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GRACE VINEYARD
怡園酒莊

Grace Wine Holdings Limited
怡園酒業控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8146)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the "**Directors**") of Grace Wine Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**", "**we**" or "**our**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

The board of Directors (the "**Board**") of the Company is pleased to present the results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018, together with comparative figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
REVENUE	*5*	**72,556**	70,384
Cost of sales		**(47,124)**	(36,294)
Gross profit		**25,432**	34,090
Other income and gains, net	*5*	**6,841**	2,038
Selling and distribution expenses		**(4,245)**	(3,456)
Administrative expenses		**(24,123)**	(23,227)
Other expenses and losses		**(194)**	(214)
Finance costs, net		**–**	(572)
PROFIT BEFORE TAX	*6*	**3,711**	8,659
Income tax credit/(expense)	*7*	**2,454**	(7,545)
PROFIT FOR THE YEAR AND PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY		**6,165**	1,114
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted (RMB cents)	*9*	**0.88**	0.24

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018	2017
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**6,165**	1,114
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements	**2,425**	4,965
Release of reserve upon disposal of subsidiaries	**(65)**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**2,360**	4,965
TOTAL COMPREHENSIVE INCOME FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY	**8,525**	6,079

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	**2018** **RMB'000**	2017 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**81,513**	83,930
Prepaid land lease payments		**12,867**	13,836
Goodwill		**1,361**	1,361
Prepayment for acquisition of property, plant and equipment		**–**	68
Total non-current assets		**95,741**	99,195
CURRENT ASSETS			
Inventories		**65,051**	77,525
Biological assets		**–**	–
Trade receivables	*10*	**18,124**	12,797
Prepayments and other receivables		**3,458**	7,150
Cash and bank balances		**82,099**	32,152
Total current assets		**168,732**	129,624
CURRENT LIABILITIES			
Trade payables	*11*	**142**	860
Other payables and accruals		**8,676**	12,804
Tax payable		**2,064**	1,407
Total current liabilities		**10,882**	15,071
NET CURRENT ASSETS		**157,850**	114,553
TOTAL ASSETS LESS CURRENT LIABILITIES		**253,591**	213,748
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**2,601**	9,318
Deferred income		**348**	370
Total non-current liabilities		**2,949**	9,688
Net assets		**250,642**	204,060
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*12*	**674**	–
Reserves		**249,968**	204,060
Total equity		**250,642**	204,060

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company						
	Issued capital *RMB'000*	**Share premium** *RMB'000*	**Capital reserve** *RMB'000*	**Statutory reserve funds** *RMB'000*	**Exchange fluctuation reserve** *RMB'000*	**Retained profits** *RMB'000*	**Total** *RMB'000*
At 1 January 2017	–	–	93	12,781	(12,887)	114,508	114,495
Profit for the year	–	–	–	–	–	1,114	1,114
Other comprehensive income for the year:							
Exchange differences on translation of financial statements	–	–	–	–	4,965	–	4,965
Total comprehensive income for the year	–	–	–	–	4,965	1,114	6,079
Transfer from retained profits	–	–	–	763	–	(763)	–
2017 interim dividends *(Note 8)*	–	–	–	–	–	(20,708)	(20,708)
Loan Capitalisation *(Note 12(i))*	–	104,194	–	–	–	–	104,194
At 31 December 2017	–	104,194*	93*	13,544*	(7,922)*	94,151*	204,060
Effect of adoption of HKFRS 9 *(Note 10)*	–	–	–	–	–	(2)	(2)
At 1 January 2018 (restated)	–	104,194	93	13,544	(7,922)	94,149	204,058
Profit for the year	–	–	–	–	–	6,165	6,165
Other comprehensive income for the year:							
Exchange differences on translation of financial statements	–	–	–	–	2,425	–	2,425
Release of reserve upon disposal of subsidiaries	–	–	–	–	(65)	–	(65)
Total comprehensive income for the year	–	–	–	–	2,360	6,165	8,525
Transfer from retained profits	–	–	–	202	–	(202)	–
Share Offer *(Note 12(ii))*	169	58,847	–	–	–	–	59,016
Capitalisation Issue *(Note 12(iv))*	505	(505)	–	–	–	–	–
Expenses incurred in connection with the issue of new shares *(Note 12(iii))*	–	(10,957)	–	–	–	–	(10,957)
2018 special dividend *(Note 8)*	–	(10,000)	–	–	–	–	(10,000)
At 31 December 2018	674	141,579*	93*	13,746*	(5,562)*	100,112*	250,642

* These reserve accounts comprise the consolidated reserves of RMB249,968,000 (2017: RMB204,060,000) in the consolidated statement of financial position.

