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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 2020

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 ("**Grace Wine**" or 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 of the Stock Exchange (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 2020, together with comparative figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2020

	Notes	**2020** *RMB'000*	2019 *RMB'000*
REVENUE	5	**60,224**	72,709
Cost of sales		**(31,686)**	(40,792)
Gross profit		**28,538**	31,917
Other income and gains, net	5	**2,409**	1,951
Selling and distribution expenses		**(8,084)**	(4,797)
Administrative expenses		**(20,683)**	(24,467)
Other expenses		**(179)**	(99)
Finance costs		**(126)**	(92)
PROFIT BEFORE TAX	6	**1,875**	4,413
Income tax expense	7	**(2,437)**	(4,383)
PROFIT/(LOSS) FOR THE YEAR AND PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(562)**	30
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted *(RMB cents)*	9	**(0.070)**	0.004

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	2020 *RMB'000*	2019 *RMB'000*
PROFIT/(LOSS) FOR THE YEAR	**(562)**	30
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial information	**(1,048)**	731
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**(1,048)**	731
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(1,610)**	761

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**84,728**	76,137
Right-of-use assets		**21,420**	22,642
Deferred tax assets		**955**	–
Prepayments for acquisition of plant and equipment		**4,238**	4,128
Goodwill		**4,087**	4,087
Total non-current assets		**115,428**	106,994
CURRENT ASSETS			
Inventories		**66,991**	66,608
Biological assets		**–**	–
Trade receivables	10	**1,240**	2,173
Prepayments and other receivables		**4,399**	5,633
Cash and cash equivalents		**90,840**	93,719
Total current assets		**163,470**	168,133
CURRENT LIABILITIES			
Trade payables	11	**5,449**	5,631
Other payables and accruals		**15,179**	7,782
Tax payable		**1,423**	3,087
Lease liabilities		**873**	612
Total current liabilities		**22,924**	17,112
NET CURRENT ASSETS		**140,546**	151,021
TOTAL ASSETS LESS CURRENT LIABILITIES		**255,974**	258,015

	2020	2019
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**2,125**	2,095
Deferred income	**304**	326
Lease liabilities	**1,080**	1,519
Total non-current liabilities	**3,509**	3,940
Net assets	**252,465**	254,075
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**674**	674
Reserves	**251,791**	253,401
Total equity	**252,465**	254,075

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to owners of the Company						
	Issued capital	**Share premium**	**Capital reserve**	**Statutory reserve funds**	**Exchange fluctuation reserve**	**Retained profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	674	141,579	93	13,746	(5,562)	100,112	250,642
Profit for the year	–	–	–	–	–	30	30
Other comprehensive income for the year:							
Exchange differences on translation of financial information	–	–	–	–	731	–	731
Total comprehensive income for the year	–	–	–	–	731	30	761
Transfer from retained profits	–	–	–	451	–	(451)	–
Capital contribution from shareholders	–	–	2,672	–	–	–	2,672
At 31 December 2019 and 1 January 2020	**674**	**141,579***	**2,765***	**14,197***	**(4,831)***	**99,691***	**254,075**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(562)**	**(562)**
Other comprehensive loss for the year:							
Exchange differences on translation of financial information	**–**	**–**	**–**	**–**	**(1,048)**	**–**	**(1,048)**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**(1,048)**	**(562)**	**(1,610)**
Transfer from retained profits	**–**	**–**	**–**	**677**	**–**	**(677)**	**–**
At 31 December 2020	**674**	**141,579***	**2,765***	**14,874***	**(5,879)***	**98,452***	**252,465**

* These reserve accounts comprise the consolidated reserves of RMB251,791,000 (2019: RMB253,401,000) 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 adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*
Amendment to HKFRS 16	*COVID-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

(a) *Conceptual Framework for Financial Reporting 2018* (the "**Conceptual Framework**") sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

(b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate ("**RFR**"). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.

