果酒國家資格評委）since December 1995 for five years by China National Food Industry Association（中國食品工業協會）. He graduated from Tianjin Light Industry College（天津輕工業學院）with a junior college diploma of food in July 1991.

Ms. Zhao Dan（趙丹）, aged 42, is the chief financial officer and the deputy general manager of our Company. She joined our Group in September 2001 and was promoted to the position of deputy general manager in December 2014. She was the chief financial officer of our Group from December 2014 to December 2015, and was re-appointed as the chief financial officer of our Group from July 2018. She is responsible for the financial and accounting management of our Group. Ms. Zhao graduated from Jilin University（吉林大學）with a higher diploma in finance and accounting in July 2000. She obtained her qualification of mid-level accountant in May 2005.

Mr. Zhang Xuexin（張學鑫）, aged 40, is a deputy general manager of our Company. He joined our Group in December 2001 and is responsible for project management of the Group. In December 2010, Mr. Zhang was promoted from project manager to his current position. Mr. Zhang graduated from Jilin University（吉林大學）with a higher diploma in economics in July 2002.

Ms. Feng Fu Qin（封福琴）, aged 55, is the production manager of our Company. She joined our Group in September 2001 and was promoted from production supervisor to her current position in January 2011. Ms. Feng is responsible for supervising the overall production and manufacturing processes of the products of our Group. Prior to joining our Group, Ms. Feng had over 7 years' experience in production management. Ms. Feng graduated from Tianjin Light Industry College（天津輕工業學院）with a college diploma in chemistry in July 1992.

COMPANY SECRETARY

Ms. Chan Shuk Man, Lora（陳淑雯）was appointed as the Company secretary of the Company from 22 January 2021. She obtained a bachelor's degree of Business Administration in Accounting (Hon.) from the Coventry University and a MBA (Banking) from the University of Stirling in the United Kingdom and is a fellow member of the Hong Kong Institute of Certified Public Accountants, Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong and a Chartered Tax Adviser (Hong Kong). She has over 25 years of experience in auditing, accounting, banking and financial management.

Mr. Wong Kwok Kuen（王國權）graduated with a bachelor's degree in Accountancy from the Hong Kong Polytechnic University. He is a member of the ACCA and a member of the HKICPA (formerly known as the Hong Kong Society of Accountants). Mr. Wong has over 20 years of experience in the fields of finance, auditing and accounting, and has practicable experience in acting as company secretary to companies listed on the Stock Exchange. He is familiar with the Listing Rules and other regulatory requirements applicable to listed companies in Hong Kong. He had acted as the company secretary of the Company from 6 November 2015 to 2 November 2017 and re-joined our Company on 1 January 2019. He resigned on 22 January 2021.

The board of directors (the "Board" or the "Directors") is pleased to present the Directors' Report together with the annual report (the "Annual Report") and the audited financial statements of China Tontine Wines Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2020 (the "Year").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group continue to be the production and sales of grape wine in the mainland China. Revenue and contribution to operating profit are mainly derived from activities carried out in the mainland China. Particulars of the principal activities of the Company's principal subsidiaries are set out in note 36 to the consolidated financial statements.

RESULTS AND DIVIDEND

The Group's loss for the year ended 31 December 2020 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 82 to 138.

The Directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2020 (2019: Nil).

PROPERTY, PLANT AND EQUIPMENT

During the Year, an increase of approximately RMB14,422,000 in property, plant and equipment was mainly for the expansion and enhancement of the Group's production capability. Details of movements in property, plant and equipment of the Group during the Year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the Year are set out in note 28 to the consolidated financial statements and in the consolidated statement of changes in equity respectively.

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

SHARE OPTION SCHEMES

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

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

The following is a summary of the 2009 Share Option Scheme and the 2019 Share Option Scheme (collectively the "Share Option Schemes") disclosed in accordance with the Listing Rules.

2009 Share Option Scheme

The principal terms of the 2009 Share Option Scheme are summarised below.

(i) The purpose of the 2009 Share Option Scheme is to provide incentive for selected participants to work with commitment towards enhancing the value of the Company and the Shares for the benefit of the Company and its shareholders as a whole and to retain and attract persons whose contributions are or may be beneficial to the growth and development of the Group.

(ii) Eligible participants of the 2009 Share Option Scheme include any employee, non-executive Directors (including independent non-executive Directors), customer or supplier of goods or services to any member of the Group, shareholders of any member of the Group, consultant, adviser, contractor, business partner or service provider.

(iii) The total number of Shares which may be issued upon exercise of all options to be granted under the 2009 Share Option Scheme and any other share option scheme of the Group shall not in aggregate exceed 201,301,800 Shares, representing 10% of the Shares in issue of the Company on 19 November 2009 (the "2009 General Scheme Limit"). Subject to the requirements of the Listing Rules and before its termination, the 2009 General Scheme Limit could be renewed with prior shareholders' approval.

(iv) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2009 Share Option Scheme and any other share option schemes of the Group, must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

(v) Unless approved by shareholders in a general meeting, the total number of Shares issued and which may fall to be issued upon exercise of all options granted to any eligible participant under the 2009 Share Option Scheme and any other share option schemes of the Group in the 12-month period up to and including such further grant must not exceed 1% of the issued share capital of the Company for the time being.

(vi) Any grant of options under the 2009 Share Option Scheme to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). In addition, any grant to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates in excess of 0.1% of the Shares in issue or with an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval of the Company in a general meeting.

(vii) An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the offer of grant of an option.

(viii) An option may be exercised in accordance with the terms of the 2009 Share Option Scheme at any time during a period (which may not expire later than 10 years from the date of the grant) to be determined and notified by the Directors to each grantee.

(ix) The subscription price per Share under the 2009 Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of (1) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of grant; (2) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; and (3) the nominal value of a Share.

(x) Unless otherwise determined by the Directors and stated in the offer of the grant of option(s) to an eligible participant, there is no minimum period required under the 2009 Share Option Scheme for the holding of an option before it can be exercised.

(xi) Subject to the early termination by an ordinary resolution in general meeting of shareholders, the 2009 Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption, after which period no further options shall be granted but the provisions of the 2009 Share Option Scheme shall remain in full force and effect in all other respects.

On 10 May 2019, the shareholders approved at the annual general meeting of the Company the termination of the 2009 Share Option Scheme.

During the Year, the movements in the Company's options granted under the 2009 Share Option Scheme were as follows:

Category of grantees	Date of grant (dd/mm/yyyy)	Vesting date (dd/mm/yyyy)	Exercisable period (dd/mm/yyyy)	Exercise price per Share *HK$*	Closing price per Share on date of grant *HK$*	Number of options Outstanding as at 1 January 2020	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2020
A director	09/05/2016	09/05/2016	09/05/2016 to 08/05/2021	0.263	0.255	16,550,000	–	–	–	–	16,550,000
Employees	09/05/2016	09/05/2016	09/05/2016 to 08/05/2021	0.263	0.255	49,650,000	–	–	–	–	49,650,000
Total						66,200,000	–	–	–	–	66,200,000

2019 Share Option Scheme

The principal terms of the 2019 Share Option Scheme are summarised below.

(i) The purpose of the 2019 Share Option Scheme is to enable the Company to grant options to subscribe for Shares to eligible participants (as stated below) to recognize and reward them, or as incentives for retaining them, for their contribution or potential contribution to the Group for its long-term growth and development.

(ii) Eligible participants of the 2019 Share Option Scheme include: (a) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries, or any entity (the "Invested Entity") in which any member of the Group holds any equity interest; (b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity; (c) any supplier of goods or services to any member of the Group or any Invested Entity; (d) any customer of the Group or any Invested Entity; (e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (g) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and (h) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group, and, for the purposes of the 2019 Share Option Scheme, the offer for the grant of option(s) may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

(iii) The total number of Shares which may be issued upon exercise of all options to be granted under the 2019 Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 201,301,800 Shares, representing 10% of the Shares in issue of the Company as at the date of passing the relevant resolution adopting the 2019 Share Option Scheme (the "2019 General Scheme Limit"). Subject to the requirements of the Listing Rules, the 2019 General Scheme Limit may be renewed with prior shareholders' approval.

(iv) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2019 Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

(v) Unless approved by shareholders in a general meeting, the total number of Shares issued and which may fall to be issued upon exercise of all options granted to any eligible participant under the 2019 Share Option Scheme and any other share option scheme(s) of the Group in the 12-month period up to and including such further grant must not exceed 1% of the issued share capital of the Company for the time being.

(vi) Any grant of options under the 2019 Share Option Scheme to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). In addition, any grant to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates in excess of 0.1% of the Shares in issue or with an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval of the Company in a general meeting.

(vii) An option may be accepted by an eligible participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the offer of grant of an option.

(viii) An option may be exercised in accordance with the terms of the 2019 Share Option Scheme at any time during a period (which may not expire later than 10 years from the date of the grant) to be determined and notified by the Directors to each grantee.

(ix) The subscription price per Share under the 2019 Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer for grant (which must be a business day); (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

(x) Unless otherwise determined by the Directors and stated in the offer of the grant of option(s) to an eligible participant, there is no minimum period required under the 2019 Share Option Scheme for the holding of an option before it can be exercised.

(xi) Subject to the early termination by an ordinary resolution in general meeting of shareholders, the 2019 Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date of adoption (that is, until 9 May 2029), after which period no further options shall be granted but the provisions of the 2019 Share Option Scheme shall remain in full force and effect in all other respects.

During the Year, the movements in the options granted by the Company under the 2019 Share Option Scheme were as follows:

						Number of options					
Category of grantees	Date of grant (dd/mm/yyyy)	Vesting date (dd/mm/yyyy)	Exercisable period (dd/mm/yyyy)	Exercise price per Share *HK$*	Closing price per Share on date of grant *HK$*	Outstanding as at 1 January 2020	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2020
Director(s)	–	–	–	–	–	–	–	–	–	–	–
Employees in aggregate	23/09/2019	24/09/2019	24/09/2019 to 23/09/2020	0.146	0.145	100,000,000	–	–	–	100,000,000	–
Suppliers of goods or services in aggregate	23/09/2019	24/09/2019	24/09/2019 to 23/09/2020	0.146	0.145	80,000,000	–	–	–	80,000,000	–
Other participants in aggregate	23/09/2019	24/09/2019	24/09/2019 to 23/09/2020	0.146	0.145	20,000,000	–	–	–	20,000,000	–
Total						200,000,000	–	–	–	200,000,000	–

The total number of Shares available for issue upon exercise of all outstanding options already granted under the share option schemes disclosed above is 66,200,000 (2009 Share Option Scheme: 66,200,000 Shares and 2019 Share Option Scheme: Nil Share), representing approximately 3.29% of the total number of Shares in issue of the Company as at 31 December 2020.

The maximum number of Shares available for issue upon exercise of options not yet granted under the share option schemes disclosed above is 1,301,800 Shares (2009 Share Option Scheme: Nil Share and 2019 Share Option Scheme: 1,301,800 Shares), representing approximately 0.06% of the total number of Shares in issue of the Company as at 31 December 2020.

Options granted under the Company's share option schemes were recognized as expenses of the Company in accordance with the accounting policy as set out in note 29 to the audited consolidated financial statements. The determination of the fair value of the options is set out in note 29 to the audited consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 85.

As at 31 December 2020, the Company's reserves available for distribution amounted to approximately RMB77,669,000 (2019: RMB83,548,000).

SUMMARY FINANCIAL INFORMATION

A summary of the published results containing information on the Group's assets and liabilities for the last five financial years is set out on pages 2 and 3. The summary does not form part of the consolidated financial statements.

DIRECTORS

The Directors comprising the Board during the Year and up to the date of the Annual Report were:

Executive Directors:

Mr. Wang Guangyuan (Chairman and chief executive officer)
Mr. Zhang Hebin
Ms. Wang Lijun

Independent Non-Executive Directors:

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

The Company's bye-laws provide that, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. Further, any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Board will hold office until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the existing Board), unless re-elected by the shareholders. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he/she retires. Every Director is therefore subject himself/herself to the absolute and free choice of the shareholders for re-election at the annual general meetings.

The Board comprises three independent non-executive Directors, representing more than one-third of the Board. The independent non-executive Directors play an important role on formulating the Group's objectives and strategies and ensuring that the Board maintains high standard of corporate governance. The Company has received annual confirmations of independence from Dr. Cheng Vincent, Mr. Lai Chi Keung, Albert, and Mr. Yang Qiang pursuant to Rule 3.13 of the Listing Rules. The Company considered all of its independent non-executive Directors were independent during the Year and as at the date of the Annual Report.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 22 to 26 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors had a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

RELATED PARTY TRANSACTIONS

None of the "Related Party Transactions" as disclosed in note 35 to the consolidated financial statements for the Year constituted discloseable non-exempted connected transaction or non-exempted continuing connected transaction under the Listing Rules.

MANAGEMENT CONTRACT

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Year.

DIRECTORS' AND/OR CHIEF EXECUTIVE'S INTERESTS IN THE SECURITIES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 31 December 2020, the interests and short positions of the Directors and/or the chief executives of the Company in the shares, underlying shares 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 set out in appendix 10 to the Listing Rules were as follows:

(1) Long position in ordinary shares (the "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 held *(Note 1)*	Approximate percentage of shareholding *(Note 3)*
Mr. Wang Guangyuan	The Company	Interest of a controlled corporation	495,178,720 Shares (L) *(Note 2)*	24.60%

Notes:

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

(2) These Shares are 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.

(3) The percentage of shareholding is calculated on the basis of 2,013,018,000 Shares in issue as at 31 December 2020.

(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 outstanding options	Approximate percentage of shareholding *(Note)*
Mr. Zhang Hebin	09/05/2016	09/05/2016 to 08/05/2021	HK$0.263	16,550,000	0.82%

Note:

The percentage of shareholding is calculated on the basis of 2,013,018,000 Shares in issue as at 31 December 2020.

Save as disclosed above, none of the Directors 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 31 December 2020.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SECURITIES OF THE COMPANY

As at 31 December 2020, so far as is known to any Directors or chief executives of the Company, the following parties, other than Directors or chief executives 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 held *(Note 1)*	Approximate percentage of issued Shares *(Note 4)*
Up Mount International Limited *(Note 2)*	Beneficial owner	495,178,720	24.60%
Ms. Zhang Min 張敏 *(Note 3)*	Interest of spouse	495,178,720	24.60%
Mr. Yan Shaohua 晏紹華	Beneficial owner	237,582,000	11.80%

Notes:

(1) The Letter "L" denotes long position in the Shares.

(2) Up Mount International Limited is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Wang Guangyuan, the chairman, an executive Director and the chief executive officer of the Company.

(3) Ms. Zhang Min is the spouse of Mr. Wang Guangyuan and is therefore deemed to be interested in all the Shares held by Mr. Wang Guangyuan (through Up Mount International Limited) by virtue of the SFO.

(4) The percentage of shareholding is calculated on the basis of 2,013,018,000 Shares in issue as at 31 December 2020.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the options granted under the Company's share option scheme(s) disclosed above, at no time during the Year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for its qualifying employees in Hong Kong and state-managed retirement benefit schemes operated by the government of the People's Republic of China for the employees of the Company's subsidiaries established in the People's Republic of China. As at 31 December 2020, there was no forfeited contribution receivable for reduction of future contribution (2019: Nil).