1. CORPORATE INFORMATION

Grace Wine Holdings Limited ("the Company") is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company had its listing (the "Listing") on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 June 2018.

The Company is an investment holding company. The Company's principal subsidiaries were engaged in the production and distribution of wine products.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for biological assets, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has applied the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the HKFRS 9, HKFRS 15 and Amendments to HKFRS 15, the adoption of the above new and revised standard has had no significant financial effect on this financial information.

The nature and the impact of the new HKFRSs are described below:

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows:

	Measurement category		Carrying amount		
			Original	**New**	**Difference**
	Original (HKAS 39)	New (HKFRS 9)	*RMB'000*	*RMB'000*	*RMB'000*
Non-current financial assets					
Prepayment for acquisition of property, plant and equipment	Loans and receivables	Amortised cost	68	68	–
Current financial assets					
Trade receivables	Loans and receivables	Amortised cost	12,797	12,795	(2)
Prepayments and other receivables	Loans and receivables	Amortised cost	7,150	7,150	–
Cash and bank balances	Loans and receivables	Amortised cost	32,152	32,152	–
Current financial liabilities					
Trade payables	Amortised cost	Amortised cost	860	860	–
Other payables	Amortised cost	Amortised cost	12,804	12,804	–

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

The adoption of HKFRS 9 has had no significant impact on the classification and measurement of the financial liabilities of the Group.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017	**Re-measurement**	**ECL allowances under HKFRS 9 at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	–	2	2
Financial assets included in prepayments and other receivables	–	–	–
	–	2	2

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on retained profits is as follows:

	Retained profit *RMB'000*
Balance as at 31 December 2017 under HKAS 39	94,151
Recognition of expected credit losses for trade receivables under HKFRS 9	(2)
Deferred tax in relation to the above	–*
Balance as at 1 January 2018 under HKFRS 9	94,149

* Less than RMB1,000.

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The Group's principal activities consist of the manufacture and sale of wine products. The Group's contracts with customers for the sale of the wine products generally include one performance obligation. The Group has concluded that revenue from sale of the wine products should be recognised at the point in time when control of the asset is transferred to the customer. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

Prior to the adoption of HKFRS 15, the Group recognised revenue from the sale of goods measured at fair value of the consideration received or receivable, net of allowances, trade discounts and/or volume rebates. If revenue cannot be reliably measured, revenue recognition is deferred until the uncertainty was resolved.

Under HKFRS 15, a transaction price is considered variable if a customer is provided with trade discounts or right of return. The Group estimates the amount of consideration to which it will be entitled in exchange for transferring the wine products. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amount of allowances, trade discounts and right to return as this method better predicts the amount of variable consideration to which the Group will be entitled.

The Group has assessed that the adoption of HKFRS 15 did not materially affect how the Group recognised revenue and cost of sales under HKAS 18 when the customers have a right to allowance, trade discounts and volume rebates.

Consideration received from customers in advance

Generally, the Group receives short-term advances from its customers. Using the practical expedient in HKFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB106,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB200,000 was reclassified from other payables to contract liabilities in relation to the consideration received from a customer in advance for the sale of a residential flat.

4. SEGMENT INFORMATION

Operating segments

No operating segment information for the Group is presented as over 90% of the Group's revenue, expenses, assets, liabilities and capital expenditure are attributable to the production and distribution of wine products during the year.

Geographical information

No geographical information for the Group is presented as over 90% of the Group's assets are derived from customers and operations based in the PRC during the year.

Information about a major customer

Revenue amounting to 10 percent or more of the Group's revenue derived from sales to a single customer was RMB46,003,000 (2017: RMB46,767,000).

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2018	2017
	RMB'000	*RMB'000*
Revenue from contract with customers		
Sales of goods	**72,556**	70,384

All of the Group's revenue was recognised at point in time during the year.

	2018	2017
	RMB'000	*RMB'000*
Geographical market		
Mainland China	**70,985**	68,950
Hong Kong	**1,233**	1,158
Other jurisdictions	**338**	276
Total revenue from contracts with customers	**72,556**	70,384

There were no contract assets or revenue-related contract liabilities at the end of the reporting period (2017: Nil).

The performance obligation for sales of goods is satisfied upon delivery of the wine.