(d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 31 December 2020, certain monthly lease payments for the leases of the Group's office buildings have been reduced by the lessors as a result of the pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the pandemic during the year ended 31 December 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB107,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to other income for the year ended 31 December 2020.

(e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

4. SEGMENT INFORMATION

Operating segments

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. During the year, the Group revised the presentation of reportable segments because of changes in resource allocation and assessment of segment performance by the chief operation decision makers subsequent to the acquisition of Maxco Asia Limited and its subsidiary. The resources were allocated to two reporting segments, namely (i) production of wines and (ii) production of spirits.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment's profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income and corporate income/(expenses) are excluded from such measurement.

Segment assets exclude deferred tax assets, cash and cash equivalents and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities, an amount due to a related party and other unallocated corporate liabilities as these liabilities are managed on a group basis.

	Production of wines		**Production of spirits**		**Total**	
	2020	2019	**2020**	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue:						
Sales to external customers	**60,224**	72,709	**–**	–	**60,224**	72,709
Other revenue	**1,148**	929	**571**	–	**1,719**	929
	61,372	73,638	**571**	–	**61,943**	73,638
Segment results	**8,250**	13,822	**(1,245)**	(316)	**7,005**	13,506
Reconciliation:						
Other unallocated income					**95**	132
Interest income					**595**	890
Corporate and other unallocated expenses					**(5,820)**	(10,115)
Profit before tax					**1,875**	4,413

	Production of wines		Production of spirits		Total	
	2020	2019	**2020**	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment assets	**158,152**	168,834	**28,053**	12,088	**186,205**	180,922
Reconciliation:						
Corporate and other unallocated assets					**92,693**	94,205
Total assets					**278,898**	275,127
Segment liabilities	**(14,259)**	(15,005)	**(7,983)**	(133)	**(22,242)**	(15,138)
Reconciliation:						
Corporate and other unallocated liabilities					**(4,191)**	(5,914)
Total liabilities					**(26,433)**	(21,052)

Geographical information

	2020	2019
	RMB'000	*RMB'000*
Revenue from external customers		
Mainland China	**59,800**	71,558
Other jurisdictions	**424**	1,151
	60,224	72,709

Over 90% of the Group's non-current assets are based in the PRC during the year.

Information about major customers

Revenue from major customers of the Group which individually accounted for 10% or more of the Group's revenue was derived from production of wines segment. The respective revenue generated by the customers for each reporting period is set out below:

	2020	2019
	RMB'000	*RMB'000*
Customer 1	**16,683**	N/A*
Customer 2	**12,616**	N/A*
Customer 3	**N/A***	35,328

* The corresponding revenue from these customers is not disclosed as its individually did not contribute 10% or more to the Group's revenue for the year.

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sales of goods	**60,224**	72,709

All of the Group's revenue was recognised at point in time as at the end of the reporting period.

Other income and gains

	2020	2019
	RMB'000	*RMB'000*
Other income		
Bank interest income	**595**	890
Government grants*	**1,401**	543
COVID-19 related rent concessions from lessors	**107**	–
Others	**94**	267
	2,197	1,700
Gains		
Gains on disposal of items of property, plant and equipment, net	**212**	191
Foreign exchange differences, net	**–**	60
	212	251
Other income and gains, net	**2,409**	1,951

* The Group received various government grants for attracting overseas investment, the promotion of the wine industry, support of agricultural development and stabilisation of employment in Mainland China and Hong Kong. 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):

	2020 *RMB'000*	2019 *RMB'000*
Cost of inventories sold	**16,394**	24,754
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**11,570**	10,760
Pension scheme contributions (defined contribution schemes)	**1,057**	1,612
Equity-settled share-based payments expenses	**–**	1,461
	12,627	13,833
Depreciation of property, plant and equipment	**10,152**	10,356
Less: government grants released	**(22)**	(46)
Less: amount capitalised into inventories	**(270)**	(262)
	9,860	10,048
Depreciation of right-of-use assets	**1,949**	1,353
Less: amount capitalised into biological assets	**(319)**	(316)
	1,630	1,037
Lease payments not included in the measurement of lease liabilities	**163**	719
Auditor's remuneration	**1,277**	1,226
Write-off of inventories*	**95**	55
Losses arising from changes in fair value of agricultural produce at the date of harvest*	**331**	1,016
Loss on disposal of items of leasehold land	**108**	–
Foreign exchange differences, net	**22**	(60)

* The above items are included in "Cost of sales" in the consolidated statement of profit or loss for the year.