INTERESTS IN CONTRACTS

No transaction, arrangement or contract of significance in relation to the business of the Group or the provision of services to the Group to which any controlling shareholder of the Company or any of its subsidiaries was a party, or in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Year and up to the date of the Annual Report, no Directors were considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

REMUNERATION POLICY, EMPLOYMENT BENEFITS AND SHARE OPTION SCHEME

Quality and dedicated staff are our most important assets and are indispensable to our success in the competitive market. As part of our corporate culture, we strive to ensure a strong team spirit among our employees for them to contribute towards our corporate objectives. In achieving the goal, we offer competitive remuneration packages commensurate with the industry level and provide various fringe benefits, including trainings, medical, insurance coverage as well as retirement benefits to the employees in Hong Kong and in China. The Company has also adopted share option scheme with the primary purpose of motivating employees of the Group to optimize their contributions to the Group and to reward them for their performance and dedications. Employees are encouraged to enroll in external professional and technical seminars, and other training programs and courses to update their technical knowledge and skills, enhance their market awareness and improve their business acumen. The Group reviews its human resources and remuneration policies periodically with reference to local legislation, market conditions, industry practice and assessment of the performance of the Group and individual employees (including Directors).

As at 31 December 2020, the Group employed a work force of 370 (including Directors) in Hong Kong and in China (2019: a work force of 460). The total salaries and related costs (including the Directors' fee) for the Year amounted to approximately RMB16,943,000 (2019: RMB29,712,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for around 16.75% and 76.03% of the total sales and purchases of the Group respectively. The Group's largest customer and supplier accounted for around 5.32% and 47.61% of the total sales and purchases of the Group for the Year respectively. For the year ended 31 December 2020, none of the Directors or any of their close associates or any shareholders of the Company which, to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and suppliers.

AUDIT COMMITTEE

The Board has established its audit committee (the "Audit Committee") which comprises all the independent non-executive Directors (namely, Dr. Cheng Vincent, Mr. Lai Chi Keung, Albert, and Mr. Yang Qiang).

The Audit Committee had reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the Group's risk management and internal controls systems, as well as reviewed the Group's audited annual results for the Year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained the prescribed public float as required under the Listing Rules during the Year and up to the date of the Annual Report.

DIRECTORS' INDEMNITIES

Pursuant to the Company's bye-laws, every Director, secretary and other officers of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses or other liabilities (to the extent allowed by the Companies Act 1981 of Bermuda (as amended)) which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duties in respect of their respective offices or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage to indemnify the Directors and officers of the Group, and such indemnity was in force during the year ended 31 December 2020 and remain effective as at the date of the Annual Report.

ENVIRONMENTAL PROTECTION AND LEGAL COMPLIANCE

The Company is committed to protecting the environment where it operates and ensuring that it complies with the environmental protection standards applicable to the Group and its business operation from time to time.

During the Year and to the best of our Directors' knowledge, the Group had obtained the required permits and environmental approvals for its business and production facilities, and had complied with such laws, rules and regulations that have a significant impact on the Group, its business and operations.

Please refer to the Environmental, Social and Governance Report contained in the Annual Report for further information on the work done and efforts made by the Company on environmental protection, legal compliance and other aspects for the sustainable growth and development of the business of the Group.

EVENTS AFTER THE REPORTING PERIOD

For the details of events after the end of the reporting period, please refer to note 38 to the consolidated financial statements contained in this Annual Report.

RELATIONSHIPS WITH BUSINESS PARTNERS AND CUSTOMERS

We value our relationships, and have been maintaining good relationships, with our business partners (including farmers, suppliers and distributors), customers and the employees of the Group. We believe that building long-term beneficial relationships with each of them is of paramount importance to establish mutual trust, loyalty and business development, and on which the Company's success and sustainability depend.

AUDITOR

Details of change in auditors in the preceding three years

On 12 December 2018, Deloitte Touche Tohmatsu ("Deloitte") resigned as auditor of the Company as Deloitte could not reach a consensus with the Company on the audit fee for the financial year ended 31 December 2018. On 27 December 2018, the Company appointed ZHONGHUI ANDA CPA Limited as its auditor to fill the casual vacancy arising from the resignation of Deloitte. Please refer to the Company's announcements dated 12 December 2018 and 27 December 2018 for details of the above change in auditors.

Proposed re-appointment of auditor

ZHONGHUI ANDA CPA Limited, the existing auditor of the Company, will retire at the forthcoming annual general meeting (the "AGM") of the Company and, being eligible, offer itself for re-appointment at the AGM. A resolution for the re-appointment of the auditor of the Company will be proposed at the AGM.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 5 May 2021 to Monday, 10 May 2021 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the AGM to be held on Monday, 10 May 2021. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited by 4:30 p.m. on Tuesday, 4 May 2021.

ON BEHALF OF THE BOARD

Wang Guangyuan
Chairman and Executive Director
Hong Kong
29 March 2021

The board of directors (the "Directors" or the "Board") of the Company (together with its subsidiaries, the "Group") formulates and reviews the Group's policies and practices on corporate governance to keep their effectiveness from time to time in order to meet the rising expectations of shareholders, to comply with the increasingly stringent regulatory requirements, and to fulfill its commitment to excel in corporate governance. The Board is committed to maintaining a good standard of corporate governance practices and business ethics in the firm belief that they are essential for maintaining and promoting investors' confidence and maximizing shareholders' returns.

The principles in the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") have been followed by the Company to shape its corporate governance structure. The CG Code sets out two levels of corporate governance practices namely, "code provisions" that a listed company is to comply with or explain its decision if there is any deviation from the code provisions, and "recommended best practices" that a listed company is encouraged to comply with but need not explain if it does not.

The Company had complied with the code provisions as set out in the CG Code during the year ended 31 December 2020 (the "Year"), 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 (the "CEO") should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and CEO and Mr. Wang Guangyuan currently performs these two roles. Mr. Wang is responsible for the overall business strategy and development and management of the Group. The Board considers that Mr. Wang, by serving as the chairman of the Board and the CEO of the Company, is able to lead the Board in major business decision making for the Group and enables the Board's decision to be effectively made, which is beneficial to the management and the development of the Group's business. Therefore, Mr. Wang assumes the dual roles of being the chairman of the Board and the CEO of the Company notwithstanding the aforementioned deviation.

BOARD OF DIRECTORS AND MANAGEMENT FUNCTIONS

The Board is responsible for providing effective and responsible leadership for the Group. The Directors, both individually and collectively, must act in good faith in the best interests of the Group and the shareholders of the Company. The Board is responsible for formulating the Group's overall objectives and strategies, monitoring and evaluating its operations, financial performance, compliance controls and reviewing the corporate governance standard of the Group. It also decides (after considering the recommendations from time to time from various committees established by the Board) on matters such as annual and interim results, major transactions, appointment or re-appointment of Directors, and dividend and accounting policies. The profiles of the Directors as at the date of this report are set out on pages 22 to 24.

Senior management is delegated with the responsibility for the execution of the business plans and strategies adopted by the Board, assisting the Board in the preparation of the financial statements for approval by the Board, the implementation of adequate procedures as put forward by the Board and/or the committees established by the Board regarding, among others, internal control and risk management and reporting regularly to and seeking approval from the Board on important matters from time to time.

The Directors acknowledge that, notwithstanding the delegation, it is the responsibility of the Board for preparing the financial statements, which give a true and fair view of the financial results of the Group.

The Board is responsible for performing the corporate governance functions of the Company, which are set out in the written terms of reference. The Board had, among others, reviewed the Company's policies and practices on corporate governance and their effectiveness, reviewed the Group's compliance with the applicable laws, rules and regulations, reviewed and monitored the training and continuous professional development of directors and senior management of the Group and reviewed this corporate governance report in the discharge of its corporate governance functions and to ensure compliance with the Listing Rules.

The Board has delegated various responsibilities to certain Board committees including the Audit Committee, the Remuneration Committee and the Nomination Committee (collectively, the "Board Committees").

Our Board comprises 3 executive Directors and 3 independent non-executive Directors. During the Year, the Board met regularly to discuss the overall strategy, the operational and financial performance and the corporate governance of the Group. The attendance record of each of the Directors is tabulated as follows:

Name	**Annual general meeting held on 16 May 2020**	**Number of board meetings attended/held during the Year**
Number of meeting(s)	1	7
Executive Directors		
Mr. Wang Guangyuan *(Chairman and CEO)*	1/1	7/7
Mr. Zhang Hebin	1/1	7/7
Ms. Wang Lijun	1/1	7/7
Independent Non-executive Directors		
Dr. Cheng Vincent	1/1	7/7
Mr. Lai Chi Keung, Albert	1/1	7/7
Mr. Yang Qiang	1/1	7/7

Save for the sibling relationship between Mr. Wang Guangyuan and Ms. Wang Lijun, the Board members have no financial, business, family or other relationships with each other. Each of the independent non-executive Directors has provided a written annual confirmation of his independence, and the Board is satisfied that his independence met the independence criteria set out in Rule 3.13 of the Listing Rules up to the date of this report.

Since the listing of its shares on the Main Board of the Stock Exchange on 19 November 2009, the Company has adopted the practice of holding board meetings regularly for at least four times a year at approximately quarterly intervals. Ad-hoc meetings will also be convened if necessary to discuss the overall strategy as well as financial performance of the Group. Notice of board meeting will be sent to all Directors at least 14 days prior to a regular board meeting. Reasonable notice will be given to the Directors for ad-hoc board meetings. Directors may participate either in person or through electronic means of communication.

The Company has adopted the practice to provide relevant materials to all Directors relating to the matters brought before the meetings. All the Directors will be provided with sufficient resources to discharge their duties, and, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expenses. Each of the Directors will have the opportunity and is encouraged to include matters which he/she deems appropriate in the agenda for Board meetings.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a specific term of three years, and is renewable automatically thereafter for successive terms of one year subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than three months' prior written notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for a specific term of two years, which is renewable automatically for successive terms of one year each commencing from the date next after the expiry of the then current term of his appointment and is subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than one month's prior written notice.

In accordance with the Company's bye-laws, each year, one-third of the Directors (including executive Directors and independent non-executive Directors) for the time being will retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years at the general meeting of the Company.

BOARD COMMITTEES

As an integral part of good corporate governance practices, the Board established the Board Committees to oversee particular aspects of the Group's affairs. The Board Committees are governed by the respective written terms of reference approved by the Board.

Audit Committee

The Audit Committee has been established by the Board with clear written terms of reference in compliance with the CG Code, which clearly define the role, authority and function of the Audit Committee and are available on both the websites of the Stock Exchange and the Company.

During the Year, the members of the Audit Committee were Dr. Cheng Vincent (Chairman of the Audit Committee), Mr. Lai Chi Keung, Albert and Mr. Yang Qiang, who were all independent non-executive Directors. The Chairman of the Audit Committee has the appropriate professional qualification as required under Rule 3.10(2) of the Listing Rules.

The Audit Committee is primarily responsible for the review and supervision of the financial reporting process and assessing the adequacy and effectiveness of the Company's financial controls, internal control and risk management systems. It is also responsible for making recommendations to the Board on the appointment and removal of external auditor. The Audit Committee had reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the Group's risk management and internal controls, adequacy of resources for performing the Group's accounting, financial reporting and internal audit functions, provided recommendation to the Board on the appointment or re-appointment of external auditor, as well as reviewed the Group's annual and interim results for the Year.

The Audit Committee was satisfied with the findings of its review of the engagement, effectiveness, independence and objectivity of the external auditor engaged by the Company.

Attendance of meetings

The Audit Committee held three meetings during the Year.

The attendance record of each Audit Committee member during the Year is set out below.

Directors	No. of meetings attended/held	Attendance rate
Dr. Cheng Vincent *(Chairman)*	3/3	100%
Mr. Lai Chi Keung, Albert	3/3	100%
Mr. Yang Qiang	3/3	100%

Remuneration Committee

The Remuneration Committee has been established by the Board with clear written terms of reference in compliance with the CG Code, which clearly define the role, authority and function of the Remuneration Committee and are available on both the websites of the Stock Exchange and the Company.

During the Year, the members of the Remuneration Committee were Dr. Cheng Vincent (Chairman of the Remuneration Committee), Mr. Lai Chi Keung, Albert and Mr. Yang Qiang, who were all independent non-executive Directors.

The primary duties of the Remuneration Committee include, but not limited to, making recommendations to the Board on the overall remuneration policy and structure, as well as the remuneration packages, relating to all the Directors and senior management of our Group; reviewing their remuneration packages with reference to corporate goals and objectives of the Company so as to attain such levels as is sufficient to attract, retain and incentivise them to make positive contribution to the long-term development of the Group, and ensuring that none of the Directors determine his/her own remuneration. During the Year, the works performed by the Remuneration Committee mainly comprised assessing the performance of the Directors and senior management of the Group, reviewing the terms of the service agreements governing the appointment of the Directors and senior management of the Group and recommending to the Board their remuneration packages.

Details of the remuneration paid to members of senior management of the Group (inclusive of executive Directors) by band for the year ended 31 December 2020 are set out below:

Remuneration band	**Number of senior management**
Below HK$1,000,000	7
HK$1,500,001 to HK$2,000,000	1

Further particulars of the remuneration of the Directors (both executive and independent non-executive Directors) for the Year are set out in note 13 to the consolidated financial statements for the Year.

Attendance of meetings

The Remuneration Committee held one meeting during the Year.

The attendance record of each Remuneration Committee member during the Year is set out below.

Directors	No. of meetings attended/held	Attendance rate
Dr. Cheng Vincent *(Chairman)*	1/1	100%
Mr. Lai Chi Keung, Albert	1/1	100%
Mr. Yang Qiang	1/1	100%

Nomination Committee

The Nomination Committee has been established by the Board with clear written terms of reference in compliance with the CG Code, which clearly define the role, authority and function of the Nomination Committee and are available on both the websites of the Stock Exchange and the Company.

During the Year, the members of the Nomination Committee were Mr. Lai Chi Keung, Albert (Chairman of the Nomination Committee and an independent non-executive Director), Mr. Wang Guangyuan (an executive Director) and Mr. Yang Qiang (an independent non-executive Director).

Diversity policy

The primary functions of the Nomination Committee include, but not limited to, making recommendations to the Board regarding candidates for directorship, either to fill vacancies on or appoint additional Directors to the Board, the structure, size and composition of the Board and succession planning for Directors. In considering the nomination of new Directors, the Nomination Committee will take into account the diversity policy of the Company, which has been in place since August 2013 and reviewed by the Nomination Committee from time to time. The diversity policy includes the consideration of various elements including gender, age, culture, qualification, ability, work experience, leadership and professional ethics of the candidates and against the objective criteria set out by the Board. These elements were recognised and were taken into account of in the composition of the existing diverse Board.

Nomination policy and procedures

To ensure the composition of the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business, the Company has, with the recommendation of the Nomination Committee, adopted a formal, considered and transparent procedures for the selection, appointment and re-appointment of Directors. The criteria to be taken into account when considering the suitability of a candidate will be his or her ability to devote sufficient time and attention to the affairs of the Company and contribute to the diversity of the Board (based on the diversity policy adopted by the Company) as well as the effective carrying out of the responsibilities of the Board, in particular, the following:

(a) bringing an independent judgment and make constructive recommendation on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts;

(b) taking the lead where potential conflicts of interests arise;

(c) serving on the Audit Committee, the Remuneration Committee, the Nomination Committee and/or other committee(s) as may be established by the Board from time to time, if invited;

(d) devoting sufficient time to the Board and/or any Committee(s) on which he or she serves so as to allow them to benefit from his or her skills, expertise, and varied backgrounds and qualifications and diversity through attendance and participation in the Board and/or Committee meetings;

(e) scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance;

(f) ensuring the Committees on which he or she serves to perform their powers and functions conferred on them by the Board; and

(g) conforming to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation or the Listing Rules, where appropriate.