Other income and gains

	2018	2017
	RMB'000	*RMB'000*
Other income		
Bank interest income	**528**	372
Government grants*	**504**	1,190
Tourism and servicing income from related parties, net	**–**	3
Others	**122**	260
	1,154	1,825
Gains		
Gains on disposal of items of property, plant and equipment, net	**27**	213
Gain on disposal of subsidiaries	**5,660**	–
	5,687	213
Other income and gains, net	**6,841**	2,038

* The Group received various government grants for the promotion of the wine industry in Mainland China by its subsidiaries and also for the Group's contribution to the wine industry in Shanghai. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the statement of financial position. There were no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold	**28,935**	13,726
Depreciation	**10,802**	10,461
Less: government grants released	**(22)**	(22)
Less: amount capitalised into inventories	**(285)**	(314)
	10,495	10,125
Amortisation of prepaid land lease payments	**868**	901
Less: amount capitalised into biological assets	**(334)**	(348)
	534	553
Listing expenses	**4,321**	11,069
Write-off of inventories	**–**	11
Losses/(gains) arising from changes in fair value of agricultural produce at the date of harvest	**418**	(884)

7. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

No provision for Hong Kong profits tax has been made for the year as the Group did not generate any assessable profits arising in Hong Kong during the year.

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

According to relevant EIT Law and Implementation Regulation of the EIT Law, certain subsidiaries in agricultural operation of the Group in the PRC were exempted from Enterprise Income Tax ("EIT") on profits derived from fruit cultivation for the years ended 31 December 2018 and 2017, subject to annual review by the local PRC tax authority of the Company's subsidiaries and any future changes in the relevant tax exemption policies or regulations.

	2018	2017
	RMB'000	*RMB'000*
Current – Mainland China		
Charge for the year	**4,263**	7,995
Underprovision in prior years	**–**	452
Deferred tax	**(6,717)**	(902)
Total tax charge/(credit) for the year	**(2,454)**	7,545

8. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
First 2017 interim dividend at RMB9,714 per ordinary share	**–**	6,800
Second 2017 interim dividend at HK$22,857 per ordinary share (equivalent to RMB19,869 per ordinary share)	**–**	13,908
2018 special interim dividend at RMB10,000 per ordinary share *(note (i))*	**10,000**	–
	10,000	20,708

Note:

(i) On 4 June 2018, the Company declared and approved a special dividend of RMB10,000,000 to its then shareholders.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share for the year ended 31 December 2018 is based on the profit for the period attributable to owners of the Company of RMB6,165,000 (2017: RMB1,114,000), and the weighted average number of ordinary shares of 703,013,699 (2017: 473,753,425) in issue during the year ended 31 December 2018.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2018 represented 1,000 ordinary shares of the Company as at 1 January 2018, 599,999,000 ordinary shares of the Company issued under the Capitalisation Issue (as defined in note 12) as if these additional shares issued under Capitalisation Issue had been in issue throughout the year ended 31 December 2018, and weighted average number of 103,013,699 ordinary shares of the Company issued upon the Listing on GEM of the Stock Exchange on 27 June 2018.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2017 represented 700 ordinary shares of the Company as at 1 January 2017, weighted average number of 90 ordinary shares of the Company issued under Loan Capitalisation (as defined in note 12), as well as the respective proportion of weighted average ordinary shares in issue, representing 473,752,635 ordinary shares of the Company issued under the Capitalisation Issue as if these additional shares issued under the Loan Capitalisation had been in issue throughout the year ended 31 December 2017.

No adjustment has been made to the basic earnings per share presented for the years ended 31 December 2018 and 2017 as the Group had no potentially dilutive ordinary shares in issue during these years.

10. TRADE RECEIVABLES

	Note	2018 RMB'000	2017 RMB'000
Trade receivables from third parties		**18,089**	12,752
Due from related companies		**37**	45
		18,126	12,797
Impairment		**(2)**	–
Trade receivables	*(i)*	**18,124**	12,797

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period up to three months. The Group seeks to apply strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Notes:

(i) Trade receivables

An ageing analysis of the trade receivables, based on the invoice date and net of loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Within 60 days	**17,404**	12,790
61 to 90 days	**720**	7
Over 90 days	**–**	–
	18,124	12,797

11. TRADE PAYABLES

As at the end of the reporting period, an ageing analysis of the trade payables, based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Within 30 days	**94**	575
31 to 90 days	**48**	285
	142	860

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

12. SHARE CAPITAL

	2018			2017		
	Number of shares	***HK'000***	***RMB'000* equivalent**	Number of shares	*HK'000*	*RMB'000* equivalent
Authorised:						
Ordinary shares of HK$0.001 each	**8,000,000,000**	**8,000**		380,000,000	380	
Issued and fully paid:						
Ordinary shares of HK$0.001 each	**800,000,000**	**800**	**674**	1,000	–	–

