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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 2021

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 2021, together with comparative figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	Notes	**2021** *RMB'000*	2020 *RMB'000*
REVENUE	5	**84,693**	60,224
Cost of sales		**(38,920)**	(31,686)
Gross profit		**45,773**	28,538
Other income and gains, net	5	**2,214**	2,409
Selling and distribution expenses		**(12,535)**	(8,084)
Administrative expenses		**(23,357)**	(20,683)
Other expenses		**(113)**	(179)
Finance costs		**(87)**	(126)
PROFIT BEFORE TAX	6	**11,895**	1,875
Income tax expense	7	**(4,155)**	(2,437)
PROFIT/(LOSS) FOR THE YEAR AND PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY		**7,740**	(562)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted *(RMB cents)*	9	**0.97**	(0.07)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021	2020
	RMB'000	*RMB'000*
PROFIT/(LOSS) FOR THE YEAR	**7,740**	(562)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial information	**(370)**	(1,048)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(370)**	(1,048)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY	**7,370**	(1,610)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	Notes	**2021** **RMB'000**	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**127,318**	84,728
Right-of-use assets		**19,546**	21,420
Deferred tax assets		**3,704**	955
Prepayments for acquisition of plant and equipment		**3,766**	4,238
Goodwill		**4,087**	4,087
Total non-current assets		**158,421**	115,428
CURRENT ASSETS			
Inventories		**67,222**	66,991
Biological assets		**–**	–
Trade receivables	10	**1,539**	1,240
Prepayments and other receivables		**14,466**	4,399
Cash and cash equivalents		**67,678**	90,840
Total current assets		**150,905**	163,470
CURRENT LIABILITIES			
Trade payables	11	**6,681**	5,449
Other payables and accruals		**34,779**	15,179
Tax payable		**4,069**	1,423
Lease liabilities		**738**	873
Total current liabilities		**46,267**	22,924
NET CURRENT ASSETS		**104,638**	140,546
TOTAL ASSETS LESS CURRENT LIABILITIES		**263,059**	255,974

	2021	2020
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**2,726**	2,125
Deferred income	**–**	304
Lease liabilities	**229**	1,080
Total non-current liabilities	**2,955**	3,509
Net assets	**260,104**	252,465
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**674**	674
Reserves	**259,430**	251,791
Total equity	**260,104**	252,465

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Attributable to owners of the Company							
	Issued capital	Share premium	Capital reserve	Share option reserve	Statutory reserve funds	Exchange fluctuation reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 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 and 1 January 2021	**674**	**141,579***	**2,765***	**–**	**14,874***	**(5,879)***	**98,452***	**252,465**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**7,740**	**7,740**
Other comprehensive loss for the year:								
Exchange differences on translation of financial information	**–**	**–**	**–**	**–**	**–**	**(370)**	**–**	**(370)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(370)**	**7,740**	**7,370**
Equity-settled share option arrangements	**–**	**–**	**–**	**269**	**–**	**–**	**–**	**269**
Transfer from retained profits	**–**	**–**	**–**	**–**	**829**	**–**	**(829)**	**–**
At 31 December 2021	**674**	**141,579***	**2,765***	**269***	**15,703***	**(6,249)***	**105,363***	**260,104**

* These reserve accounts comprise the consolidated reserves of RMB259,430,000 (2020: RMB251,791,000) 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 is an investment holding company. The Company's principal subsidiaries were engaged in the production and distribution of wine and other alcoholic products.