If the candidate is proposed to be appointed or offers himself or herself to be re-appointed as an independent non-executive Director (INED), his or her independence shall be assessed in accordance with, among other things, the factors as set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time. Where applicable, the totality of the candidate's education, qualifications and experience shall also be evaluated to consider whether he or she has the appropriate professional qualifications or accounting or related financial management expertise for filling the office of an INED as required under Rule 3.10(2) of the Listing Rules.

Annual confirmation on independence is sought from each INED to re-assess his/her independence.

Prior to the issue of this report, the Nomination Committee, having reviewed the Board's structure, size and composition, nominated Mr. Zhang Hebin (an executive Director) and Mr. Lai Chi Keung, Albert (an independent non-executive Director) to the Board for it to consider and as appropriate, recommend to shareholders their re-election at the forthcoming annual general meeting of the Company. The nominations were made in accordance with the nomination policy and the diversity policy of the Company. The Nomination Committee was satisfied with the independence of Mr. Lai Chi Keung, Albert having regard to the independence criteria as set out in the Listing Rules and formed the view that the Board has maintained an appropriate mix and balance of skills, knowledge, experience and diversity of perspectives appropriate to the strategy and requirements of the business of the Group.

Attendance of meetings

The Nomination Committee held one meeting during the Year in which, among other things, the structure, size, composition and diversity of the Board, the nomination policy, the diversity policy and its implementation, the suitability of the Directors who stood for re-election by the shareholders at the last annual general meeting of the Company and the independence of the independent non-executive Directors were reviewed and its recommendations were put forward to the Board for consideration and approval.

The attendance record of each Nomination Committee member during the Year is set out below.

Directors	**No. of Meetings attended/held**	**Attendance Rate**
Mr. Lai Chi Keung, Albert *(Chairman)*	1/1	100%
Mr. Wang Guangyuan	1/1	100%
Mr. Yang Qiang	1/1	100%

CONTINUOUS PROFESSIONAL DEVELOPMENT

The Company encourages its Directors to acquaint themselves with the general duties of directors as well as up-to-date knowledge so as to discharge their duties.

During the Year, the Directors were advised to attend director training webcast and other e-learning programs, which were readily accessible from the website of the Stock Exchange and other sources, and provided with materials covering legal, regulatory, corporate governance and/or other aspects (including but not limited to updates on the Listing Rules and guidance letters for listed issuers issued by the Stock Exchange) for reference/self-reading. The level of participation by each Director is briefly set out below:

	Training matters	
Name of Directors	**Attendance of director training webeast and e-learning programmes during the Year**	**Distribution of training materials to Directors for self-reading during the Year**
Mr. Wang Guangyuan	✓	✓
Mr. Zhang Hebin	✓	✓
Ms. Wang Lijun	✓	✓
Dr. Cheng Vincent	✓	✓
Mr. Lai Chi Keung, Albert	✓	✓
Mr. Yang Qiang	✓	✓

The Company also encouraged all Directors to participate from time to time seminars, presentations and courses which they considered relevant at the costs of the Company so as to develop and refresh their knowledge and skills for better fulfillment of their duties as directors of a listed issuer.

COMPANY SECRETARY

The company secretary of the Company is the principal administrative officer of the Company and is responsible for (including) organizing meetings of the Directors and Shareholders of the Company and ensuring that all procedures for convening and conducting such meetings comply with the bye-laws of the Company and the laws, rules and regulations applicable to the Company. During the Year, the Company Secretary had conducted 15 hours of professional training to update and develop his/her knowledge and skills.

Ms. Chan Shuk Man, Lora has been appointed as the company secretary of the Company with effect from 22 January 2021.

Mr. Wong Kwok Kuen had acted as the company secretary of the Company from 6 November 2015 to 2 November 2017 and re-joined the Company on 1 January 2019. He resigned on 22 January 2021.

DIVIDEND POLICY

As at 31 December 2019, the Company has in place a dividend policy. Under the dividend policy, the Company may distribute dividends by way of cash or by other means that the Board considers appropriate. Any proposed distribution of dividends is subject to the discretion of the Board and, where applicable, the approval of the Shareholders. The Board will consider various factors before declaring or recommending any payment of dividends which factors include the results of operation of the business of the Group, the retained earnings and distributable reserves of the Company and each of the members of the Group, the Group's actual and expected financial performance, the general business conditions and strategies, the Group's expected working capital requirements and future expansion plans, the general economic conditions and business cycle of the Group's business, the future prospects of the business of the Group, shareholders' interests, statutory and regulatory restrictions on the payment of dividend and other internal or external factors that the Board deems appropriate.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board, with the assistance of the Audit Committee, has overall responsibilities for maintaining good and effective risk management and internal controls of the Group. During the Year, the Board conducted an annual review of the effectiveness and adequacy of the Group's risk management and internal control systems, covering financial, operational, compliance control and risk management functions for the year ended 31 December 2020 after the end of such financial year. The Group's system of internal control includes the setting up of a management structure with limits of authority, and is designed to help the Group achieve its business objectives, protect its assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material mis-statement or loss, and to manage rather than eliminate all risks of failure in the Group's operational systems and in the achievement of the Group's business objectives. After reviewing the Group's risk management and internal control systems, the Board considers that the systems are effective and adequate for the Group as a whole. The Board further considers that (i) there was no material issue relating to the Group's risk management and internal controls, including financial, operational and compliance controls and risk management functions of the Group; and (ii) that there were adequate staff with appropriate and adequate qualifications and experience, resources for accounting, internal audit and financial reporting functions, and adequate training programmes had been provided during the Year. The control and compliance department of the Company plays a major role in monitoring the risk management and internal controls of the Group and reports directly to the Audit Committee. It has full access to review all aspects of the Group's activities, risk management and internal controls. All types of audited reports are circulated to the Audit Committee and key management, which will follow up on any actions and measures taken to improve risk management and internal controls on the recommendations of the control and compliance department.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the Year, the Directors had selected suitable accounting policies and had applied them consistently, adopted appropriate accounting standards which were pertinent to its operations and relevant to the financial statements, made judgments and estimates that were prudent and reasonable, and had prepared the accounts on a going concern basis. The statement of the auditor of the Company, ZHONGHUI ANDA CPA Limited, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 78 to 81.

AUDITOR'S REMUNERATION

During the Year, the fees paid/payable to the auditor in respect of audit and non-audit services provided by the auditor of the Group were as follows:

	RMB'000
Audit service	1,680
Non-audit services	
– Agreed-upon procedure work on preliminary results announcement for the year ended 31 December 2020	20
	1,700

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

CHANGES IN CONSTITUTIONAL DOCUMENTS

During the Year, there were no changes in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

Convene a special general meeting (the "SGM")

The following procedures are subject to the Company's bye-laws, the Companies Act 1981 of Bermuda, as amended or supplemented from time to time (the "Companies Act") and applicable legislation and regulation.

1. Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Company's registered office at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the Company's principal office of business in Hong Kong at Unit 2910-11, 29/F, Prosperity Millennia Plaza, No. 663 King's Road, Quarry Bay, Hong Kong, for the attention of the Company Secretary of the Company (the "Company Secretary"), to require a SGM to be called by the Board for the transaction of any business specified in such requisition.

2. The written requisition must state the purposes of the general meeting, signed by the Shareholder(s) concerned and may consist of several documents in like form, each signed by one or more of those Shareholders.

3. If the requisition is in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the requisition is invalid, the Shareholders concerned will be advised of this outcome and accordingly, a SGM will not be convened as requested.

4. The notice period to be given to all the registered Shareholders for consideration of the proposal raised by the Shareholder(s) concerned at a SGM varies according to the nature of the proposal, as follows:

    - at least twenty-one (21) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes a special resolution of the Company, which cannot be amended other than to a mere clerical amendment to correct a patent error; and

    - at least fourteen (14) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

Put forward proposals at general meetings

1. Sections 79 and 80 of the Companies Act allow certain Shareholder(s) to requisition the Company to move a resolution at an annual general meeting (the "AGM") of the Company or circulate a statement at any general meeting of the Company. Under section 79 of the Companies Act, at the expense of the requisitionists unless the Company otherwise resolves, it shall be the duty of the Company on the requisition in writing by such number of Shareholders:–

   (a) to give to the Shareholders entitled to receive notice of the next AGM notice of any resolution which may properly be moved and is intended to be moved at that meeting;

   (b) to circulate to the Shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

2. The number of Shareholders necessary to make the above-mentioned requisitions to the Company shall be:–

   (i) either any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or

   (ii) not less than one hundred Shareholders.

3. Notice of any such intended resolution shall be given, and any such statement shall be circulated, to Shareholders entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such Shareholder in any manner permitted for service of notice of the meeting, and notice of any such resolution shall be given to any other Shareholder by giving notice of the general effect of the resolution in any manner permitted for giving him notice of meeting of the Company, provided that the copy shall be served, or notice of the effect of the resolution shall be given, as the case may be, in the same manner and, so far as practicable, at the same time as notice of the meeting and, where it is not practicable for it to be served or given at that time, it shall be served or given as soon as practicable thereafter.

4. Section 80 of the Companies Act sets out the conditions to be met before the Company is bound to give any notice of resolution or to circulate any statement. Pursuant to section 80 of the Companies Act, the Company shall not be bound to give notice of any resolution or to circulate any statement as mentioned in paragraph 3 above unless:–

   (a) a copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, is deposited at the registered office of the Company:–

      (i) in the case of a requisition requiring notice of a resolution, not less than six weeks before the meeting; and

      (ii) in the case of any other requisition, not less than one week before the meeting; and

   (b) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expense in giving effect to the procedures in paragraph 1 above (i.e. the giving of notice of resolution and/or circulation of statement).

   Provided that if, after a copy of the requisition requiring notice of a resolution has been deposited at the registered office of the Company, an AGM is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the abovementioned time shall be deemed to have been properly deposited for the purposes thereof.

Proposed a candidate for election as a Director at an annual general meeting

The Company has an established procedures for shareholders of the Company to propose a person for election as a Director and the procedures are published at the Company's website at http://www.tontine-wines.com.hk.

The Company welcomes enquiries from its shareholders. The Board or designated senior management of the Company will review shareholders' enquiries on a regular basis. Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary by e-mail (info@corporatelink.com.hk) or at the address of the Company's principal place of business in Hong Kong.

INVESTOR RELATIONS AND SHAREHOLDERS' COMMUNICATIONS

The Company endeavours to maintain a high level of transparency in communication with shareholders and investors in general. The various channels via which the Company communicates with its shareholders include interim and annual reports, circulars, notices, financial reports, information posted on the websites of the Stock Exchange and the Company, and general meetings. Shareholders are encouraged to attend the Company's general meetings where the Chairman of the Board and the chairman of each of the Board Committees (as appropriate) are invited to attend to answer questions. Notice of the annual general meeting of the Company and related papers are sent to shareholders of the Company at least 21 clear business days before the meeting and such notice is also made available on the Stock Exchange's website. Separate resolutions are proposed at the general meetings on each substantially separate issue. Poll results of the meeting will be posted on the website of the Stock Exchange on the day of the meeting. The financial and other information relating to the Group is disclosed on the Company's website, http://www.tontine-wines.com.hk.

In order to facilitate the communication with shareholders of the Company, the Group has maintained the Company's website as a channel to provide the latest information and to strengthen communication with its shareholder and the investing public. The Group's corporate correspondence and information will also be published on the website in a timely manner.

The above communication policy is reviewed by the Board from time to time to ensure its effectiveness.

ABOUT THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This is the environmental, social and governance report (the "ESG Report") issued by China Tontine Wines Group Limited and its subsidiaries (the "Group" or "We"), which contains the sustainable development policy implemented by the Group during the year ended 31 December 2020 (the "Year") and the Group's performance in social governance and corporate civic responsibilities under the practice of the concept of sustainable development.

Reporting Scope

The ESG Report covers the overall environmental and social performance of the core business of the Group in the People's Republic of China ("PRC" or "Mainland China") during the Year.

Reporting Framework

The ESG Report was prepared in accordance with the requirements set out in "Environmental, Social and Governance Reporting Guide" (the "ESG Reporting Guide") under Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The cross reference between content index of the ESG Reporting Guide and the ESG Report is set out on pages 71 to 77 of the ESG Report.

Stakeholder Engagement

The Group has been cooperating with its stakeholders in understanding and focusing on their needs through various channels and through feedbacks to assist us to have a better understanding of the level of the Group's current environmental and social development. The ESG Report was prepared by different departments of the Group. The information we gathered was not only the summary of the environmental and social work carried out by the Group during the Year, but also formed the basis for us to formulate short and long terms sustainable development strategies.

Information and Feedbacks

For detailed information regarding the financial performance and corporate governance of the Group during the reporting Year, please refer to the official website (http://www.tontine-wines.com.hk) and the annual report of the Group.

Your opinions will be highly valued by us. If you have any suggestions or comments, please email at info@corporatelink.com.hk or write to the principal business place of the Company in Hong Kong.

Board Approval

The board of directors (the "Board") of the Group approved the ESG Report on 29 March 2021.

Information on Stakeholders

Stakeholders	Possible incidental issues	Communication and response
HKEx	Compliance with the Listing Rules, publishing of announcements in a timely and accurate manner	Meetings, trainings, seminars, programmes, updating of website and announcements
Governments	Compliance with laws and regulations, social welfare and prevention of tax evasion	Interactions and visits, government inspections, tax returns and other information
Suppliers	Payment schedule, supply stability	On-site research
Investors	Corporate governance system, business strategies and performance, investment return	Organization and participation of conferences, interviews, general meetings, provision of financial reports or business updates for investors, press and analysts
Media	Corporate governance, environmental protection and human rights	Posting of communications on the company website
Customers	Product/service quality, fair and reasonable pricing, value of service, protection for the labour force and work safety	Site visits and after-sale services
Employees	Rights and benefits, employee salaries, training and development, working hours and working environment	Conducting team activities, training, interviews, issue of staff manual and internal memorandum
Community	Community environment, employment and community development and social welfare	Organizing community activities, employees volunteering activities and community welfare, sponsorship and donations

THE GROUP AND THE ENVIRONMENT

The Group sources the supply of grapes for its production from Ji'An region, which is one of the major production sources in Mainland China. Ji'An region is the Chinese Demonstration Zone of agricultural standardised green food and the standardised production base of green food material. It is also among the few regions worldwide cultivating the vitis amurensis variety of grapes. Over the years of development and enhancement, the production model of the Group has been gradually improved with our plants equipped with the whole set of professional production lines of cleaning, destemming, crushing and pressing. The Group's industrial parks were classified as the National 4A Grade Tourism District.

Environmental Protection and Legal Compliance

The Group has been in compliance with local laws and regulations related to environmental protection in the PRC, including but not limited to the Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》), the Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), the Cleaner Production Promotion Law of the PRC (《中華人民共和國清潔生產促進法》), and the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》).

The Group strictly complied with a series of local and national regulations in respect of environment protection when conducting its business activities and production process. In 2020, the Group obtained all the necessary local and national-level licenses, as well as a series of approval and authorization on discharge, including but not limited to the national industrial product production permit, the waste discharge license, the water intake permit, the hygiene permit, and all the legal liabilities and requirements related to corporate business and normal operation.

During the Year, the Group had complied with all the regulations related to environment protection and there was no confirmed violations related to environment protection that had significant impacts on the Group.

Pollutant Discharge

Greenhouse Gas Emission

The greenhouse gas directly emitted by the Group is mainly from the burning fossil fuel in the production process and the use of commercial vehicles of the Group, and the greenhouse gas indirectly emitted is mainly produced by the use of outsourced electricity. For the sake of afforestation, the Group had planted trees in the production base in Tonghua City to reduce the greenhouse gas emission.

