TONTINE

CHINA TONTINE WINES GROUP LIMITED

中國通天酒業集團有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 389)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 67.6% to approximately RMB107,881,000 (2019: approximately RMB333,149,000).
- Gross loss of approximately RMB62,491,000 (2019: gross profit of approximately RMB74,102,000).
- Total comprehensive expense for the year attributable to owners of the Company and non-controlling interests amounted to approximately RMB168,385,000 (2019: total comprehensive income for the year attributable to owners of the Company and non-controlling interests of approximately RMB4,517,000).
- Basic and diluted loss per share were RMB8.06 cents (2019: RMB0.04 cents).

The board of directors (the "Board" or the "Directors") of China Tontine Wines Group Limited (the "Company") is pleased to announce the consolidated results and financial position of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2020 (the "Year"), prepared on the basis set out in Note 2.1, together with the comparative figures for the year ended 31 December 2019 as follows:

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	*3*	**107,881**	333,149
Cost of sales		**(170,372)**	(259,047)
Gross (loss)/profit		**(62,491)**	74,102
Other income, gains and losses	*5*	**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		**4,293**	4,469
Share-based payments		**–**	(3,756)
Finance costs	*6*	**(1,045)**	(1,585)
(Loss)/profit before tax		**(168,385)**	4,517
Income tax expense	*7*	**–**	–
Total comprehensive (expense)/income for the year	*8*	**(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	*10*		
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		**138,175**	166,486
Right-of-use assets		**41,045**	49,639
Biological assets		**2,642**	2,806
Prepayments		**9,058**	7,991
		190,920	226,922
Current assets			
Inventories		**143,775**	207,984
Trade receivables	*11*	**65,726**	108,969
Deposits and prepayments		**96,784**	4,364
Current tax recoverable		**5,551**	5,551
Pledged bank deposits		**–**	800
Bank and cash balances		**37,447**	201,434
		349,283	529,102
Current liabilities			
Trade payables	*12*	**5,343**	10,585
Other payables and accruals		**23,069**	31,225
Bank borrowing	*13*	**–**	40,000
Amount due to ultimate holding company		**3,769**	–
Lease liabilities		**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
Non-current liabilities			
Lease liabilities		**2,380**	–
NET ASSETS		**494,893**	663,278
Capital and reserves			
Share capital		**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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

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; 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.

2.1 BASIS OF PREPARATION

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 (the "Listing Rules") and by the Hong Kong Companies Ordinance.

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.

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.

3. REVENUE

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

Information about reportable 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.

	2020	2019
	RMB'000	*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	2019
	RMB'000	*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.

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

5. OTHER INCOME, GAINS AND LOSSES

	2020	2019
	RMB'000	*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

6. FINANCE COSTS

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

7. 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%.

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.

8. (LOSS)/PROFIT FOR THE YEAR

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

	2020	2019
	RMB'000	*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

9. DIVIDENDS

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

10. 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.

11. TRADE RECEIVABLES

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

	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

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

12. TRADE PAYABLES

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

	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.

13. 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 Tonghua Tongtian Winery Co., Ltd. 通化通天酒業有限公司 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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

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]

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 in 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.

[4] http://www.cfoodw.com/n/29258.html

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**
	2020	2019	**change**
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 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. 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.

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.

REGIONAL MARKET PERFORMANCE

The breakdown of revenues from different regional markets of the Group in 2020 and 2019 is set out below:

	For the year ended 31 December			
	2020		2019	
	Revenue *RMB'000*	**% of total revenue**	Revenue *RMB'000*	% of total revenue
North-East Region	**25,088**	**23.3**	69,181	20.8
Northern Region	**14,204**	**13.2**	50,160	15.0
Eastern Region	**34,005**	**31.5**	104,009	31.2
South-Central Region	**17,805**	**16.5**	51,517	15.5
South-West Region	**16,779**	**15.5**	58,282	17.5
Total	**107,881**	**100.0**	333,149	100.0

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

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 overall been recognized by customers.

FUTURE OUTLOOK

Entering into 2020, China and the United States reached a first-phase agreement for trade relations, 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.

The pandemic of the novel coronavirus that emerged at the end of 2019 is still menacing. The rapid outbreak and large-scale spread of the pandemic had severe impacts on China's overall economy and various industries. It is still difficult to assess the impact of the pandemic on China and the global economy. In addition to the impact of the pandemic on consumer sentiment, the upstream and downstream of the wine industry and terminal retail operations are also affected, and traditional marketing activities such as exhibitions and promotion fairs are difficult to be carried out in the short term, along with the declined consumer consumption. Such factors may result in a substantial drop of sales volume in the domestic wine market in 2020.

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. At the same time, the new retail model also helps to diversify the operating risks of the traditional business model and thus significantly reduces traditional advertising spending.