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Issued capital** *RMB'000*
At 1 January 2017	700	–
Loan Capitalisation *(note (i))*	300	–
At 31 December 2017 and 1 January 2018	**1,000**	**–**
Share Offer *(note (ii))*	**200,000,000**	**169**
Capitalisation Issue *(note (iv))*	**599,999,000**	**505**
At 31 December 2018	**800,000,000**	**674**

Notes:

(i) Pursuant to the loan capitalisation ("Loan Capitalisation") of HK$124,649,000 (equivalent to approximately RMB104,194,000), amounts owed to Judy Chan were deemed to have been fully repaid by the allotment and issue of 217 shares to Macmillan Equity Limited, which is wholly owned by Judy Chan, on 14 September 2017 and the share premium account of the Company has been credited for HK$124,649,000 (equivalent to approximately RMB104,194,000) as a result. On 14 September 2017, 83 shares were allotted and issued to Palgrave Enterprises Limited, which is wholly owned by Wong Shu Ying, at par value.

(ii) In connection with the Listing of the share of the Company on the Stock Exchange, 200,000,000 new ordinary shares of HK$0.001 each of the Company were issued at a price of HK$0.35 per ordinary share for a total cash consideration, before expenses, of HK$70.0 million (equivalent to approximately RMB59.0 million) (the "Share Offer") and the amount of share capital issued was HK$200,000 (equivalent to approximately RMB169,000). Dealings in the shares of the Company on the Stock Exchange commenced on 27 June 2018.

(iii) Upon the Listing of the Company on 27 June 2018, the expense related to the issuance of new shares of HK$13.0 million (equivalent to approximately RMB11.0 million) was debited and deducted from the Company's share premium account.

(iv) Upon the creation of the Company's share premium account as a result of the Share Offer, an amount of HK$600,000 (equivalent to approximately RMB505,000) standing to the credit of the share premium account of the Company has been capitalised on 27 June 2018 by applying such sum towards paying up in full at par a total of 599,999,000 ordinary shares for allotment and issue to the then existing shareholders (the "Capitalisation Issue"). Immediately following the completion of the Share Offer and the Capitalisation Issue, the total outstanding ordinary shares of the Company was 800,000,000 ordinary shares including 200,000,000 ordinary shares issued upon the Share Offer.

13. DISPOSAL OF SUBSIDIARIES

On 1 June 2018, the Group and Judy Chan entered into a share transfer agreement, pursuant to which the Company transferred its 100% equity interests in Interfusion Limited and its subsidiaries Corpwealth Asia Limited and Ningxia Ganlin Agricultural Development Co., Limited (collectively the "Disposal Group") at a consideration of RMB1 to Judy Chan to rectify certain defects to the land use rights and non-compliant land usage of a parcel of land in Ningxia.

	Note	*RMB'000*
Net liabilities disposed of:		
Property, plant and equipment		3,192
Prepaid land lease payments		101
Inventories		59
Biological assets		796
Prepayments and other receivables		67
Cash and bank balances		59
Trade payables		(15)
Other payables and accruals		(9,984)
		(5,725)
Release of exchange fluctuation reserve upon disposal of subsidiaries		65
Gain on disposal of subsidiaries	*5*	(5,660)
Satisfied by:		
Cash		–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	RMB'000
Cash consideration	–
Cash and bank balances disposed of	(59)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(59)

14. CONTINGENT LIABILITIES

At the end of the reporting period, the Group and the Company had no significant contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

According to data released by the National Bureau of Statistics of China, China's gross domestic product ("**GDP**") amounted to RMB90,000 billion in 2018, representing an increase of 6.6% as compared to the previous year. The overall national economy remained stable and continued to develop favorably in line with market expectation. With the continuous growth of the macroeconomy and ongoing urbanization in the PRC, the average income of urban households has risen in recent years. Per capita annual disposable income increased from RMB24,565 in 2012 to RMB36,396 in 2017, representing a compound annual growth rate ("**CAGR**") of 8.18%. Increased spending power suggests that consumers today are more likely to pursue wine of better quality and higher prices, which has brought a positive impact to the wine market.

Since the successful introduction of wine into the PRC market in the 1990s, the popularity of wine has increased among the middle class and wealthy class, and their attitudes and perspectives towards wine have also changed. Whereas wine-drinking used to be primarily of a business entertainment or social need, it has now become a pursuit for one's own health and interest. The awareness of different brands of wine has also increased. In recent years, in response to the rapid economic growth of some non-first tier cities, the wine market has been expanded to areas other than major coastal cities. Spending on domestic wine has also increased as a result of wine culture penetrating into the community.