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, a wholly-owned subsidiary in agricultural operation in the PRC was exempted from Enterprise Income Tax ("**EIT**") on profits derived from fruit cultivation for the years ended 31 December 2020 and 2019, 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.

	2020	2019
	RMB'000	*RMB'000*
Current – Mainland China		
Charge for the year	**3,382**	4,902
Underprovision/(overprovision) in prior years	**(20)**	15
Deferred tax	**(925)**	(534)
Total tax charge for the year	**2,437**	4,383

8. DIVIDENDS

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

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings/(loss) per share is based on the loss for the year attributable to owners of the Company of RMB562,000 (2019: profit of RMB30,000), and the weighted average number of ordinary shares of 800,000,000 (2019: 800,000,000) in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share presented for the years ended 31 December 2020 and 2019 as the Group had no potentially dilutive ordinary shares in issue during these years.

10. TRADE RECEIVABLES

		2020	2019
	Note	***RMB'000***	*RMB'000*
Trade receivables from third parties		**1,226**	2,129
Due from related companies		**14**	44
Impairment		**–***	–*
Trade receivables	(i)	**1,240**	2,173

* Less than RMB1,000.

The Group's trading terms with its customers are normally payment in advance, except for the online sales customers are on credit. The credit period is generally for a period from one 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.

Note:

(i) Trade receivables

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

	2020	2019
	RMB'000	*RMB'000*
Within 30 days	**1,240**	2,173

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:

	2020	2019
	RMB'000	*RMB'000*
Within 30 days	**800**	1,628
31 to 90 days	**4,649**	3,934
91 days to 1 year	**–**	69
	5,449	5,631

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

12. CONTINGENT LIABILITIES

At the end of the reporting period, the Group 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**") reached RMB72.3 trillion[1] in the first three quarters of 2020, representing an increase of 0.7% as compared with the same period in the previous year. Due to the COVID-19 pandemic in early 2020, China's domestic economic development faced severe challenges as production activities were forced to halt, which resulted in a negative impact on GDP. As a result of large-scale and stringent control measures implemented by the Chinese authorities in respect of COVID-19, the pandemic has been promptly and effectively controlled. Production activities and other economic activities gradually recovered in the second half of the year, and the economy was restored to positive growth. Per capita disposable income in the third quarter of 2020 increased to RMB32,831[2], representing a 2.8% growth compared to the same quarter last year. Compared with an increase of 0.8% in the first quarter, China's economic growth managed to turnaround in the first three quarters of the year.

In the first half of 2020, the COVID-19 pandemic had a noticeable impact on the Chinese wine market. Data from the China Merchant Industry Research Institute (中商產業研究院) shows that the national wine output was 208,000 kiloliters[3] during in the first three quarters of 2020, representing a decline of 23.5% from the corresponding period last year, yet the overall situation improved as compared with the first half of the year. Corporate production data on a national scale or larger, as announced by the China Alcoholic Drinks Association ("**CADA**") (中國酒業協會) in November 2020, shows that only domestic wine achieved positive growth among the three largest wine products from January to October. Although the wine market is showing a drop in production and sales in the first half of the year due to the macro environment and other factors, as the pandemic is under control within the borders of the PRC and the lives of PRC residents are gradually returning to normal, we expect that domestic consumption, food, beverage and business venues will gradually recover to pre-pandemic levels, and domestic wine consumption is in a resurgence. The favorable factors faced by the entire wine industry include: the growth of food and beverage income turning positive for the first time in October, market sales sustaining a pick-up momentum, and the recovery of promotional and commercial activities. Looking towards the long term, there is still potential for growth in the wine industry. China is currently the fifth largest wine-consuming nation globally and the largest wine-consuming nation in the Asia. However, due to the per capita consumption of Chinese wine still being significantly lower than the world average consumption, there is room for growth in the consumption of Chinese wine. As the demand for alcohol diversifies and we see changes in its mode of consumption, as well as an increase in health-consciousness of the public, consumers' demands for wine will no longer be