The fossil fuel is mainly burnt by the boiler in the production base in Tonghua City. The boiler is used in winter to maintain the indoor temperature required for the grape treatment and brewing, in addition to the heating and distillation in the production. At present, the Group adopts such coal with higher combustion value to reduce the emission of carbon dioxide ("CO_2"). The production base in Baiyanghe replaces coal with electricity in response to the environment protection requirements of the Yantai Municipal Government.

The exhaust gas is the flue gas produced during the operation of the boiler, the main pollutants of which are dust, sulphur dioxide and nitrogen oxides. After being filtered by equipment for desulfurization, denitrification and dust removal, the flue gas will be emitted through a high chimney, to ensure that the exhaust gas can meet emission standards. As the factories of the Group are located in the northeast and northern regions of Mainland China, there is a need for heating in winter. In order to reduce the emission of greenhouse gases emitted directly from the burning fuel, the Group implements different boiler operation modes by season, namely independent operation of gas production equipment in summer and combined operation of heating system and gas production equipment in winter. The dust and slag ash from chimney and dust removal equipment will be recycled by the brick factory according to the waste recycling process disclosed below.

Due to the impact of the COVID-19 pandemic, the group has occasionally stopped production and sales orders have also been reduced. The group's total carbon dioxide emissions during the Year have been reduced to 3,740 tons (2019: 9,094 tons).

Waste Recycling and Forwarding

During the process of grapes treatment and wine production, only a small amount of innocuous wastes will be generated, mainly including the grape stem which is generated after destemming and crushing, the seeds and skins of grapes which are generated after pressing as well as the solid portion which are generated during change of tanks and ageing. To mitigate the environment issues caused by any mislaid of waste disposal, the Group forwards the grape stem and solid portion to the farmers in the neighbourhood for use as fuel. Other innocuous wastes are collected by the municipal waste treatment facilities for centralised treatment.

In accordance with national regulations, the Group delivers a small amount of hazardous waste to the designated garbage recycler for subsequent treatment to ensure that no secondary contamination occurs. The Group collects wastes and delivers them to the enterprises with secondary recycling capability for treatment, for example, the slag is disposed by the brick plants, e-wastes and ink boxes are disposed by computer companies. Due to high utilisation of the aforesaid garbage in PRC, the Group provides the wastes to enterprises in need of them for free, so as to minimise the waste emission.

Since the innocuous wastes and hazardous wastes of the Group had been recycled and forwarded, the Group didn't record the total quantity of the innocuous and hazardous wastes.

Resource Usage

In compliance with the internal energy-saving measures of the Group, energy-saving lights are adopted currently. The Group strictly requires that all landscape lighting must be closed at 10 p.m. every night except on holidays. The control system of the landscape lighting is located in the main office building of the production base in Tonghua City, which is closed by the guard on duty. Except for the necessary facilities, duty officers will turn off the power supply of office building, while employees need to turn off the power supply of office equipment before leaving work, so as to save electricity.

In terms of water consumption, the Group uses underground water, and its wastewater mainly comes from domestic wastewater and production wastewater, including water used for canteen, equipment cleaning, glass bottles washing and cleaning. With an aim to save water, the Group uses glass bottles with high sanitary standards. After collection, the wastewater will be purified by the Group through a sewage treatment system, the quality of water discharged from which is designed to meet relevant standards of Tonghua Municipal Government. Such water is not drinkable, and will be used for garden plants irrigation, so as to save water.

In response to environmental protection, the Group has used recyclable materials for packaging, such as paper box made of recycled paper, reducing the use of new paper box. The wine corks of the Group are made of natural oaks. Soft oaks consist of two layers of bark. The inner bark can be vitalized and provides the basis for the growth of new bark each year. Therefore, the cork used by the Group will only pick withered outer bark during the process of picking the oaks, so as not to affect the continual growth of trees.

Due to the impact of the COVID-19 pandemic, the group has occasionally stopped production and sales orders have also been reduced. The group's total packaging materials used for finished products during the Year have been reduced to 5,786 tons (2019: 14,538 tons).

In addition, following the principle of sustainable development, the vineyards of the Group perform a fallow period of over four months in the cold winter each year to maintain soil fertility, so as to continually provide abundant nutrition for the grapes.

Data of coal fuel emission

Data of boiler emission	2020 *Ton*	2019 *Ton*
Nitrogen oxides	17	47
Sulfur dioxide	18	49
Dust	11	29

Vehicle emission data[3]	2020 *kg*	2019 *kg*
Nitrogen oxides	101.84	–
Sulfur dioxide	0.27	–
Particulates	9.82	–

Data of greenhouse gas emission

Data of boiler emission		2020 *Ton*	2019 *Ton*
Scope 1[1]	Boiler	2,843	7,624
	Vehicle	49	–
Scope 2[2]	Electricity used	852	1,470
Total	Total CO_2 emissions	3,744	9,094
	Total CO_2 Emission Intensity (tons of CO_2/product per ton)	0.24	0.51

Data of energy consumption	2020	2019
Electricity used (kWh)	857,973	1,379,989
Intensity of electricity consumption (kWh/product per ton)	54.19	77.72

1 Scope 1: The greenhouse gas emission refers to the direct emission from fuel burning in the fixed emission sources. The figures stated only include the coal consumption, presented in the carbon dioxide equivalent (CO_2e).

2 Scope 2: The greenhouse gas emission refers to the indirect emission of energy. The figures stated only include the electricity purchased from the power companies, presented in CO_2e. The calculation method is quoted from the "China Regional Grid Baseline Emission Factors in 2019（《2019中國區域電網基準線排放因子》）" promulgated by the National Development and Reform Commission.

3 Due to the impact of the COVID-19 pandemic, the Group has increased the use of vehicles to reduce the risk of infection with the virus. Therefore, the Group started to disclose its data of emission from vehicles during the reporting period. The Group has made reasonable assumptions for incomplete records (using the average usage of other months as a projection).

Data of packaging material used for finished products

Type	2020	2019
	Ton	*Ton*
Carton	450	2,023
Bottle	5,320	12,433
Cork	16	82
Total	5,786	14,538

SOCIETY

Human Resource Overview

The Group is committed to protecting the legal interests of all its employees and in strict compliance with a series of labour laws of the People's Republic of China, such as the Employment Contract Law of the PRC (《中華人民共和國勞動合同法》), the Labour Law of the PRC (《中華人民共和國勞動法》) and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》).

During the Year, the Group focused on talent cultivation, strengthened the development of human resource, and selected talents according to the needs of long-term development and the policy of "morality first". We have introduced a system with a series of human resource policies, including but not limited to procedures concerning wages of employees, talent evaluation and selection and human resource management. The Group has established a diversified position system and career path for management, professional, technical and supporting specialists according to the latest market standards, in order to maintain the impetus of employees. Our human resource development plan includes following strategies:

- Promoting the selection of senior management of the Company
- Attracting talents with great potential
- Cultivating reserve personnel
- Enhancing talent exchange
- Regularly evaluating the work performance of employees
- Maintaining fair and reasonable competition mechanism

Employees of the Group have different religious belief and background. There is no any discrimination against gender, age, race, religious belief or physical disability during our recruitment process.

The Group complies with the Provisions on the Prohibition of Using Child Labour (《禁止使用童工規定》) of the PRC. A strict background check is adopted during the recruitment process to avoid employing child labour inadvertently. In addition, we would never force any employee to work by means of violence, threats, or illegal restriction of personal freedom during the business process.

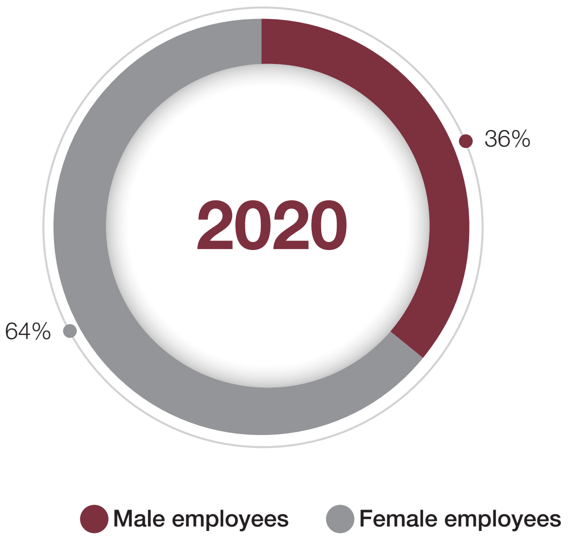
The Group implements standard working hours for its employees, which is no more than eight hours per day and no more than forty hours per week. In addition to statutory holidays, employees are also entitled to other holidays including home leave, marriage and compassionate leave, maternity leave and paid annual leave, with strict compliance to rules of the country. The Group also contributes various social insurance premiums for all employees, including unemployment, medical care, maternity, work injury, pension, housing provident fund, etc.. Prior to joining or leaving the Group, employees need to take health examinations organized by the Group, in order to guarantee the personal health of employees and a safe production environment. Concerned with physical and mental health of employees, we actively encourage employees to participate in sports activities to improve their physical quality and enhance the vigor of the Group. In order to help the employees strike a balance between work and health, the Group also held tasting events and celebration parties for its employees and organized sports teams to participate in events held by governments, such as basketball matches and sports games, helping them maintain their physical and psychological health.

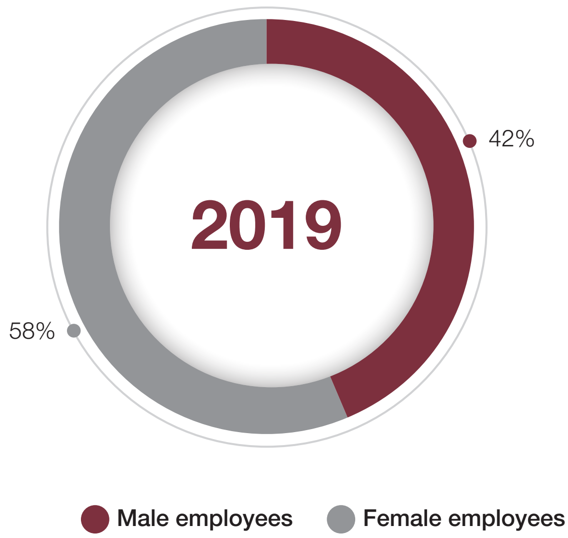
The Group had 339 employees in total as at 31 December 2020 (2019: 460). All the employees have long-term labour contracts with the Group. The structure is as follows:

	2020			2019		
Age group	Male employees	Female employees	Total	Male employees	Female employees	Total
18 – 25	0	1	1	0	1	1
26 – 35	17	27	44	20	39	59
36 – 45	49	91	140	67	109	176
46 – 55	60	67	127	75	109	184
56 – 65	24	2	26	22	13	35
Over 65	1	0	1	5	0	5
Total number	151	188	339	189	271	460

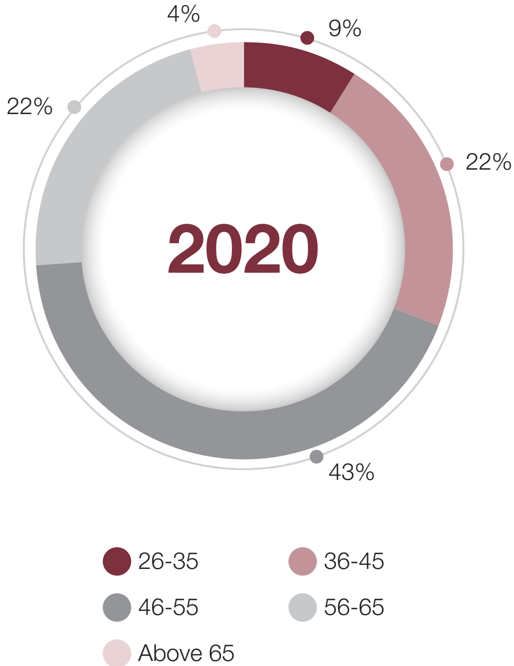
Statistics of employee turnover are set out as follows:

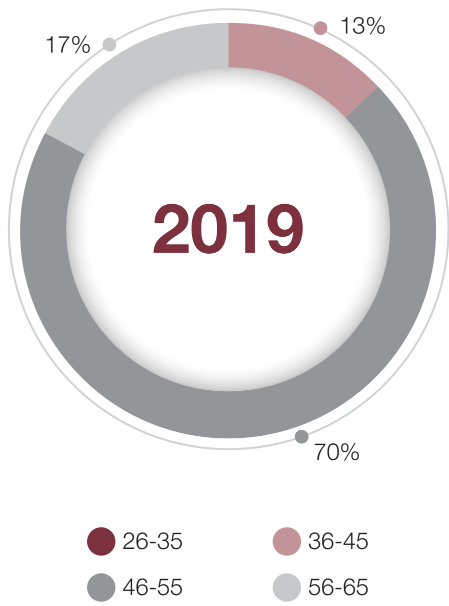
Turnover rate by gender





Turnover rate by gender





Health and Safety

The Group complies with the Law of the PRC on the Prevention and Treatment of Infectious Diseases (《中華人民共和國傳染病防治法》), the Law of the PRC on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), the Provisions on the Supervision and Administration of Labour Protection Articles (《勞動防護用品監督管理規定》) and the Regulations Concerning the Labour Protection of Female Staff and Workers (《女職工勞動保護規定》). In order to enhance occupational safety, improve working conditions, safeguard employee's personal interests and ensure protection of life and property, the Group has formulated its internal production safety regulations. The Group has been committed to the principle of "Safety First, Prevention is a Priority" which requires that our productions should meet the safety requirements, with an aim to implementing safe production, sophisticated management and maintaining a clean and hygienic production site. Inter-departmental meetings will be held from time to time to review the safety and efficiency of work routines, remind employees of each department to keep the office clean and tidy, and always bear in mind the safe production during work.

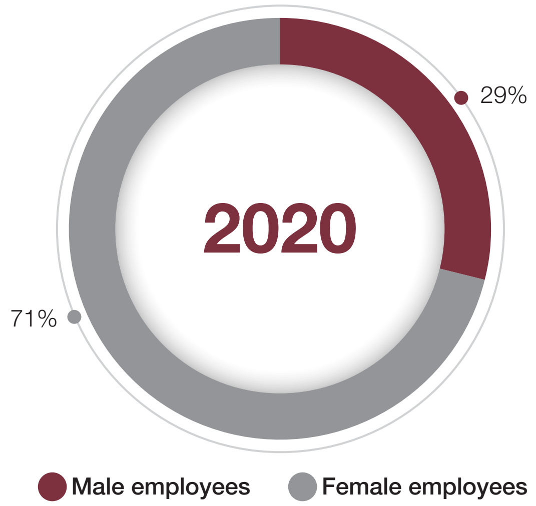
Interviewees shall provide relevant qualification certificates when recruited for special positions. The Group requires that employees whose positions are exposed to occupational hazards should accept a complete set of responsibility system for occupational diseases prevention, and support the management measures for the prevention of occupational diseases. All the employees of the Group shall take annual health examination as well as health and safety trainings, and a record of their examination results shall be kept to demonstrate the importance we place on the knowledge on occupational health of employees as a whole. The Group requires that the production and technical workers should be health certificate holders before commencement of work. The Group has taken several measures to prevent accidents such as using gloves and safety equipment in machinery maintenance, monitoring the management of plants and facilities, and offering safety management and education for employees. During the Year, the Group had arranged training on the management system and corporate culture, safe production, fire safety, and safety education and knowledge, held occupational health workshops, and publicized and implemented relevant national laws and regulations, so as to ensure the Group's occupational health and inspection work are well-performed.