According to data monitored by the Ministry of Commerce of the PRC, the year-on-year sales volume and sales of wine in the PRC increased by 33.5% and 3.3%, respectively, during the period from January to July 2018. According to the National Bureau of Statistics of China, the accumulated sales income of wine production enterprises above the national level from January to June 2018 amounted to RMB19.21 billion, representing a year-on-year increase of 4.7% and a growth rate of 4.3% as compared with the same period last year. The total profit amounted to RMB2.08 billion, representing a year-on-year increase of 4.3%.

According to the "13th Five-Year Plan of Wine Industry" (《葡萄酒行業十三五規劃》), the PRC government planned to implement the construction of wine grape cultivation bases to cultivate wine grapes that can better satisfy the taste of local residents. Those policies and measures are expected to have positive effects on the wine-making industry. For instance, both Shanxi and Ningxia governments have provided subsidies to the vineyard farmers. The China Alcoholic Drinks Association issued the "13th Five-Year Guidance of China Alcohol Beverage Industry" (《中國酒業「十三五」發展指導意見》), which suggested developing the wine industry and integrating the industrial chain from cultivating wine grapes to producing wine, and distributing and selling wine as well, to encourage the development of small and medium wineries. The Shanxi government has also published the "13th Five-Year Plan of Modern Agriculture in Shanxi Province" (《山西省「十三五」現代農業發展規劃》), which was aimed at promoting the planting of fruits, such as grapes and apples, and facilitating the development of processed wine-making for fruit wines such as grape wine. In addition, with the issue of a series of policies and regulations, such as the "Wine Industry 12th Five Development Plan" (《葡萄酒行業十二五發展規劃》) and "Wine Manufacturing Industry Access Conditions" (《葡萄酒製造業准入條件》), a considerable number of small and medium enterprises were forced to exit the market as they no longer met the corresponding standards. Large enterprises such as our Group, especially with integrated wine grape cultivation, wine production, logistics and sales, are likely benefit from these policies, bringing more opportunities to the Group.

Our gross profit margin, affected by the higher production costs of our inventory sold this year, had decreased in 2018. As the majority of our inventory with higher production costs was sold in 2018, our gross profit margin of sales is expected to improve in 2019. During the track record period, the first phase construction of our Ningxia Winery completed in December 2017 with a gross floor area ("**GFA**") of approximately 8,600 sq.m., which has 71 wine-making tanks and is expected to be fully operational after the harvest season of grapes in 2018. After a thorough consideration of the outlook of the current domestic economy, the market condition of the areas in which our key distribution channels are located, as well as the potential risks in increasing our investment in Ningxia especially given our current financial condition and expected sales trend, we believe that the Group should take a more prudent and cautious approach to our business development plan at the moment. We have therefore decided to suspend our construction plan of the second phase of our new winery in Ningxia. We will continuously monitor the development of the market and execute the plan when the best time comes.

Due to the seasonality of our sales and the effect of the generally unstable economic environment, the revenue of the Group for the first quarter of 2019 is expected to decrease as compared to the corresponding period in 2018. As a result, we foresee that it is possible for the Group to record a net loss for the first quarter of 2019. The Group plans to adopt a prudent and stable development approach in the future, and continue its effort to strengthen and promote our brand as well as to provide quality products. We hope that this will bring continuous sales growth and diversified development opportunities for us. In addition, with the rapid development of Internet technology and the increasing purchasing power of PRC consumers, the development of an online sales platform appears to be increasingly important. Therefore, we will continue to seek new sales and distribution channels while maintaining our distributors as a primary sales channel, including strengthening our online sales platform for further development as well as striving for a higher market share in the PRC market. We believe that as the population expands and urbanization moves ahead, living standards will enhance in the PRC and the number of people consuming wine will continue to increase, resulting in the continuous growth of the PRC wine market and bringing better business opportunities to the Group.

Revenue

Our revenue increased by RMB2.2 million or 3.1% from RMB70.4 million for the financial year ended 31 December 2017 ("**FY2017**") to RMB72.6 million for the financial year ended 31 December 2018 ("**FY2018**"), primarily due to the increase in sales by our distributor, ASC, and our online sales, offset by the decrease in sales by our distributor, Shanxi Jiajia. We sold 1,221,000 bottles in FY2018 as compared to 1,202,000 bottles in FY2017. The average selling price increased slightly from RMB58.5 in FY2017 to RMB59.4 in FY2018 due to the increase in selling prices of certain entry-level wine products during the year.

Cost of sales

Our cost of sales increased by RMB10.8 million or 29.8% from RMB36.3 million for FY2017 to RMB47.1 million for FY2018, primarily due to the increase in unit costs of production of the inventory sold during the period which was produced in years of lower production level and thus experienced a higher absorption of the fixed costs per unit.