[1] http://www.stats.gov.cn/tjsj/zxfb/202010/t20201020_1794939.html
[2] http://www.stats.gov.cn/tjsj/zxfb/202010/t20201019_1794598.html
[3] https://www.winesinfo.com/html/2020/10/12-83784.html

restricted to formal occasions such as business gatherings. Wine consumption in an informal context, such as at food and beverage venues and leisure and entertainment venues, will become more common. As wine culture is slowly being nurtured across the country, there is room for steady long-term growth in consumption.

2021 is the first year of the "14th Five-Year Plan". The Chinese government plans to promote the balanced development among regions and the new-type urbanization, allowing corporates neighbouring regions with similar products to achieve healthy competition. It is beneficial to the difference between wine products and increases core competitiveness. CADA issued the "14th Five-Year Development Guide for the Chinese Alcohol Beverage Industry" (《中國酒業「十四五」發展指導意見》), which suggested fostering the blending of wine types and wine-making, enhancing the financial credits support for the wine industry, establishing complete agricultural loan risk transferring and compensation mechanism, enhancing the loan support for domestic leading wine corporates and promoting the development of the Chinese wine industry. Additionally, in the fourth quarter of 2019, CADA implemented two group standards, "Wine Grapes" and "Oak Barrels", to unify standards in China for wine-making techniques and testing parameters, and provide clear standards for evaluation based on wine quality and the use of raw materials. At the same time, at CADA's Annual National Wine Tasting Convention, the association released "Standard Wine-Producing Regions" in an attempt to clearly define standard wine-producing regions in China, and stimulate the healthy development of the Chinese wine industry. Many small and medium-sized businesses were forced to withdraw from the market due to not meeting these standards. "Helan Mountains' Eastern Base Wine Technology Standard System" (《賀蘭山東麓葡萄酒技術標準體系》) local standard was also published in 2020. It was the first technology standard system built in the full industry chain focusing on the protection of regional signature products in the domestic wine field. It leads the industry towards a new direction. In recent years, the wine industry has mainly standardised the deluxe wine market by adopting the "Deluxe Wine" (《年份酒》) group standard, establishing a China Wine Rating System, and commencing investigations of anti-dumping and anti-subsidies against imported wine. It in turn maintains the order of fair trade, unleashes the potential of domestic demand for wine and results in a positive impact on the domestic wine industry. Large-scale businesses, especially the wine grape cultivators, strive to adapt by integrating high-quality wine production, logistics, and sales. The above policies will benefit the businesses that are able to adapt and bring about new business opportunities for the Group.

In terms of financial performance, the Group recorded a 10.6% decrease in gross profit for the year of 2020, mainly because sales activities were brought to a standstill under the COVID-19 pandemic, which led to a decline in wine sales in the first quarter. The significant decline in the number of people gathering for meals domestically and sharp drop in wine consumption during the outbreak has negatively affected the short-term business of the Group. With the pandemic gradually under control, the sales condition of wine has meet a positive turn. Leveraging on the proactive sales strategies of the Group, the sales results of the Group improved in the second half of the year. The Group is still actively exploring different ways to expand its market and distribution channels. At the end of last year, the Group entered into cooperation agreements with several offline distributors to increase distribution channels.