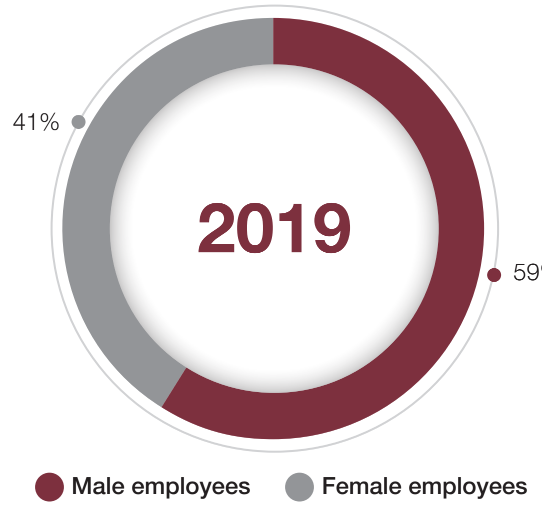
Development and Training

The Group pays great attention to personnel trainings. Therefore, the Group formulates a comprehensive training program every year to enhance the professional knowledge and ethics of the staff, and help them produce high-quality wine products through the provision of education and training on professional ethics and relevant rules and regulations. According to the needs of different positions, the training plan of the Group in the Year covered wine knowledge, company management system, corporate culture, safe production, fire safety and production technology. The trainings on professional knowledge have effectively enhanced the employees' detailed understanding of the production process, the Group's management culture and safety measures. In order to guarantee product quality, the Group strengthens the training on the professional knowledge and technology for the personnel in the key production positions, so that employees can possess sufficient knowledge and corresponding supporting capability.

During the Year, the Group held symposiums in order to create closer relationship between the enterprise and employees, superiors and subordinates, and among employees themselves, offer opportunities for employees to voice their opinions, and enhance the sense of belonging of employees through communication. During the Year, the average hours of training of each male employee and female employee are 10.6 hours (2019: 12.2 hours) and 10.7 hours (2019: 10.0 hours), respectively.

Trained employees by gender





Labour Standards

The Group is committed to protecting the human rights of employees in compliance with all the relevant laws and regulations. It is forbidden to employ forced labour and child labour, and candidates are required to provide certificate of identity, professional certificate and the severance certificate issued by former employer for identity verification during the recruitment.

If the Company is found to employ child labour or forced labour in violation of regulations, the Company will immediately terminate the labour contract, investigate into the reasons and liabilities, and impose due punishments on faulty employees. During the Year, the Group had no incidents of forced labour or child labour related-employment.

OPERATION PRACTICE

Product and Service

The Group is committed to researching, developing and launching diversified new products. In order to satisfy different needs of customers, the Group has launched grape wines of different prices and levels. In terms of the sales mode, the Group continues to depend on the traditional distribution channel, while proactively develops and expands the online consumption platform. Since 2016, it has begun to sell grape wine products online to give full play to the market function of the e-commerce model, develop diversified distribution channels, and expand the sales scope.

Supply Chain Management

The Group always aims to provide high-quality products to its customers. In order to manage the potential risks arising from our suppliers, before entering into contracts with them, the Group will carry out specific risk analysis. In addition to the quality of goods, the Group also focuses on whether there are reports on the environmental and social performance of our suppliers. If any relevant reports are found, the Group will inquire relevant suppliers, submit the review proposals to the supplier, and consider whether there is any need for replacement for new suppliers. It will also dispatch management staff to carry out strict investigation in the production base of the supplier, and randomly inspect documents of the supplier such as written records, in order to guarantee each supplier can satisfy the conditions stipulated by the Group prior to the signing of contracts. The management staff of the Group will make a detailed evaluation on the products and risks of its suppliers once more at least one month prior to the expiry of the contracts to determine whether to renew the cooperative relationship.

Strict Production Process

The Group owns a full set of professional production line and a professional winemaking management team to provide comprehensive quality instruction and control on each bottle of wine produced. The Group has obtained Food Production License and QS Certificate. From the first process of wine manufacturing, the grapes that we use are hand-picked and selected according to a high-standard requirement. With the professional instruction of winemakers and our advanced equipment, the grapes are gone through a number of general processes such as washing, stem removing, squashing, canning, temperature-controlled fermentation, base wine ageing, base wine adjustment, laboratory test, sterilization, bottling, packing, finished products, storage, transportation and so on and finally become wine in which we are fully confident.

During the Year, there were no return of products of the Group that had been sold or delivered due to safety and health problems, or receipt of any complaints on products and services.

Emphasis on Quality

The Group attaches great importance to product quality with strict quality management system in place and has been awarded ISO9001 Quality Management System Certification. The mountain grapes cultivated and the mountain grape wine produced in the Group's organic grape production base in Ji'an City has obtained GB/T19630.1-2011 Organic Products (Part I: Production) Certification and GB/T19630.2-2011 Organic Products (Part II: Processing) Certification, and also obtained GB/T19630.3-2011 Organic Products (Part III: Identification and Sales) Certification and GB/T19630.4-2011 Organic Products (Part IV: Management System) Certification. At the same time, certain wines of the Group have been awarded certifications by China Green Food Development Center, including Mountain Grape Wine, Dry Wine, Ice Wine, Hong Full Juice Mountain Grape Wine and Original and Wild Mountain Grape Wine, which are in line with the Green Product-Class A Standards and have been recognised as Green Food-Class A Products. The Group's great efforts on quality control was evident by the above achievements.

To ensure the stability of the Group's production supply, the departments of sales, production and supply will hold meetings to formulate production plan before mass production. For the grapes cultivated in vineyard, before procurement period of each year, inspectors from the Group will first check the grape maturity, and then complete the glucose checklist to confirm whether they are suitable for brewing. When the squeezed grapes are transported to workshops, inspectors will perform quality test on the grapes first, and then they will carry out sugar content detection occasionally to ensure the quality of grape juice. Meanwhile, winemakers will adjust the brewing formula according to the sugar content of grape juice to guarantee the consistent quality of all the finished products. In addition, the grape juice outsourced by the Group will be carried out testing inspection by technical department, and then delivered to manufacturing site after passing the inspection.

Production will not commence unless the samples taken by the Group's inspectors from the raw materials purchased and delivered to the workshop have passed the physical and chemical indicators test in laboratory. Unqualified raw materials will be taken out and returned to suppliers. Throughout the whole production process, inspectors will sample and test the product in progress or finished product in warehouse from time to time, and record the inspection results to ensure the quality of the wines produced meet the standards.

Emphasis on Safety

The Group has formulated a management system in various aspects such as personnel, equipment, raw materials, packaging materials, purchase inspection, product technical standards, detection standards and production environment control, and required the personnel of relevant departments to strictly comply with and implement relevant guidelines.

The production process of the Group complies with the Regulation on the Implementation of the Food Safety Law of the PRC (《中華人民共和國食品安全實施條例》). It is required that the production sites should keep clean at all time to ensure food safety. Raw materials shall be processed in line with the health requirements and containers of raw materials shall be cleaned regularly to prevent contamination. The Group has set stringent requirements for workers to enter production sites. Before entering the production sites, workers are required to conduct hand disinfection and pass the footbath pool; after entering the production sites, workers are required to wear neat work clothes, pants and hats, and uniforms shall be cleaned regularly. Production equipment, tools and containers shall also be thoroughly cleaned and disinfected both before and after use.

Emphasis on Reputation

The Group has been committed to building a long-term relationship of mutual trust with our customers. Therefore, all the Group's employees have been required to enter into a confidentiality agreement, covenanting that they will keep and handle the confidential information of customers with due care without disclosing any information to third parties. At the same time, in order to further safeguard our customers' information, the Group requires that outsiders and vehicles must be registered to reduce the leak risk of the assets of customers and the Company.

As a responsible enterprise and partner, the Group strictly complies with the process of the existing Finished Goods Inventory Management (《成品庫管理》) with an aim to sell products in the best condition through a prudent storage method. Products shall be stored by categories and managed on a quantitative basis. In addition, products should be inspected and maintained on a daily or regular basis according to their varieties, characteristics and storage conditions, including recording temperature, humidity and other indicators in the warehouse to prevent products from getting deteriorated, moldy, expired or damaged. The Group will conduct final check prior to delivery to ensure that products sold pass the quality management test.

The Group has also developed a complete return process. If quality problems are identified in raw materials or packaging materials, such materials will be immediately returned to suppliers as the Group refuses to use substandard materials. Meanwhile, the Group will accept products returned by customers due to quality problems so as to provide quality services to customers.

Emphasis on Management

To improve the management of the Group, we regularly conduct comprehensive review on corporate environmental sanitation and disciplines. If any non-compliance is identified in the process of review, the relevant issues will be reported to the corresponding department's manager for handling timely. Besides, the Group maintains frequent communication with its staff. All working procedures in the Group shall be performed with law and rule being abided by, any violation being investigated into with basis and solution to resort to, in order to improve the service quality.

In terms of sales of products, the Group carefully chooses distributors by evaluating their marketing approaches and creditworthiness, and only cooperates with the most appropriate ones after prudent consideration. By managing and monitoring the performance of our distributors, the Group ensures that customers are provided with quality services.

Pursuant to the Advertising Law of the PRC (《中華人民共和國廣告法》) and other laws and regulations, the Group carries out strict review procedures on the policies and regulation about advertising and labeling and conducts cross-checking of electronic files with cooperation partners, in order to ensure that the public can have a good and correct understanding of the product information.

Anti-corruption

The Group strictly adheres to the Criminal Law of the PRC (《中華人民共和國刑法》), the Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》) and the Prevention of Bribery Ordinance (《防止賄賂條例》) of Hong Kong. Our staff is prohibited from participating in any illegal behaviors by taking advantage of their positions, including but not limited to bribery, fraud, and illegally obtaining or accepting properties from others.

The Group also severely cracks down on any money laundering activities conducted through public account or private account, in order to prevent any corruption or bribery within the Group. If any corruption is found, employees may report to the relevant managers of the Group or the local competent authority via phone, email, letters and other means.

During the Year, there were no lawsuits or allegations of corruption involving the Group or its employees.

Charity Campaigns

During the Year, the Group organised a volunteer group to visit a welfare home in Tonghua City to care and encourage children in the welfare home by donating books, fruits and donations. The Group hopes that it can participate in more charity campaigns to make contributions to the sustainable development of the harmonious society.

THE STOCK EXCHANGE'S ESG REPORTING GUIDE

Key Performance Indicators (KPI)	ESG Report	Disclosure Section	Notes
A. Environmental			
A1: Emissions			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		Environmental protection and legal compliance	
A1.1	The types of emissions and respective emission data	Data on greenhouse gas emission	
A1.2	Greenhouse gas emissions in total	Data of greenhouse gas emission	
A1.3	Total hazardous waste produced	N/A	There were no chemical hazardous wastes produced during our production process.
A1.4	Total non-hazardous waste produced	Insignificant	A few innocuous wastes produced during our production process were collected by the municipal waste treatment facilities for centralised treatment or forward to the farmers in the neighbourhood for use as fuel.
A1.5	Description of measures to mitigate emissions and results achieved	Greenhouse gas emission	
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Waste recycling and forwarding	

Key Performance Indicators (KPI)	ESG Report	Disclosure Section	Notes
A. Environmental			
A2: Use of Resources			
General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.		The Group and the environment	
A2.1	Direct and/or indirect total energy consumption by type	Data on greenhouse gas emission	
A2.2	Water consumption in total and intensity	N/A	The Group has obtained the State's permit(s) for water intake and sewage discharge which stipulate the amount of water that can be extracted for usage.
A2.3	Description of energy use efficiency initiatives and results achieved	Resource usage	
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Resource usage	
A2.5	Total packaging material used for finished products	Data of packaging materials used by finished products	
A3: The Environment and Natural Resources			
General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		The Group and the environment	
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	The Group and the environment	

Key Performance Indicators (KPI)	ESG Report	Disclosure Section	Notes
B. Social			
B1: Employment			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		Human resource overview	
B1.1	Total workforce by gender, employment type, age group and geographical region	Human resource overview	
B1.2	Employee turnover rate by gender, age group and geographical region	Human resource overview	

Key Performance Indicators (KPI)	ESG Report	Disclosure Section	Notes
B. Social			
B2: Health and Safety			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to provision of a safe working environment and protecting employees from occupational hazards.		Health and safety	
B2.1	Number and rate of work-related fatalities	N/A	During the Year, there were no work-related fatalities or injury occurred regarding employees of the Group.
B2.2	Lost days due to work injury	N/A	
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored	Health and safety	
B3: Development and Training			
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		Development and training	
B3.1	Percentage of employees trained by gender and employee category	Development and training	
B3.2	Average training hours completed per employee by gender and employee category	Development and training	

Key Performance Indicators (KPI)	ESG Report	Disclosure Section	Notes
B. Social			
B4: Labour Standards			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		Labour standards	
B4.1	Description of measures to review employment practices to avoid child and forced labour	Labour standards	
B4.2	Description of steps taken to eliminate such practices when discovered	Labour standards	
B5: Supply Chain Management			
General Disclosure Policies on managing environmental and social risks of the supply chain.		Supply chain management	
B5.1	Number of suppliers by geographical region	N/A	All suppliers are from mainland China.
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supply chain management	

Key Performance Indicators (KPI)	ESG Report	Disclosure Section	Notes
B. Social			
B6: Product Responsibility			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.		Operation practice	
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	N/A	During the Year, there were no products sold or shipped subject to recalls for safety and health reasons or products and service-related complaints received
B6.2	Number of products and service related complaints received and how they are dealt with	N/A	
B6.3	Description of practices relating to observing and protecting intellectual property rights	N/A	The Group mainly engages in the production of wine products without any intellectual property rights involved.
B6.4	Description of quality assurance process and recall procedures	Operation practice	
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Operation practice	

Key Performance Indicators (KPI)	ESG Report	Disclosure Section	Notes
B. Social			
B7: Anti-corruption			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Anti-corruption	
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and outcomes of the cases	N/A	During the Year, there were no legal cases regarding corrupt practices or charges brought against the Group or its employees.
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Anti-corruption	
B8: Community Investment			
General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		N/A	The Group values the importance of contributing to the society and will spare no effort to provide assistance. Although the Group has not specified a set of policies for community engagement, we will review and consider the need to formulate such policies in the future, and make contributions for the sustainable development of the society.
B8.1	Focus areas of contribution	Charity campaigns	
B8.2	Resources contributed to the focus area	Charity campaigns	

中汇
ZHONGHUI

TO THE SHAREHOLDERS OF CHINA TONTINE WINES GROUP LIMITED
(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of China Tontine Wines Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 82 to 138, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Inventories

Refer to note 19 to the consolidated financial statements.

The Group tested the amount of inventories for impairment. This impairment test is significant to our audit because the balance of inventories of approximately RMB143,775,000 as at 31 December 2020 and write off of inventories of approximately RMB65,447,000 for the year ended 31 December 2020 are material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

– Assessing the Group's procedures on ordering and holding of inventories;

– Evaluating the Group's impairment assessment;

– Assessing the marketability of the inventories;

– Assessing the ageing of the inventories;

– Assessing the net realisable values of the inventories; and

– Checking subsequent sales and usage of the inventories.

We consider that the Group's impairment test for inventories is supported by the available evidence.

Property, plant and equipment and right-of-use assets

Refer to Note 16 and 17 to the consolidated financial statements.