Gross profit and gross profit margin

Our overall gross profit decreased by RMB8.7 million or 25.4% from RMB34.1 million for FY2017 to RMB25.4 million for FY2018, due to the increase in cost of sales as aforementioned. Our overall gross profit margin decreased from 48.4% for FY2017 to 35.3% for FY2018, mainly due to the increase in the unit cost of wine sold as aforementioned.

Other income and gains, net

Other net income and gains increased by RMB4.8 million or 2.4 times from RMB2.0 million for FY2017 to RMB6.8 million for FY2018, mainly due to the gain on disposal of subsidiaries amounting to RMB5.7 million for FY2018.

Selling and distribution expenses

Selling and distribution expenses increased by RMB0.8 million or 22.8% from RMB3.5 million for FY2017 to RMB4.2 million for FY2018, mainly due to the increase in promotion and exhibition expenses.

Administrative expenses

Administrative expenses remained steady at RMB24.1 million for FY2018 as compared to RMB23.2 million for FY2017.

Finance costs, net

No finance cost was incurred for FY2018 as compared to RMB0.6 million in FY2017 due to the full repayment of our bank loans in the previous year.

Income tax credit/(expense)

Income tax credit amounting to RMB2.5 million was recorded for FY2018 as compared to income tax expense of RMB7.5 million for FY2017, which was mainly attributable to (i) the reversal of the deferred taxation provision made in previous years amounting to RMB6.7 million for FY2018, and (ii) the decrease in current tax provision due to the decrease in profit before tax in our PRC operating subsidiaries. Deferred tax provision was made for the withholding tax payable upon the dividend payment from the PRC subsidiaries to offshore subsidiaries. During FY2018, the Board had resolved that the dividend payout ratio of the PRC subsidiaries, with the consideration of the past experience and future capital requirement plans, should not exceed 30% of their distributable profits. As a result, the deferred taxation provision previously made with the basis of a dividend payout ratio by the PRC subsidiaries at 100% was adjusted to 30% accordingly. The effect of the reversal of such provision was a gain of RMB6.7 million recognised as the profit for the year.

Profit for the year

As a result of the foregoing, our profit for the year increased by RMB5.1 million from RMB1.1 million for FY2017 to RMB6.2 million for FY2018, and our net profit margin increased from 1.6% in FY2017 to 8.5% in FY2018.

Liquidity, financial and capital resources

Our principal liquidity and capital requirements primarily relate to our capital investment in the construction and purchases of equipment of the Ningxia Winery, acquisition of raw materials for wine production as well as other costs and expenses related to our business operation. As at 31 December 2018, the carrying amount of the Group's bank and cash balances was RMB82.1 million, representing an increase of 155.3% as compared with that of RMB32.2 million as at 31 December 2017. The increase was mainly due to the proceeds received from share issuance. As at 31 December 2018, the Group's bank and cash balances include RMB25.4 million and HK$16.4 million, some insignificant amounts of USD and EUR (31 December 2017: RMB20.2 million and HK$14.0 million, and some insignificant amounts of USD and EUR).

Gearing ratio

The Group's gearing ratio is measured by total external borrowings divided by total equity. The gearing ratio of the Group as at 31 December 2018 was nil (31 December 2017: nil) as the Group does not have any external borrowings.

Harvest result of self-cultivated grapes

The management believes that the harvest result for the year is one of the important non-financial information to the Group due to the fact that the average unit production costs of the inventory for that year's vintage are affected by the total production volume of self-cultivated grapes harvested for that year, which will therefore impact the financial result of the Group for the subsequent years in which the inventory produced in that year was sold. The table below sets out the quantities of the harvested grapes and the preliminary decision in the use for the production of wine in our Shanxi Vineyard for 2017 and 2018:

Shanxi Vineyard

	2018 vintage No. of tonnes	2017 vintage No. of tonnes
Grapes harvested	**269.50**	204.60
Base wine produced according to the preliminary classifications		
Entry-level wine	**63.69**	93.27
High-end wine	**115.35**	36.30
	179.04	129.57

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies to ensure the liquidity requirements from daily operation as well as capital expenditures are met. The Board closely monitors the Group's liquidity positions, while surplus cash will be invested appropriately with the consideration of the credit risks, liquidity risks and market risks of the financial instruments.