Currently, the Group also continues to actively seek cooperation with offline distributors in Shanxi region in order to spread sales risks. The gross profit margin and net profit margin in the second half of the year improved as the pandemic is gradually under control, which resulted in outstanding performance in the industry. In the mid to long term, the management plans to continue expanding our market coverage by increasing the number of distribution channels. In response to market changes, the Group will actively expand diversified sales channels and focus on the brand advertisement to enhance our market awareness. In the meantime, the Group will increase the values of products and establish clear market position, allowing us and more consumers to interact better and boost the effort of promoting our products.

The Group completed an acquisition of the entire equity interest in Maxco Asia Limited ("**Maxco Asia**") on 12 August 2019. Maxco Asia owns Fujian Dexi Wine Company Limited, which was established in China and mainly produces whiskey and gin in Fujian Province, China. The preliminary process of the construction of the production plant was delayed at the beginning of the year due to the negative impacts of the pandemic, and we are still in the process of preparing for construction. The preliminary production of a gin sample was completed according to schedule in 2020 and we will try our best to launch gin products in 2021. The management believes that the Group will be able to continue benefiting from its existing sales network and extensive experience in brewing alcoholic beverages. It is expected that the acquisition will have a synergetic effect on the Group's wine business and lay a foundation for the Group's entering into of the spirits industry, leading the wine business into a diversified and sustainable development.

Looking forward in 2021, we believe that with the birth of COVID-19 vaccine, as well as advanced medical inspection, the pandemic will fade out gradually and the overall domestic economy will go back to normal, bringing considerable growth to the sales volume of the Group. The Group will continue to focus on improving the product quality and consumer satisfaction of its products, maintaining the positive status of the Group's wine brand. Looking forward to the future, the Group will actively establish sales channels and produce unique high-quality wine products so as to give full play to its competitive advantages and excel in the industry. The Group will also expand and diversify its businesses in order to spread risk and create value, as well as bring sustainable return for its shareholders.

Revenue

Our revenue decreased by RMB12.5 million or 17.2% from RMB72.7 million for the financial year ended 31 December 2019 ("**FY2019**") to RMB60.2 million for the financial year ended 31 December 2020 ("**FY2020**"). We sold 780,000 bottles in FY2020 as compared to 1,097,000 bottles in FY2019. The average selling price increased from RMB66.3 in FY2019 to RMB77.2 in FY2020 due to the increase in proportion of sales of our high-end level wine which has higher selling prices.

The table below sets out the sales analysis by distribution channels:

	FY2020	FY2019
	RMB'M	*RMB'M*
Distributors	**51.8**	62.2
Online	**4.8**	5.0
Retail	**3.6**	5.5
Total	**60.2**	72.7

The table below sets out the sales analysis by categories of products:

	FY2020	FY2019
	RMB'M	*RMB'M*
High-end level	**40.1**	46.9
Entry level	**20.1**	25.8
Total	**60.2**	72.7

Cost of sales

Our cost of sales decreased by RMB9.1 million or 22.3% from RMB40.8 million for FY2019 to RMB31.7 million for FY2020, primarily due to the decrease in sales during FY2020.

Gross profit and gross profit margin

Our overall gross profit decreased by RMB3.4 million or 10.6% from RMB31.9 million for FY2019 to RMB28.5 million for FY2020 due to the decrease in sales as aforementioned. Our overall gross profit margin increased slightly from 43.9% for FY2019 to 47.4% for FY2020, mainly due to the increase in proportion of sales of our high-end level wine which has higher gross profit margin.

Other income and gains, net

Other net income and gains increased by RMB0.4 million or 23.5% from RMB2.0 million for FY2019 to RMB2.4 million for FY2020, mainly due to the government grant received in the amount of RMB0.6 million for our production of spirits business during FY2020.

Selling and distribution expenses

Selling and distribution expenses increased by RMB3.3 million or 68.5% from RMB4.8 million for FY2019 to RMB8.1 million for FY2020, mainly due to the increase in promotion and marketing expenses following the change in our distribution strategy in the Shanxi Province.