The Group tested the amount of property, plant and equipment and right-of-use assets for impairment. This impairment test is significant to our audit because the balance of property, plant and equipment and right-of-use assets of RMB138,175,000 and RMB41,045,000 respectively as at 31 December 2020 and the provision for impairment losses on the property, plant and equipment and right-of-use assets of approximately RMB29,847,000 and RMB8,866,000 respectively for the year ended 31 December 2020 are material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures for those using value-in-use calculations included, among others:

– Assessing the identification of the related cash generating units;

– Assessing the arithmetical accuracy of the value-in-use calculations;

– Comparing the actual cash flows with the cash flow projections;

– Assessing the reasonableness of the key assumptions (including revenue growth, profit margins, terminal growth rates and discount rates); and

– Checking impairment data to supporting evidence.

We consider that the Group's impairment test for property, plant and equipment and right-of-use assets are supported by the available evidence.

Other Information

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Pang Hon Chung
Audit Engagement Director
Practising Certificate Number P05988
Hong Kong, 29 March 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	7	**107,881**	333,149
Cost of sales		**(170,372)**	(259,047)
Gross (loss)/profit		**(62,491)**	74,102
Other income, gains and losses	9	**1,145**	648
Selling and distribution expenses		**(32,220)**	(29,839)
Administrative and other operating expenses		**(39,354)**	(39,522)
Impairment loss on property, plant and equipment		**(29,847)**	–
Impairment loss on right-of-use assets		**(8,866)**	–
Change in fair value of biological assets	18	**4,293**	4,469
Share-based payments	29	**–**	(3,756)
Finance costs	10	**(1,045)**	(1,585)
(Loss)/profit before tax		**(168,385)**	4,517
Income tax expense	11	**–**	–
Total comprehensive (expense)/income for the year	12	**(168,385)**	4,517
Total comprehensive (expense)/income for the year attributable to:			
Owners of the Company		**(162,160)**	(813)
Non-controlling interests		**(6,225)**	5,330
		(168,385)	4,517
Loss per share	15		
Basic *(RMB cents)*		**(8.06)**	(0.04)
Diluted *(RMB cents)*		**(8.06)**	(0.04)

Consolidated Statement of Financial Position

At 31 December 2020

	Notes	2020 *RMB'000*	2019 *RMB'000*
Non-current assets			
Property, plant and equipment	*16*	**138,175**	166,486
Right-of-use assets	*17*	**41,045**	49,639
Biological assets	*18*	**2,642**	2,806
Prepayments	*21*	**9,058**	7,991
		190,920	226,922
Current assets			
Inventories	*19*	**143,775**	207,984
Trade receivables	*20*	**65,726**	108,969
Deposits and prepayments	*21*	**96,784**	4,364
Current tax recoverable		**5,551**	5,551
Pledged bank deposits	*22*	**–**	800
Bank and cash balances	*22*	**37,447**	201,434
		349,283	529,102
Current liabilities			
Trade payables	*23*	**5,343**	10,585
Other payables and accruals	*24*	**23,069**	31,225
Bank borrowing	*25*	**–**	40,000
Amount due to ultimate holding company	*26*	**3,769**	–
Lease liabilities	*27*	**788**	975
Current tax liabilities		**9,961**	9,961
		42,930	92,746
Net current assets		**306,353**	436,356
Total assets less current liabilities		**497,273**	663,278

Consolidated Statement of Financial Position

At 31 December 2020

	Notes	2020 *RMB'000*	2019 *RMB'000*
Non-current liabilities			
Lease liabilities	*27*	**2,380**	–
NET ASSETS		**494,893**	663,278
Capital and reserves			
Share capital	*28*	**17,624**	17,624
Reserves		**399,724**	561,884
Equity attributable to owners of the Company		**417,348**	579,508
Non-controlling interests		**77,545**	83,770
TOTAL EQUITY		**494,893**	663,278

The consolidated financial statements on pages 82 to 138 were approved and authorised for issue by the board of directors on 29 March 2021 and are signed on its behalf by:

Wang Guangyuan
DIRECTOR

Zhang Hebin
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Statutory reserves RMB'000 (Note b)	Share options reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2019	17,624	910,541	86,360	132,721	4,617	(575,298)	576,565	78,440	655,005
Total comprehensive (expense)/income for the year	–	–	–	–	–	(813)	(813)	5,330	4,517
Share option granted *(note 29)*	–	–	–	–	3,756	–	3,756	–	3,756
Transfer to statutory reserves	–	–	–	2,367	–	(2,367)	–	–	–
At 31 December 2019	17,624	910,541	86,360	135,088	8,373	(578,478)	579,508	83,770	663,278
At 1 January 2020	**17,624**	**910,541**	**86,360**	**135,088**	**8,373**	**(578,478)**	**579,508**	**83,770**	**663,278**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(162,160)**	**(162,160)**	**(6,225)**	**(168,385)**
Share option lapsed *(note 29)*	**–**	**–**	**–**	**–**	**(3,756)**	**3,756**	**–**	**–**	**–**
At 31 December 2020	**17,624**	**910,541**	**86,360**	**135,088**	**4,617**	**(736,882)**	**417,348**	**77,545**	**494,893**

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 (the "Stock Exchange").

(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.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 *RMB'000*	2019 *RMB'000*
Cash flows from operating activities		
(Loss)/profit before tax	**(168,385)**	4,517
Adjustments for:		
Interest income	**(568)**	(774)
Finance costs	**1,045**	1,585
Depreciation of property, plant and equipment	**12,886**	10,763
Gain on disposal of property, plant and equipment	**–**	(28)
Depreciation of right-of-use assets	**2,271**	1,885
Impairment loss on property, plant and equipment	**29,847**	–
Impairment loss on right-of-use assets	**8,866**	–
Write off of inventories	**65,447**	19,024
Share-based payments	**–**	3,756
Loss allowances for trade receivables	**2,324**	160
Change in fair value of biological assets	**(4,293)**	(4,469)
Operating cash flows before working capital changes	**(50,560)**	36,419
Change in biological assets	**(1,393)**	(1,346)
Change in inventories	**4,612**	17,075
Change in trade receivables	**40,919**	(12,787)
Change in deposits and prepayments	**(92,420)**	392
Change in trade payables	**(5,242)**	899
Change in other payables and accruals	**(8,121)**	(2,726)
Net cash (used in)/generated from operating activities	**(112,205)**	37,926
Cash flows from investing activities		
Decrease/(increase) in pledged bank deposits	**800**	(800)
Purchases of property, plant and equipment	**(12,138)**	(28,977)
Deposits paid for intangible asset	**(1,600)**	–
Interest received	**568**	774
Proceeds from disposal of property, plant and equipment	**–**	2,165
Net cash used in investing activities	**(12,370)**	(26,838)

	2020 *RMB'000*	2019 *RMB'000*
Cash flows from financing activities		
Advance from ultimate holding company	3,769	–
Repayment of lease liabilities	(2,218)	(1,005)
Interest paid	(963)	(1,502)
(Repayment)/proceeds from bank borrowing	(40,000)	40,000
Net cash (used in)/generated from financing activities	(39,412)	37,493
Net (decrease)/increase in cash and cash equivalents	(163,987)	48,581
Cash and cash equivalents at beginning of year	201,434	152,853
Cash and cash equivalents at end of year	37,447	201,434
Analysis of cash and cash equivalents		
Bank and cash balances	37,447	201,434

1. GENERAL INFORMATION

China Tontine Wines Group Limited (the "Company") is a public limited Company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company is an investment holding company. The Company and its subsidiaries collectively referred to as the Group. The principal activities of its subsidiaries are set out in note 36 to the consolidated financial statements.

The directors consider that the Company's ultimate holding company is Up Mount International Limited, a limited company incorporated in the British Virgin Islands (the "BVI").

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise stated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

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

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance ("CO").

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of biological assets which are carried at their fair values less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise the judgements in the process of applying the accounting policies. The areas involving areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 4.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of total comprehensive income or expense for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currency translation

(a) ***Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

(b) ***Transactions and balances in each entity's financial statements***

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(c) ***Translation on consolidation***

The results and financial position of all the Group's entities that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

– Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

– Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the exchange reserve.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currency translation – continued

(c) Translation on consolidation – continued

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange reserve. When a foreign operation is sold, such exchange differences are recognised in profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs less their residual values over the estimated useful lifes on a straight-line basis. The principal annual rates are as follows:

Buildings and structures	4%, or over the terms of lease, whichever is shorter
Plant and machinery	5% – 10%
Fixtures and office equipment	20%
Motor vehicles	20%
Bearer plants	Over the term of leased land

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and equipment pending for installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Biological assets

Biological assets comprise grapes growing on bearer plants in the PRC which are measured on initial recognition and at the end of reporting period at the fair value less costs to sell, with any resultant gain or loss recognised in profit or loss for the period in which it arises. Fair value is based on the present value of expected net cash flows from the grapes. Costs to sell are the incremental costs directly attributable to the disposals of an asset, mainly transportation cost and excluding income taxes.

The related costs including picking cost and fertilisers and pesticide cost incurred for harvest of grapes are capitalised, until such time the grapes are harvested.

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Leasehold lands	2%-10%
Office premise	50%

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under financial assets at amortised cost.

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

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

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

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Trade and other payables

Trade and other payables are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

– the customer simultaneously receives and consumes the benefits provided by the Group's performance;

– the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; 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.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other income

Interest income is recognised using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(c) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

Share-based payments

The Group issues equity-settled share-based payments to certain directors, employees, consultants and distributors.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Equity-settled share-based payments to consultants and distributors are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Segment reporting

Operating segments and the amounts of each segment item reported in the consolidated financial statements are identified from the consolidated financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Group (reporting entity) if any of the following conditions applies:

- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets and intangible assets except inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Provisions and contingent liabilities – continued

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. KEY ESTIMATES

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Estimated allowances for inventories

The management estimates the net realisable value of inventories based primarily on the estimated selling prices and current market conditions. Where the expectation on the net realisable value is lower than the cost, an impairment may arise. The Group carries out an inventory review at end of the reporting period and writes off of approximately RMB65,447,000 (2019: approximately RMB19,024,000) on obsolete and slow moving items to their net realisable values during the year ended 31 December 2020. As at 31 December 2020, the carrying amount of inventories is approximately RMB143,775,000 (2019: approximately RMB207,984,000).

(b) Impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is determined with reference to the present value of estimated future cash flows. Where the future cash flows are less than expected or there are unfavourable events and change in facts and circumstance which result in revision of future estimate cash flows, a material impairment loss may arise.

On the above basis, the Group is of the view that an impairment loss of property, plant and equipment and right-of-use assets are approximately RMB29,847,000 (2019: Nil) and RMB8,866,000 (2019: Nil) are charged to profit or loss for the year ended 31 December 2020, respectively.

4. KEY ESTIMATES – continued

(c) Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, the management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimate useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful lives.

(d) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(e) Fair value measurements and valuation processes of biological assets

The biological assets of the Group are measured at fair value less costs to sell for financial reporting purposes.

In estimating the fair value of biological assets, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The chief financial officer reports the valuation team's findings to the board of directors of the Company every six months to explain the cause of fluctuations in the fair value of the assets and liabilities.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value less costs to sell of the biological assets. Note 18 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities. The change in fair value of biological assets amounting to approximately RMB4,293,000 (2019: approximately RMB4,469,000) was credited to profit or loss for the year ended 31 December 2020. As at 31 December 2020, the carrying amount of biological assets is approximately RMB2,642,000 (2019: approximately RMB2,806,000).

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

Certain transactions and monetary assets and liabilities of the Group are denominated in Hong Kong Dollars ("HK$") which is different from the functional currency of the Group entities, i.e. RMB, which expose the Group to currency risk. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its foreign currency risk by monitoring the movement of the foreign currency rate and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2020, if RMB had weakened/strengthened by 10% against HK$ with all other variables held constant, the Group's loss after tax for the year would have been approximately RMB1,004,000 be higher/lower (2019: profit of approximately RMB447,000 be lower/higher) arising mainly as a result of the foreign exchange differences on other payables and accruals denominated in HK$.

(b) Credit risk

The carrying amount of pledged bank deposits, bank and cash balances, deposits and trade receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The credit risk on pledged bank deposits and bank and cash balances is limited because the counterparties are banks with high credit-ratings.

In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual trade and other debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

5. FINANCIAL RISK MANAGEMENT – continued

(b) Credit risk – continued

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

– internal credit rating;

– external credit rating (if available);

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

– actual or expected significant changes in the operating results of the borrower;

– significant increases in credit risk on other financial instruments of the same borrower;

– significant changes in the value of the collateral or in the quality of guarantees or credit enhancements; and

– significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

5. FINANCIAL RISK MANAGEMENT – continued

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follow:

	Less than 1 year or repayable on demand	Between 1 to 2 years	Between 2 to 3 years	Total undiscounted cash flow	Carrying amounts
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2020					
Trade payables	**5,343**	**–**	**–**	**5,343**	**5,343**
Other payables and accruals	**23,069**	**–**	**–**	**23,069**	**23,069**
Amount due to ultimate holding company	**3,769**	**–**	**–**	**3,769**	**3,769**
Lease liabilities	**915**	**1,701**	**800**	**3,416**	**3,168**
	33,096	**1,701**	**800**	**35,597**	**35,349**
At 31 December 2019					
Trade payables	10,585	–	–	10,585	10,585
Other payables and accruals	31,225	–	–	31,225	31,225
Bank borrowing	40,746	–	–	40,746	40,000
Lease liabilities	1,035	–	–	1,035	975
	83,591	–	–	83,591	82,785

5. FINANCIAL RISK MANAGEMENT – continued

(d) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on pledged bank deposits, bank balances and bank borrowing.

The Group considered interest rate risk on pledged bank deposits and bank balances is insignificant.

At 31 December 2019, if interest rates at that date had been 10 basis points lower with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB28,000 higher, arising mainly as a result of lower interest expense on bank borrowings. During the year ended 31 December 2020, the Group repaid the entire amount of the bank borrowing.

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

6. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

6. FAIR VALUE MEASUREMENTS – continued

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy at 31 December:

	Fair value measurements using:			
				Total
	Level 1	**Level 2**	**Level 3**	**2020**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Recurring fair value measurements:				
Biological assets – Grapes	**–**	**–**	**2,642**	**2,642**

	Fair value measurements using:			
				Total
	Level 1	Level 2	Level 3	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurements:				
Biological assets – Grapes	–	–	2,806	2,806

During the year ended 31 December 2020, there were no transfer between Level 1 and Level 2, or transfers into or out of Level 3 (2019: Nil). The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

6. FAIR VALUE MEASUREMENTS – continued

(b) Reconciliation of assets measured at fair value based on level 3:

	Biological assets 2020 *RMB'000*
At 1 January 2020	**2,806**
Increase due to cultivation	**1,393**
Transfer to inventories	**(5,850)**
Total gains recognised in profit or loss (#)	**4,293**
At 31 December 2020	**2,642**
(#) include gains or losses for assets held at end of reporting period	**4,293**

	Biological assets 2019 *RMB'000*
At 1 January 2019	2,948
Increase due to cultivation	1,346
Transfer to inventories	(5,957)
Total gains recognised in profit or loss (#)	4,469
At 31 December 2019	2,806
(#) include gains or losses for assets held at end of reporting period	4,469

The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in the consolidated statement of profit or loss and other comprehensive income.

6. FAIR VALUE MEASUREMENTS – continued

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December:

The Group's chief financial officer is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The chief financial officer reports directly to directors for these fair value measurements. Discussions of valuation processes and results are held between the chief financial officer and directors at least twice a year.

As at the years ended 31 December 2020 and 2019, the Group has engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the fair values of the grapes.