The Group will also 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 with the intention of distributing beer products through its existing marketing channels of wine products to achieve cost sharing in developing marketing channels and 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" is gradually becoming the dominant development direction for brand product differentiation. With the Group having successfully established the market awareness for the grape distilled liquor product of "Yaaru Wine"（雅羅白）and ice wine products successfully developed by it, the Group will continue to further deepen the development path of "Characteristic Production Area + Unique Brand + Distinctive Experience" to create continuously the new profit growth point for the Group. The Group will seize the opportunity arising from the policy of encouraging development and promotion of the ice grape industry in Tonghua area, continue to focus on the promotion of ice wine products with the regional features of the North-East China to further expand the income source of the Group. At the same time, the Group will put emphasis on the promotion of the self-developed grape distilled liquor product of "Yaaru Wine"（雅羅白）to build it into the most distinctive grape distilled liquor brand of Tontine.

After establishing certain acceptance for the ice wine products in the market, the Group is expected to gradually increase its selling price, which will enable the Group to achieve a higher gross profit for its ice wine products. The Group entered into multiple strategic cooperations last year, such as, jointly launching with the Haidilao Group of a new sweet wine called "Haidilao Semi-sparkling Mountain Grape Wine" for the hot pot scene, cooperation with Naixin Industrial to develop a rose mountain wine, and jointly launching with Lingge Culture of the "Jiang Xin（絳馨）"series under the "Lingge" brand, which had been launched in the market one after another this year. It is expected that these wine products will begin to generate revenue for the Group.

Realizing the importance of refining products, the Group is 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, the Group plans to add ginseng blended wine products to its product series. At the same time, as benefited from its geographical advantage, the region which Tontine Wines operates is the main producing region for ginseng in China, and the procurement and supply of ginseng raw materials can be effectively secured. This year, the Group will supply ginseng blended wine series products to domestic large-scale distribution companies of ginseng products and ginseng blended wine products by customized processing and direct sales of products, in order to further enrich the Group's product categories and expand income source of the Group to generate better returns for our shareholders.

China's expected economic growth this year would range between 5% and 6% in the short term. 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 take a pragmatic and prudent attitude to grasp the consumption trend of the domestic wine market, further optimize its product structure, and leverage its existing advantages to consolidate its existing market position.

FINANCIAL MANAGEMENT AND TREASURY POLICY

The Group's revenues, expenses, assets and liabilities were substantially denominated in RMB. Also, the Group's cash and cash equivalents were mostly denominated in RMB. Accordingly, there has been no significant exposure to foreign exchange fluctuation. In view of the minimal foreign currency exchange risk, the Directors will closely monitor the foreign currency movement instead of entering into any foreign exchange hedge arrangement. The Group will continue to pursue a prudent treasury management policy to cope with daily operations and future development demands for capital. The Group is in a net cash position and is thus exposed to minimal financial risk on interest rate fluctuation.

LIQUIDITY AND FINANCIAL RESOURCES

The management closely monitors the Group's financial performance and liquidity position. The Group generally finances its operation with internal cash flows generated from its operations and bank borrowing.

During the Year, the Group's working capital was healthy and positive. As at 31 December 2020, the Group's net working capital (calculated as current assets less current liabilities) amounted to approximately RMB306,353,000 (2019: RMB436,356,000). The Group has sufficient financial resources available to meet its future working capital and financing requirements.

CAPITAL COMMITMENTS

As at 31 December 2020, the Group made capital expenditure commitments of approximately RMB6,190,000 (2019: RMB5,004,000) contracted but not provided in the consolidated financial statements. These capital commitments were provided by cash generated from operations.

PLEDGE OF ASSETS

As at 31 December 2019, the Group pledged its bank deposits of approximately RMB800,000 and 35% equity interest in a subsidiary of the Company to secure a bank borrowing amounting to RMB40,000,000. 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.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2020 (2019: Nil).

DIVIDEND

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).

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).

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

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

CORPORATE GOVERNANCE

Throughout the Year, the Company had applied the principles in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules and complied with the code provisions and certain recommended best practices set out in the CG Code, save for the deviation from code provision A.2.1 of the CG Code, which states that the roles of chairman and the chief executive officer ("CEO") should be segregated and should not be performed by the same individual. Mr. Wang Guangyuan ("Mr. Wang") is responsible for the overall business strategy and development and management of the Group. The Board considers Mr. Wang, 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 deviation.

AUDIT COMMITTEE

The audit committee of the Company, which comprises all the independent non-executive Directors (namely, Dr. Cheng Vincent (Chairman), Mr. Lai Chi Keung, Albert and Mr. Yang Qiang), had reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the Group's risk management and internal controls systems, as well as reviewed the Group's audited annual results for the Year.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by ZHONGHUI ANDA CPA Limited, the Group's auditor, to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by the Group's auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the Group's auditor on the preliminary announcement.

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 annual general meeting of the Company (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.

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

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.tontine-wines.com.hk). The annual report for the year ended 31 December 2020 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

ACKNOWLEDGEMENT

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

By order of the Board
Wang Guangyuan
Chairman and Executive Director

Hong Kong, 29 March 2021

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

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

* *For identification purpose only*