Administrative expenses

Administrative expenses decreased by at RMB3.8 million or 15.5% from RMB24.5 million for FY2019 to RMB20.7 million for FY2020 due to the decrease in staff costs due to the absence of shared-based payments made as remuneration to certain management personnel amounting to RMB2.7 million for FY2019.

Finance costs, net

No finance cost was incurred for FY2020 and FY2019 in relation to borrowings of the Group. RMB126,000 was recorded as our finance costs arising from the unwinding of the discount of the lease liabilities (FY2019: RMB92,000).

Income tax expense

Income tax expense decreased by RMB1.9 million or 44.4% from RMB4.4 million for FY2019 to RMB2.4 million for FY2020 mainly due to the decrease in profit before tax of our PRC subsidiaries.

Profit for the year

As a result of the foregoing, we recorded a loss for the year of RMB0.6 million in FY2020 as compared to a profit for the year of RMB30,000 for FY2019.

Liquidity, financial and capital resources

Our principal liquidity and capital requirements primarily relate to our capital investment in the acquisition of raw materials for wine production, other costs and expenses related to our business operation and the capital investment in our new whisky and gin production business. As at 31 December 2020, the carrying amount of the Group's bank and cash balances was RMB90.8 million, representing a decrease of 3.1% as compared with that of RMB93.7 million as at 31 December 2019. As at 31 December 2020, the Group's bank and cash balances include RMB76.7 million and US$2.1 million, some insignificant amounts of HKD and EUR (31 December 2019: RMB72.0 million, US$3.1 million, and some insignificant amounts of HKD 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 2020 was nil (31 December 2019: nil) as the Group does not have any external borrowings.

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 may 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 2020, the Group had no contingent liabilities (31 December 2019: Nil).

Pledge of assets

As at 31 December 2020, the Group did not have any assets pledged for credit facilities (31 December 2019: Nil).

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 with the Group's actual business progress up to 31 December 2020 respectively:

Business objectives from 1 January 2020 to 31 December 2020 as set out in the Prospectus	Actual business progress up to 31 December 2020
(1) To increase our brand awareness and sales by collaborating with selected distributors	
• We intend to use approximately 4.5% of the net proceeds, or approximately RMB1.5 million, to increase marketing and promotion efforts in, among others, (i) marketing events conducted with media, such as wine pairing dinners; (ii) web and mobile social media blogs and marketing campaigns; (iii) internet marketing campaigns; and (iv) marketing department administrative fees.	Due to the significant change in distribution strategies in Shanxi Province, we have invested extra effort in our sales and marketing activities in the second half of FY2020 when the severity of COVID-19 pandemic was reduced. In particular, we have organized vineyard tours, wine appreciation events as well as distributing gifts and souvenirs to our customers for brand building purposes. It is considered that the drop in sales was improved as a result of the marketing efforts, and our sales in the second half of FY2020 had caught up significantly to RMB40.6 million (second half of FY2019: RMB43.2 million).
(2) To increase wine-making capacity	
• We intend to use approximately 15.2% of the net proceeds, or approximately RMB5.0 million, to construct the second phase of our Ningxia Winery, namely, the construction of the winery, including completing the greenery and landscaping. • We intend to use approximately 8.1% of the net proceeds, or approximately RMB2.7 million for the initial production costs of the first phase of our Ningxia Winery, including the purchase of raw materials and utility expenses.	After due consideration by the management, it is considered that the investment in increasing the wine-making capacity may no longer be the best strategy for the Group. As mentioned in the announcement regarding the change in use of proceeds dated 4 September 2020, we intended to reallocate the part of the Net Proceeds to the construction of a distillery facility for the production of whisky and gin in Fujian Province. As of 31 December 2020, the Group has invested RMB7.6 million in the construction of factory and acquisition of production equipment.

Issue of Shares and 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 a total of 200,000,000 Shares issued at HK$0.35 each by way of public offer and placing (the "**Share Offer**"), raising net proceeds (the "**Net Proceeds**") of an estimated amount of approximately HK$40.6 million (equivalent to RMB33.1 million) after deducting underwriting commissions and all related expenses.