Key unobservable inputs used in level 3 fair value measurements are mainly:

Description	Valuation technique and key inputs	Significant unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2020 *RMB'000*
Grapes	Income approach				
	The key inputs are: (1) Growth rate of average production quantity per grape tree;	(1) Growth rate of average production quantity per grape tree taking into account of life cycle of grapevine.	-2%	Increase	
	(2) Production quantity per grape tree;	(2) Production quantity per grape tree.	1.32kg to 8.18kg	Increase	
	(3) Market price per kilogram (“”kg“”) of grapes; and	(3) Market price of grapes.	RMB3.00 per kg to RMB17.00 per kg	Increase	
	(4) Discount rate	(4) Discount rate, taking into account of nature of winery industry and grapes production prevailing market condition.	21%	Decrease	
					2,642

6. FAIR VALUE MEASUREMENTS – continued

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December: – continued

Description	Valuation technique and key inputs	Significant unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2019 *RMB'000*
Grapes	Income approach				
	The key inputs are: (1) Growth rate of average production quantity per grape tree;	(1) Growth rate of average production quantity per grape tree taking into account of life cycle of grapevine.	0%	Increase	
	(2) Production quantity per grape tree;	(2) Production quantity per grape tree.	1.35kg to 8.35kg	Increase	
	(3) Market price per kg of grapes; and	(3) Market price of grapes.	RMB3.00 per kg to RMB17.00 per kg	Increase	
	(4) Discount rate	(4) Discount rate, taking into account of nature of winery industry and grapes production prevailing market condition.	21%	Decrease	
					2,806

During the two years, there were no changes in the valuation techniques used.

7. REVENUE

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

Sales to customers are normally made with credit terms of 30 to 90 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

8. SEGMENT INFORMATION

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

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

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

- North-East Region includes the provinces of Jilin, Heilongjiang and Liaoning.

- Northern Region includes provinces of Hebei, Shaanxi, Shanxi, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, city of Beijing and city of Tianjin.

- Eastern Region includes provinces of Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Zhejiang, and city of Shanghai.

- South-Central Region includes provinces of Guangdong, Hainan, Henan, Hubei and Hunan.

- South-West Region includes provinces of Qinghai, Sichuan, Yunnan, Guangxi Zhuang Autonomous Region and city of Chongqing.

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

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

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

8. SEGMENT INFORMATION – continued

Information about reportable segment profit or loss, assets and liabilities:

	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 year ended 31 December 2020						
Segment revenue from external customer	25,088	14,204	34,005	17,805	16,779	107,881
Segment loss	(10,477)	(3,443)	(6,871)	(3,897)	(4,574)	(29,262)
For the year ended 31 December 2019						
Segment revenue from external customer	69,181	50,160	104,009	51,517	58,282	333,149
Segment profit	12,802	10,362	21,456	9,800	7,584	62,004
As at 31 December 2020						
Segment assets	14,829	5,334	27,555	9,729	8,279	65,726
Segment liabilities	938	531	1,271	666	627	4,033
As at 31 December 2019						
Segment assets	16,185	15,897	41,975	13,450	21,462	108,969
Segment liabilities	2,739	1,986	4,118	2,040	2,308	13,191

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

Revenue

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

8. SEGMENT INFORMATION – continued

Revenue – continued

	2020 RMB'000	2019 RMB'000
Profit or loss		
Total (loss)/profit of reportable segments	**(29,262)**	62,004
Unallocated amounts:		
Change in fair value of biological assets	**4,293**	4,469
Other corporate income	**568**	802
Share-based payments	**–**	(3,756)
Depreciation of property, plant and equipment	**(12,886)**	(10,763)
Depreciation of right-of-use assets	**(2,271)**	(1,885)
Impairment loss on property, plant and equipment	**(29,847)**	–
Impairment loss on right-of-use assets	**(8,866)**	–
Loss allowances for trade receivables	**(2,324)**	(160)
Write off of inventories	**(65,447)**	(19,024)
Other corporate expenses	**(22,343)**	(27,170)
Consolidated (loss)/profit for the year	**(168,385)**	4,517

Reportable and operating segment (loss)/profit represented the (loss)/profit incurred by each segment without allocation of depreciation, loss allowances for trade receivables, write off of inventories, impairment on property, plant and equipment, impairment on right-of-use assets, change in fair value of biological assets, finance costs, share-based payments, other corporate expenses and other corporate income.

	2020 RMB'000	2019 RMB'000
Assets		
Total assets of reportable segments	**65,726**	108,969
Unallocated amounts:		
Property, plant and equipment	**138,175**	166,486
Right-of-use assets	**41,045**	49,639
Biological assets	**2,642**	2,806
Inventories	**143,775**	207,984
Other receivables, deposits and prepayments	**105,842**	12,355
Current tax recoverable	**5,551**	5,551
Pledged bank deposits	**–**	800
Bank and cash balances	**37,447**	201,434
Consolidated total assets	**540,203**	756,024

Reportable and operating segment assets represent trade receivables.

8. SEGMENT INFORMATION – continued

Revenue – continued

	2020 RMB'000	2019 RMB'000
Liabilities		
Total liabilities of reportable segments	4,033	13,191
Unallocated amounts:		
Trade payables	5,343	10,585
Other payables and accruals	19,036	18,034
Bank borrowing	–	40,000
Amount due to ultimate holding company	3,769	–
Lease liabilities	3,168	975
Current tax liabilities	9,961	9,961
Consolidated total liabilities	45,310	92,746

Reportable and operating segment liabilities comprise certain other payables and accruals.

Revenue from major products:

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

	2020 RMB'000	2019 RMB'000
Sweet wines	49,605	122,730
Dry wines	41,754	154,630
Brandy	5,115	9,261
Others	11,407	46,528
	107,881	333,149

Timing of revenue recognition

	2020 RMB'000	2019 RMB'000
At a point in time	107,881	333,149

9. OTHER INCOME, GAINS AND LOSSES

	2020 *RMB'000*	2019 *RMB'000*
Bank interest income	568	774
Net foreign exchange gain/(loss)	577	(154)
Gain on disposal of property, plant and equipment	–	28
	1,145	648

10. FINANCE COSTS

	2020 *RMB'000*	2019 *RMB'000*
Lease interests	82	83
Interests on bank borrowing	963	1,502
	1,045	1,585

11. INCOME TAX EXPENSE

No provision for taxation in Hong Kong has been made as the Group did not have any assessable profit arising from Hong Kong for both years.

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

11. INCOME TAX EXPENSE – continued

No provision for the PRC Enterprise Income Tax has been made as the Group did not have assessable profit subject to PRC Enterprise Income Tax during the current year. Provision for the PRC Enterprise Income Tax was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws applicable to the subsidiaries operated in the PRC for the year ended 31 December 2019.

The income tax expense for both years can be reconciled to the (loss)/profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 *RMB'000*	2019 *RMB'000*
(Loss)/profit before tax	(168,385)	4,517
Tax at the PRC Enterprise Income Tax rate of 25% (2019: 25%)	(42,096)	1,129
Tax effect of expenses not deductible for tax purpose	22,364	3,457
Tax effect of tax losses not recognised	19,732	547
Utilisation of tax losses previously not recognised	–	(5,133)
Income tax expense	–	–

At the end of the reporting period, the Group has unused tax losses of approximately RMB210,403,000 (2019: RMB135,623,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Unrecognised tax losses of approximately RMB210,403,000 will expire from 2021 to 2025 (2019: RMB135,623,000 will expire from 2020 to 2024), subject to final determination by tax authorities.

12. (LOSS)/PROFIT FOR THE YEAR

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

	2020 *RMB'000*	2019 *RMB'000*
Auditor's remuneration	**1,680**	1,680
Cost of inventories sold	**89,009**	199,159
Depreciation of property, plant and equipment	**12,886**	10,763
Depreciation of right-of-use assets	**4,057**	3,671
Less: amounts included in property, plant and equipment	**(1,786)**	(1,786)
	2,271	1,885
Impairment loss on property, plant and equipment	**29,847**	–
Impairment loss on right-of-use assets	**8,866**	–
Write off of inventories (included in cost of sales)	**65,447**	19,024
Loss allowances for trade receivables	**2,324**	160
Equity-settled share-based payments to a consultant and distributors	**–**	1,878
Staff costs (including directors' remuneration):		
Salaries, allowance and benefits in kind	**12,649**	14,757
Sales commission	**2,529**	8,127
Retirement benefit scheme contributions	**1,765**	4,950
Equity-settled share-based payments	**–**	1,878
	16,943	29,712

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS

(a) The remuneration of each director

Directors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

	Fee	Salaries, allowance and benefits in kind	Discretionary bonus	Retirement benefits scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors					
Mr. Wang Guangyuan	–	1,698	–	16	1,714
Mr. Zhang Hebin	–	611	–	9	620
Ms. Wang Lijun	–	583	–	8	591
Independent Non-executive Directors					
Mr. Lai Chi Keung, Albert	160	–	–	–	160
Mr. Yang Qiang	120	–	–	–	120
Dr. Cheng Vincent	160	–	–	–	160
Total for 2020	440	2,892	–	33	3,365
Executive Directors					
Mr. Wang Guangyuan	**–**	**1,688**	**–**	**31**	**1,719**
Mr. Zhang Hebin	**–**	**605**	**–**	**24**	**629**
Ms. Wang Lijun	**–**	**580**	**–**	**18**	**598**
Independent Non-executive Directors					
Mr. Lai Chi Keung, Albert	**159**	**–**	**–**	**–**	**159**
Mr. Yang Qiang	**120**	**–**	**–**	**–**	**120**
Dr. Cheng Vincent	**159**	**–**	**–**	**–**	**159**
Total for 2019	**438**	**2,873**	**–**	**73**	**3,384**

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS – continued

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included four (2019: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining one (2019: two) individual is set out below:

	2020	2019
	RMB'000	*RMB'000*
Salaries, allowance and benefits in kind	**801**	741
Retirement benefits scheme contributions	**53**	106
Equity-settled share-based payments	**–**	376
	854	1,223

The emoluments fell within the following band:

	2020	2019
	No. of employees	No. of employees
Below HK$1,000,000	**1**	2

During the years ended 31 December 2020 and 2019, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2020 (2019: Nil).

15. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately RMB162,160,000 (2019: RMB813,000) and the weighted average number of ordinary shares of 2,013,018,000 (2019: 2,013,018,000) in issue during the year.

Diluted loss per share

For the years ended 31 December 2020 and 2019, the computation of diluted loss per share does not assume the exercise of the Company's share options since their exercise would result in a decrease in loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and Structures RMB'000	Plant and machinery RMB'000	Fixtures and office equipment RMB'000	Motor vehicles RMB'000	Bearer plants RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2019	470,850	404,331	16,265	4,040	29,644	10,669	935,799
Additions	17,500	2,159	20	–	3,968	–	23,647
Disposals	–	(882)	–	(31)	–	(2,119)	(3,032)
At 31 December 2019	488,350	405,608	16,285	4,009	33,612	8,550	956,414
Additions	8,400	1,913	–	–	4,109	–	14,422
At 31 December 2020	496,750	407,521	16,285	4,009	37,721	8,550	970,836
Accumulated depreciation and impairment							
At 1 January 2019	387,140	370,147	11,437	3,127	8,209	–	780,060
Charge for the year	3,679	3,693	654	229	2,508	–	10,763
Disposals	–	(866)	–	(29)	–	–	(895)
At 31 December 2019	390,819	372,974	12,091	3,327	10,717	–	789,928
Charge for the year	5,443	4,008	197	218	3,020	–	12,886
Impairment loss	17,850	5,425	710	82	4,260	1,520	29,847
At 31 December 2020	414,112	382,407	12,998	3,627	17,997	1,520	832,661
Carrying amounts							
At 31 December 2020	82,638	25,114	3,287	382	19,724	7,030	138,175
At 31 December 2019	97,531	32,634	4,194	682	22,895	8,550	166,486

The buildings are situated on land in the PRC.

During the year ended 31 December 2020, the Group carried out review of the recoverable amount of its property, plant and equipment as a result of the deterioration of the markets of the Group's business. The reviews led to the recognition of an impairment losses of approximately RMB29,847,000 (2019: Nil) have been recognised in profit or loss for the year ended 31 December 2020. The recoverable amount of the relevant assets of RMB138,175,000 (2019: RMB166,486,000) has been determined on the basis of their value in use using discounted cashflow method. The discount rate used was 14 (2019: 14) per cent.

17. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2020	2019
	RMB'000	*RMB'000*
At 31 December:		
Right-of-use assets		
– Leasehold lands	**37,802**	48,690
– Office premise	**3,243**	949
	41,045	49,639
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
– Less than 1 year	**915**	1,035
– Between 1 and 2 years	**1,701**	–
– Between 2 and 3 years	**800**	–
	3,416	1,035

	2020	2019
	RMB'000	*RMB'000*
Year ended 31 December:		
Depreciation charge of right-of-use assets		
– Leasehold lands	**2,723**	2,723
– Office premise	**1,334**	948
Less : amounts included in property, plant and equipment	**(1,786)**	(1,786)
	2,271	1,885
Lease interests	**82**	83
Total cash outflow for leases	**2,218**	1,005
Addition of right-of-use assets	**4,329**	–
Impairment loss on right-of-use assets	**8,866**	–

17. LEASES AND RIGHT-OF-USE ASSETS – continued

The Group leases various leasehold lands and office premise. Lease agreements are typically made for fixed periods of 2 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

During the year ended 31 December 2020, the Group carried out review of the recoverable amount of its right-of-use assets as a result of the deterioration of the markets of the Group's business. The reviews led to the recognition of an impairment losses of approximately RMB8,866,000 (2019: Nil) have been recognised in profit or loss for the year ended 31 December 2020. The recoverable amount of the relevant assets of RMB41,045,000 (2019: RMB49,639,000) has been determined on the basis of their value in use using discounted cashflow method. The discount rate used was 14 (2019: 14) per cent.

18. BIOLOGICAL ASSETS

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

	RMB'000
At 1 January 2019	2,948
Increase due to cultivation	1,346
Transfer to inventories	(5,957)
Change in fair value of biological assets	4,469
At 31 December 2019	2,806
Increase due to cultivation	1,393
Transfer to inventories	(5,850)
Change in fair value of biological assets	4,293
At 31 December 2020	2,642

18. BIOLOGICAL ASSETS – continued

Cultivation costs incurred as addition to the grapes.

All grapes are harvested annually from August to November of each year. The output of grapes was 780 tonnes (2019: 796 tonnes) during the year ended 31 December 2020. Grapes of approximately RMB5,850,000 (2019: approximately RMB5,957,000) are transferred to inventories of the Group for production. The Group has remeasured the fair value of the harvest at the spot of transferring to inventories during the year. After the harvests, plantation works commenced again on the grapevines.

The Group is exposed to a number of risks related to its biological assets. The Group is exposed to the following operating risks:

Climate, disease and other natural risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating these risks, including regular inspections, disease controls, surveys and deinsectisation.

Financial risks

The Group is exposed to financial risks arising from changes in the market price of grapes. A significant increase/decrease in the estimated market price or the estimated production quantity would result in a significant increase/decrease in the fair value of the biological assets.

The Group does not anticipate that the market price of grapes will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in market prices of grapes. The Company reviews its outlook for market prices of grapes regularly in considering the need for active financial risk management.

For the fair value measurement of biological assets please refer to note 6.