Foreign exchange risk

The business of the Group is primarily in Mainland China where most of the transactions are denominated in RMB, therefore the individual companies within the Group have minimal exposures of foreign exchange risk to its functional currency. Given that the presentation currency of the Group's consolidated financial positions is also RMB, the exchange gain or loss arising from currency translation is also insignificant. For the Group's subsidiaries outside Mainland China, transactions, including the Group's financing activities, may be denominated in Hong Kong Dollars or United States Dollars, and therefore are exposed to foreign exchange risks. The Group does not have a foreign currency hedging policy and does not use any financial instruments for hedging purposes. The Board monitors the Group's foreign currency exposures closely and may take appropriate measures to minimise the foreign currency risk exposures accordingly.

Contingent liabilities

As at 31 December 2018, the Group had no contingent liabilities (31 December 2017: nil).

Pledge of assets

As at 31 December 2018, the Group did not have any assets pledged for credit facilities (31 December 2017: nil).

Employee and remuneration policies

As at 31 December 2018, the Group had, including Directors, 136 employees (31 December 2017: 118 employees). Staff costs, including Directors' emoluments, amounted to RMB10.1 million for FY2018 (FY2017: RMB10.2 million). The remuneration policies for our Directors and employees are based on their experience, level of responsibility and general market conditions, and is reviewed and adjusted on an annual basis. The Company has adopted a share option scheme on 1 June 2018 for the purpose of providing incentives and rewards to eligible members of the scheme.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business objectives as set out in the prospectus of the Company dated 12 June 2018 (the "**Prospectus**") with the Group's actual business progress up to 31 December 2018:

Business objectives up to 31 December 2018 as set out in the Prospectus	Actual business progress up to 31 December 2018
(1) To increase our brand awareness	
We intend to use our internal resources to, or increase marketing and promotion efforts in, among others, (i) the 20th anniversary brochures and events, advertising campaigns; (ii) finalise a multi-faceted sales arrangement with a scalable, "online-to-offline" wine and spirit retailer in the PRC; (iii) strengthen our sales capability through online sales; and (iv) further promote our existing wine product portfolio.	We have increased our marketing and promotion efforts as planned in our business objectives. We successfully carried out the 20th anniversary celebration events and advertising campaigns in 2018. Our online sales went up for FY2018 with the increase in investment and effort into the online sales platforms. We also continued on strengthening the promotion of our existing products. The negotiation with the "online-to-offline" wine and spirit retailer in the PRC was, however, suspended due to commercial reasons.
(2) To increase wine-making capacity	
• We intend to use approximately 3.0% of the net proceeds, or approximately RMB1.0 million (equivalent to HK$1.2 million), to construct the second phase of our Ningxia Winery, namely, the construction of the winery, such as administration and application fees for licences and permits and constructing the visitors' centre and ancillary utilities and facilities.	With the consideration of factors including the potential slowdown of the expected economy growth of PRC, the consumption growth of wine products for the geographical locations of our key distribution channels and hence the sales growth trend of our Company, it is expected that the potential risk in increase the investment is elevated. As a result, the construction of the second phase of our Ningxia Winery has been decided to be suspended in the coming year.
• We intend to use approximately 3.0% of the net proceeds, or approximately RMB1.0 million (equivalent to HK$1.2 million) for the initial production costs of the first phase of our Ningxia Winery, including the purchase of raw materials and utility expenses	We have invested in the initial production costs of the first phase of our Ningxia Winery as planned in our business objectives. We have acquired raw materials (mainly grapes) for the wine production from our new Ningxia Winery.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

The Shares of the Company were listed on the GEM of the Stock Exchange (the "**Listing**") on 27 June 2018 (the "**Listing Date**") with net proceeds received by the Company from the public offer and placing (the "**Share Offer**") in the estimated amount of approximately HK$40.6 million (equivalent to to RMB33.1 million) after deducting underwriting commissions and all related expenses. The net proceeds received from the Share Offer are intended to be used in the manner consistent with that mentioned in the paragraph headed "Future Plans and Use of Proceeds" of the Prospectus.

For FY2018, the Company focused on increasing the wine-making capacity in Ningxia Winery, including investing in the operating expenditures of the first phase of our Ningxia Winery and the construction of the second phase of our Ningxia Winery. Approximately RMB1.0 million was used in the procurement of grapes and other raw materials for the first phase of our Ningxia Winery.