The following table sets forth the status of the use of proceeds from the Listing Date up to 31 December 2020:

	Original allocation of Net proceeds as stated in the Prospectus as at 31 December 2020 *(RMB'000)*	**Actual use of Net Proceeds as at 4 September 2020** *(RMB'000)*	**Unutilised Net Proceeds as at 4 September 2020** *(RMB'000)*	**Revised allocation of unutilised Net Proceeds as at 4 September 2020** *(Note 1)* *(RMB'000)*	**Actual use of Net Proceeds from 4 September to 31 December 2020** *(RMB'000)*	**Unutilized Net Proceeds as at 31 December 2020** *(RMB'000)*	**Expected timeline of application of the unutilised Net Proceeds** *(Note 2)*
Second phase construction of the Ningxia Winery	15,000	–	15,000	–	–	–	–
Purchase of plants and equipment for the second phase of the Ningxia Winery	6,800	–	6,800	–	–	–	–
Initial production costs of the first phase of the Ningxia Winery	6,700	5,000	1,700	1,700	1,700	–	–
Sales and marketing expenses	3,000	2,250	750	750	750	–	–
General working capital	1,598	1,198	400	400	400	–	–
Construction of the Distillery Facility (defined in Note (1) below)	–	–	–	21,800	7,545	14,255	By 31 December 2022
	33,098	8,448	24,650	24,650	10,395	14,255	

Notes:

(1) As mentioned in the announcement regarding the change in use of proceeds dated 4 September 2020 (the "**Announcement**"), the Board resolved to change the use of the unutilised Net Proceeds and reallocate the part of the unutilised Net Proceeds to the construction of a distillery facility for the production of whisky and gin in Fujian Province (the "**Distillery Facility**"). For details, please refer to the Announcement.

(2) The expected timeline of application of the unutilised Net Proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of the Group's business and the market conditions.

Impact of COVID-19

Amidst the pandemic of COVID-19, the management has been closely monitoring the Group's cash flow to ensure the sufficiency of its short-term liquidity by focusing on improving the Group's sales performance and optimising its operating expenditures. As at the date of this announcement, the management does not foresee any material liquidity issues for the Group and considered that the Group has sufficient funds to continue its normal operations in the foreseeable future, but will continue to evaluate various measures to preserve cash and enhance the Group's liquidity position as necessary.

Final dividend

The Board has resolved not to declare the payment of any final dividend for FY2020 (FY2019: nil).

Future plans for material investments and capital assets

Save as disclosed in the Prospectus and the potential investments in the whisky and gin production business as aforementioned, the Group does not have other plans for material investments and capital assets.

Significant investments, material acquisition and disposals

Save as disclosed in this announcement, the Group did not have any significant investments, material acquisitions or disposal of assets, subsidiaries, associates or joint ventures during FY2020.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During FY2020, neither the Company nor any of its subsidiaries have 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 throughout FY2020.

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 FY2020.

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.

Under code provision A.5.1 of the CG Code, the nomination committee of an issuer should comprise a majority of independent non-executive Directors. For the period from 1 January 2020 to 19 March 2020, the nomination committee of the Company (the "**Nomination Committee**") comprised Ms. Judy Chan (chairlady), an executive Director, Mr. Chow Christer Ho, a non-executive Director and Mr. Ho Kent Ching-tak, an independent non-executive Director. As a result, the Nomination Committee did not comprise a majority of independent non-executive Directors. As at the date of this announcement, the Company has re-complied with code provision A.5.1 of the CG Code following the appointment of Mr. Lim Leung Yau Edwin and Mr. Alec Peter Tracy as members of the Nomination Committee effective on 20 March 2020.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this announcement, the Group has no significant events after the reporting period.

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 annual results of the Group for FY2020 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 FY2020 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 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, 19 March 2021

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 https://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.