19. INVENTORIES

	2020 ***RMB'000***	2019 *RMB'000*
Raw materials and consumables	**50,730**	41,666
Work in progress	**81,112**	130,135
Finished goods	**11,933**	36,183
	143,775	207,984

20. TRADE RECEIVABLES

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

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	68,986	109,905
Less: loss allowances	(3,260)	(936)
	65,726	108,969

The aging analysis of trade receivables, based on the invoice date, and net of allowances, is as follows:

	2020	2019
	RMB'000	*RMB'000*
0 – 90 days	37,653	108,969
91 – 180 days	10,053	–
181 – 365 days	9,948	–
Over 365 days	8,072	–
	65,726	108,969

Reconciliation of loss allowances for trade receivables:

	2020	2019
	RMB'000	*RMB'000*
At the beginning of the year	936	776
Increase in loss allowances for the year	2,324	160
At the end of the year	3,260	936

20. TRADE RECEIVABLES – continued

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the invoice date aging. The expected credit losses also incorporate forward looking information.

	Within 90 days	91 – 180 days	181 – 365 days	Over 365 days	Total
At 31 December 2020					
Weighted average expected loss rate	**0.85%**	**5.00%**	**9.00%**	**15.00%**	
Receivable amount *(RMB'000)*	**37,976**	**10,582**	**10,932**	**9,496**	**68,986**
Loss allowances *(RMB'000)*	**323**	**529**	**984**	**1,424**	**3,260**
At 31 December 2019					
Weighted average expected loss rate	0.85%	–	–	–	
Receivable amount *(RMB'000)*	109,905	–	–	–	109,905
Loss allowances *(RMB'000)*	936	–	–	–	936

21. DEPOSITS AND PREPAYMENTS

	2020 *RMB'000*	2019 *RMB'000*
Current		
Rental deposit	**681**	405
Prepayments for inventories (note)	**90,080**	–
Other tax receivables	**6,014**	1,588
Other deposits and prepayments	**9**	2,371
	96,784	4,364
Non-current		
Prepayments for property, plant and equipment	**7,458**	7,991
Prepayments for intangible asset	**1,600**	–
	9,058	7,991

21. DEPOSITS AND PREPAYMENTS – continued

Note:

During the year ended 31 December 2020, the Group entered into a purchase agreement amounting to RMB94,918,500 with an independent third party in respect of the purchase of Australian grape juice and a prepayment of RMB80,000,000 was paid. The date of completion of the agreement had been extended from 31 December 2020 to 30 June 2021 due to the trade dispute between China and Australia. If the transaction cannot be completed on or before 31 March 2021, the 30% of RMB80,000,000 will be refunded. If the transaction cannot be completed on or before 30 June 2021, the remaining 70% of RMB80,000,000 will be refunded.

The Group entered into another purchase agreement amounting to RMB33,600,000 with an independent third party relating to the purchase of ginseng for developing new products. A prepayment of RMB10,080,000 was paid and the transaction will be completed before 30 November 2021.

22. PLEDGED BANK DEPOSITS AND BANK AND CASH BALANCES

As at 31 December 2019, the Group's pledged bank deposits represented deposits pledged to a bank to secure a bank borrowing as set out in note 25 to the consolidated financial statements. The deposits are in RMB and at effective interest rate of 0.26% per annum. During the year ended 31 December 2020, the Group repaid the entire amount of the bank borrowing and discharged the pledged bank deposits.

As at 31 December 2020, the pledged bank deposits and bank balances carry interest at average market rates ranging from 0.01% to 0.3% (2019: 0.01% to 0.3%) per annum. Conversion of approximately RMB37,366,000 (2019: approximately RMB202,166,000) into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

23. TRADE PAYABLES

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

	2020 *RMB'000*	2019 *RMB'000*
0 – 30 days	**2,213**	1,910
31 – 60 days	**3,130**	8,675
	5,343	10,585

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

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

24. OTHER PAYABLES AND ACCRUALS

	2020 *RMB'000*	2019 *RMB'000*
Accrued expenses	**15,467**	16,866
Other tax payables	**5,202**	11,466
Payables for the acquisition of property, plant and equipment	**840**	875
Other payables	**1,560**	2,018
	23,069	31,225

25. BANK BORROWING

During the year ended 31 December 2019, the Group had drawn a bank borrowing amounting to RMB40,000,000. The bank borrowing raised is denominated in Renminbi and carries interest at variable rate of the loan prime rate plus 0.645% of the National Interbank Loan Center and is repayable within one year. The bank borrowing was secured by pledged bank deposits amounting to RMB800,000, 35% equity interest in a subsidiary of the Company 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. During the year ended 31 December 2020, the Group repaid the entire amount of the bank borrowing and the pledged bank deposits as well as the security over the above mentioned equity interest were discharged.

26. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount due to ultimate holding company was unsecured, interest-free and repayable on demand.

27. LEASE LIABILITIES

	Lease payments		Present value of lease payments	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**915**	1,035	**788**	975
In the second to fifth years, inclusive	**2,501**	–	**2,380**	–
	3,416	1,035	**3,168**	975
Less: Future finance charges	**(248)**	(60)		
Present value of lease liabilities	**3,168**	975		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(788)**	(975)
Amount due for settlement after 12 months			**2,380**	–

At 31 December 2020, the average effective borrowing rate was 4.75% (2019: 5.65%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

28. SHARE CAPITAL

	Number of shares	Amount
	'000	*HK$'000*
Authorised:		
Ordinary shares of HK$0.01 (2019: HK$0.01) each		
At 31 December 2019 and 2020	10,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.01 (2019: HK$0.01) each		
At 31 December 2019 and 2020	2,013,018	20,131

28. SHARE CAPITAL – continued

	RMB'000
Shown in the consolidated financial statements	
At 31 December 2019 and 2020	17,624

29. SHARE-BASED PAYMENTS

Equity-settled share option scheme

The Company's share option scheme (the "Scheme") currently in force was adopted by the shareholders of the Company on 10 May 2019 following the termination of the Share Option Scheme (the "Old Scheme") previously adopted by the Company on 19 November 2009 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.

At 31 December 2020, the aggregate number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 66,200,000 (2019: 266,200,000) and nil under the Scheme (2019: 200,000,000), representing 3.29% (2019: 13.22%) of the shares of the Company in issue at that date. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Old Scheme and the Scheme (as the case may be) is not permitted to exceed 30% (2019: 30%) of the shares of the Company in issue at any time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's shares in issue or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of acceptance of the share options to such date as determined by the directors of the Company but in any event not exceeding 10 years. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

29. SHARE-BASED PAYMENTS – continued

Equity-settled share option scheme – continued

Details of specific categories of outstanding options as at 31 December 2020 and 2019 are as follows:

Date of grant	Number of options	Exercisable period	Exercise price
23 September 2019	Nil (2019: 200,000,000)	24 September 2019 to 23 September 2020	HK$0.146
9 May 2016	66,200,000 (Note) (2019: 66,200,000)	9 May 2016 to 8 May 2021	HK$0.263

Note: The grantees of the outstanding options were employees of the Group (including a director of the Company).

The following table discloses movements of the Company's outstanding share options during the years ended 31 December 2020 and 2019:

	2020		2019	
	Number of share options	**Weighted average exercise price** *HK$*	Number of share options	Weighted average exercise price *HK$*
Outstanding at the beginning of the year	**266,200,000**	**0.175**	66,200,000	0.263
Granted during the year	**–**	**–**	200,000,000	0.146
Lapsed during the year	**(200,000,000)**	**0.146**	–	–
Outstanding at the end of the year	**66,200,000**	**0.263**	266,200,000	0.175
Exercisable at the end of the year	**66,200,000**	**0.263**	266,200,000	0.175

No share options were exercised (2019: Nil) and 200,000,000 share options were lapsed (2019: Nil) during the year ended 31 December 2020. The options outstanding at the end of the year have a weighted average remaining contractual life of 0.35 year (2019: 0.89 years) and the exercise price is HK$0.263 (2019: range from HK$0.146 to HK$0.263). In 2019, 200,000,000 share options were granted on 23 September 2019. The estimated fair values of the share options granted on those dates are approximately HK$4,137,000 (approximately RMB3,756,000).

29. SHARE-BASED PAYMENTS – continued

Equity-settled share option scheme – continued

The fair value of the share options granted on 23 September 2019 was calculated using the Binomial Option Pricing Model. The inputs into the model are as follows:

	2019
Closing price as at grant date *(HK$)*	0.145
Weighted average exercise price *(HK$)*	0.146
Expected volatility	34.72%
Expected life	1 year
Risk free rate	1.75%
Expected dividend	0%

30. RESERVES

(a) The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Share premium

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

(ii) Share options reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 29 to the consolidated financial statements.

30. RESERVES – continued

(c) Reserves of the Company

	Share premium *RMB'000*	Share options reserve *RMB'000*	Accumulated loss *RMB'000*	Total *RMB'000*
At 1 January 2019	910,541	4,617	(812,147)	103,011
Total comprehensive expense for the year	–	–	(14,846)	(14,846)
Share options granted	–	3,756	–	3,756
At 31 December 2019	910,541	8,373	(826,993)	91,921
At 1 January 2020	**910,541**	**8,373**	**(826,993)**	**91,921**
Total comprehensive expense for the year	**–**	**–**	**(9,635)**	**(9,635)**
Share options lapsed	**–**	**(3,756)**	**3,756**	**–**
At 31 December 2020	**910,541**	**4,617**	**(832,872)**	**82,286**

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 *RMB'000*	2019 *RMB'000*
Non-current assets		
Investment in a subsidiary	–	–
Amounts due from subsidiaries	108,906	114,816
	108,906	114,816
Current assets		
Deposits and prepayments	581	434
Bank balances	38	21
	619	455
Current liabilities		
Amount due to ultimate holding company	3,769	–
Other payables and accruals	5,846	5,726
	9,615	5,726
Net current liabilities	(8,996)	(5,271)
Total assets less current liabilities	99,910	109,545
Capital and reserves		
Share capital	17,624	17,624
Reserves	82,286	91,921
TOTAL EQUITY	99,910	109,545

The Company's statement of financial position was approved and authorised for issue by the board of directors on 29 March 2021 and are signed on its behalf by:

Wang Guangyuan
DIRECTOR

Zhang Hebin
DIRECTOR

32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The management of the Group reviews the capital structure periodically. The Group considers the cost of capital and the risks associated with the capital, and will balance its overall capital structure through payment of dividends, issuance of new shares and share buy-backs as well as the raising of new debts, if required.

33. CAPITAL COMMITMENTS

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

	2020	2019
	RMB'000	*RMB'000*
Capital expenditure in respect of the followings contracted for but not provided in the consolidated financial statements:		
Acquisition of property, plant and equipment	840	1,404
Acquisition of intangible assets	1,750	–
Development of wine estate and wine cellar	3,600	3,600
	6,190	5,004

34. RETIREMENT BENEFITS PLANS

The Group operates a Mandatory Provident Fund scheme for all qualifying employees in Hong Kong. The Group contributes certain percentage of relevant payroll costs to the Mandatory Provident Fund scheme, which contribution is matched by employees.

Forfeited contribution can be used to reduce future contribution of the Group. There was no utilisation of forfeited contribution during 2020 and as at 31 December 2020, there is no forfeited contribution receivable for reduction of future contribution.

34. RETIREMENT BENEFITS PLANS – continued

The employees of the Company's subsidiaries established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. These subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specific contributions.

The Group made contributions to the retirement benefits schemes of RMB1,765,000 (2019: RMB4,950,000).

35. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2020	2019
	RMB'000	*RMB'000*
Short-term benefits	**4,477**	4,409
Post-employment benefits	**146**	302
	4,623	4,711

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

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries as at 31 December 2020 are as follows:

Name	Place of incorporation	Issued and paid-up capital	Percentage of the ownership interest/voting power Direct	Indirect	Principal activities
Fullest Power Investments Limited	The BVI	US$100,000	100%	–	Investment holding
Rich Treasure Link Limited	Hong Kong	HK$10,000	–	100%	Investment holding and provision of administrative services
Topping Future Limited	Hong Kong	HK$100	–	100%	Investment holding
Shine Wealth Hong Kong Group Limited	Hong Kong	HK$10,000	–	100%	Investment holding
通化通天酒業有限公司 Tonghua Tongtian Winery Co., Ltd. *(note 1)*	The PRC	RMB87,110,000	–	100%	Manufacturing and sale of wine products and processing of grape juice
集安雅羅酒莊有限公司 Ji An Yaluo Wine Estate Co., Ltd. *(note 1)*	The PRC	HK$40,000,000	–	100%	Manufacturing and sale of wine products and processing of grape juice
通化通天綠色農業產業發展有限公司 Tonghua Tontine Green Agriculture Development Co., Ltd. *(note 1)*	The PRC	HK$28,000,000	–	100%	Grapes plantation
通化通天商貿有限公司 Tonghua Tontine Trading Co., Ltd. *(note 1)*	The PRC	HK$40,000,000	–	100%	Wholesales and retail of wine products
煙台白洋河釀酒有限責任公司 Yantai Baiyanghe Winery Co., Ltd. ("Yantai Baiyanghe") *(note 2)*	The PRC	RMB4,949,960	–	60%	Manufacturing and sale of wine products and processing of grape juice

Notes

1 These companies are wholly-foreign owned enterprises established in the PRC.

2 The Company is a sino-foreign owned enterprise established in the PRC.

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY – continued

The following table shows information of the subsidiary that has non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	Yantai Baiyanghe	
	2020	2019
Principal place of business/country of incorporation	**The PRC**	The PRC
% of ownership interests/voting rights held by NCI	**40%**	40%
	RMB'000	*RMB'000*
At 31 December:		
Non-current assets	**40,718**	54,001
Current assets	**159,336**	162,211
Current liabilities	**(6,191)**	(6,787)
Net assets	**193,863**	209,425
Accumulated NCI	**77,545**	83,770
Year ended 31 December:		
Revenue	**42,556**	74,366
(Loss)/profit	**(15,562)**	13,323
Total comprehensive (expense)/income	**(15,562)**	13,323
(Loss)/profit allocated to NCI	**(6,225)**	5,330
Dividends paid to NCI	**–**	–
Net cash (outflow)/inflow from operating activities	**(76,220)**	9,110
Net cash inflow/(outflow) from investing activities	**86**	(19,196)
Net decrease in cash and cash equivalents	**(76,134)**	(10,086)

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or the future cash flows will be, classified in the Group's consolidated cash flows from financing activities.

	Advance from ultimate holding company	Bank borrowing	Lease liabilities	Total liabilities from financing activities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	–	–	1,897	1,897
Financing cash flows	–	38,498	(1,005)	37,493
Finance costs incurred during the year	–	1,502	83	1,585
At 31 December 2019	–	40,000	975	40,975
Addition of leases	–	–	4,329	4,329
Financing cash flows	3,769	(40,963)	(2,218)	(39,412)
Finance costs incurred during the year	–	963	82	1,045
At 31 December 2020	3,769	–	3,168	6,937

38. EVENTS AFTER THE REPORTING PERIOD

On 27 January 2021, Golden Eagle Brokerage Limited (the "Placing Agent") and the Company entered into a placing agreement pursuant to which the Placing Agent conditionally agreed to procure, on a best effort basis, placees to subscribe for the convertible bonds to be issued by the Company in an aggregate principal amount of up to HK$40,000,000 at the initial conversion price of HK$0.10. The interest rate is 15% per annum payable on a semi-annual basis and the maturity date is the date of the second anniversary of the issue date. On 11 February 2021, the convertible bonds in the aggregate principal amount of HK$40,000,000 were successfully and fully placed by the Placing Agent to two independent placees (namely Mr. Koo Yuen Kim and Mr. Sim Tsz Shiong). Please refer to the Company's announcements dated 27 January 2021 and 11 February 2021 for further details.

39. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2021.