An analysis of the planned usage of net proceeds as stated in the Prospectus and the actual utilization of the net proceeds from the Listing Date up to 31 December 2018 and the intended use of the proceeds and the expected timeline are set out as below:

	Total planned use of proceeds as stated in the Prospectus as at 31 December 2020 RMB'000	Planned use of net proceeds during the period from the Listing Date to 31 December 2018 [1] RMB'000	Actual use of net proceeds during the period from the Listing Date to 31 December 2018 RMB'000	Unutilized Proceeds RMB'000	Expected timeline for the unutilized proceeds
To construct the second phase of our Ningxia Winery					
(i) Construction of the winery	15,000	1,000	–	15,000	By 31 December 2019 [Note (a)]
(ii) Purchase of plants and equipment	6,800	–	–	6,800	By 31 December 2019
Initial production costs of the first phase of our Ningxia Winery	6,700	1,000	1,000	5,700	N/A
Sales and marketing expenses	3,000	–	–	3,000	The unutilized use of proceeds will be used as per the Prospectus [Note (b)]
General working capital	1,598	–	–	1,598	The unutilized use of proceeds will be used as per the Prospectus [Note(c)]

Notes:

(a) As mentioned in the above section headed "Comparison of Business Objectives with Actual Business Progress", the construction of the second phase of our Ningxia Winery has been decided to be suspended in the coming year. The expected timeline for this unutilized proceeds of RMB1,000,000 will be by 31 December 2019. Besides, as per the Prospectus, the Company intends to use RMB9,000,000 and RMB 5,000,000 for the year ending 31 December 2019 and 2020.

(b) As per the Prospectus, the Company intends to use RMB1,500,000 and RMB1,500,000 for the year ending 31 December 2019 and 2020.

(c) As per the Prospectus, the Company intends to use RMB798,000,000 and RMB800,000,000 for the year ending 31 December 2019 and 2020.

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions and industry development made by the Company at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry and the Directors are not aware of any material change to the planned use of proceeds as of the date of this announcement.

FINAL DIVIDEND

Pursuant to its meeting held on 15 March 2019, the Board has resolved not to declare the payment of any final dividend for FY2018 (FY2017: nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group does not have other plans for material investments and capital assets.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITION AND DISPOSALS

Save for the corporate reorganisation (the "Corporate Reorganisation") arrangement undergone by the Group in the preparation for the Listing, the Group did not have any significant investments, material acquisitions or disposal of assets, subsidiaries, associates or joint ventures during the year. Details of the Corporate Reorganisation are set out in the section headed "History, reorganisation and corporate structure" of the Prospectus.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the period from the Listing Date to 31 December 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company, having made specific enquiry of all Directors, is not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors since the shares of the Company are listed on GEM of the Stock Exchange during the period from the Listing Date to 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and enhance its corporate value. The Company has adopted with all the applicable provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 of the GEM Listing Rules. Except as expressly described below, the Company complied with all applicable code provisions set out in the CG Code throughout the period from the Listing Date to 31 December 2018. Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Ms. Judy Chan holds both positions in the Company. Ms. Judy Chan has been primarily responsible for overseeing the Group's general management and business development and for formulating business strategies and policies for our business management and operations since she joined the Group in 2002. Taking into account the continuation of management and the implementation of the Group's business strategies, the Directors (including our independent non-executive Directors) consider that it is most suitable for Ms. Judy Chan to hold both the positions of Chief Executive Officer and the Chairlady of the Board. Therefore, the Board considers that the deviation from code provision A.2.1 of the CG Code is appropriate in such circumstances and the existing arrangements are beneficial and in the interests of the Company and its shareholders as a whole.

EVENT AFTER THE REPORTING DATE

The Group has no significant events subsequent to 31 December 2018 and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") was established with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and paragraph C.3 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The Audit Committee comprises two independent non-executive Directors and one non-executive Director, namely Mr. Lim Leung Yau Edwin, Mr. Ho Kent Ching-tak and Mr. Chow Christer Ho. Mr. Lim Leung Yau Edwin is the chairman of the Audit Committee. The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment and dismissal of the external auditor, review the financial statements and information, provide advice in respect of financial reporting and oversee the risk management and internal control procedures of the Company.

The Audit Committee has reviewed the audited annual results of the Group for FY2018 and was satisfied that such results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures have been made.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the related notes thereto for FY2018 as set out in this announcement have been agreed by the Company's auditors, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Ernst & Young 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 Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

By order of the Board
Grace Wine Holdings Limited
Judy Chan
Chairlady, Chief Executive Officer and Executive Director

Hong Kong, 15 March 2019

As at the date of this announcement, the Board comprises Ms. Judy Chan and Mr. Fan Chi Chiu as executive Directors, Ms. Hou Tan Tan Danielle and Mr. Chow Christer Ho as non-executive Directors and Mr. Ho Kent Ching-tak, Mr. Lim Leung Yau Edwin and Mr. Alec Peter Tracy as independent non-executive Directors.

This announcement will remain on the "Latest Company Announcements" page on the GEM website at http://www.hkgem.com for at least 7 days from the day of its posting. This announcement will also be published on the Company's website at http://www.gracewine.com.hk.