2. BASIS OF PRESENTATION

The 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. The 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 following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*COVID-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

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

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("**RFR**"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any significant impact on the financial position and performance of the Group.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received COVID-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

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. For the management purpose, 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 the 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 payables, 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**	
	2021	2020	**2021**	2020	**2021**	2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue:						
Sales to external customers	**84,693**	60,224	**–**	–	**84,693**	60,224
Other revenue	**1,331**	1,148	**–**	571	**1,331**	1,719
	86,024	61,372	**–**	571	**86,024**	61,943
Segment results	**18,699**	8,250	**(2,085)**	(1,245)	**16,614**	7,005
Reconciliation:						
Other unallocated income					**10**	95
Interest income					**873**	595
Corporate and other unallocated expenses					**(5,602)**	(5,820)
Profit before tax					**11,895**	1,875

	Production of wines		Production of spirits		Total	
	2021	2020	**2021**	2020	**2021**	2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment assets	**159,867**	158,152	**77,443**	28,053	**237,310**	186,205
Reconciliation:						
Corporate and other unallocated assets					**72,016**	92,693
Total assets					**309,326**	278,898
Segment liabilities	**(18,528)**	(14,259)	**(23,251)**	(7,983)	**(41,779)**	(22,242)
Reconciliation:						
Corporate and other unallocated liabilities					**(7,443)**	(4,191)
Total liabilities					**(49,222)**	(26,433)
Other segment information						
Depreciation of property, plant and equipment	**(9,506)**	(9,834)	**(85)**	(26)	**(9,591)**	(9,860)
Depreciation of right-of-use assets	**(1,256)**	(1,229)	**(179)**	(199)	**(1,435)**	(1,428)
Corporate and other unallocated depreciation	**–**	–	**–**	–	**(349)**	(202)
Gains/(losses) arising from changes in fair value of agricultural produce at the point of harvest	**475**	(331)	**–**	–	**475**	(331)
Write-off inventories	**(4)**	(95)	**–**	–	**(4)**	(95)
Other non-cash income/ (expenses)	**141**	(108)	**–**	–	**141**	(108)
Capital expenditures#	**2,650**	3,308	**50,104**	15,716	**52,754**	19,024

Capital expenditure consists of additions to property, plant and equipment.

Geographical information

	2021	2020
	RMB'000	*RMB'000*
Revenue from external customers		
Mainland China	**84,171**	59,800
Other jurisdictions	**522**	424
	84,693	60,224

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

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:

	2021	2020
	RMB'000	*RMB'000*
Customer 1	**16,992**	16,683
Customer 2	**20,361**	12,616

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2021	2020
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sales of goods	**84,693**	60,224

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

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2021	2020
	RMB'000	*RMB'000*
Sales of goods	**3,189**	2,383

	2021	2020
	RMB'000	*RMB'000*
Other income		
Bank interest income	**873**	595
Government grants	**608**	1,401
COVID-19-related rent concessions from lessors	**–**	107
Others	**57**	94
	1,538	2,197
Gains		
Gains on disposal of items of plant and equipment, net	**283**	212
Gain on disposal of a property	**252**	–
Gains on lease modification	**141**	–
	676	212
	2,214	2,409

6. PROFIT BEFORE TAX

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

	2021	2020
	RMB'000	*RMB'000*
Cost of inventories sold	**22,543**	16,394
Employee benefit expense (including directors' remuneration):		
Wages and salaries	**13,528**	11,570
Pension scheme contributions (defined contribution schemes)	**2,533**	1,057
Equity-settled share-based payment expense	**269**	–
	16,330	12,627
Depreciation of property, plant and equipment	**9,848**	10,152
Less: government grants released	**–**	(22)
Less: amount capitalised into inventories	**(257)**	(270)
	9,591	9,860
Depreciation of right-of-use assets	**2,104**	1,949
Less: amount capitalised into biological assets	**(320)**	(319)
	1,784	1,630
Lease payments not included in the measurement of lease liabilities	**250**	163
Auditor's remuneration	**1,285**	1,277
Write-off of inventories	**4**	95
Losses/(gains) arising from changes in fair value of agricultural produce at the point of harvest	**(475)**	331
Loss on disposal of items of leasehold land	**–**	108
Foreign exchange differences, net	**41**	22

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 (2020: Nil).

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% (2020: 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 2021 and 2020, 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.

	2021	2020
	RMB'000	*RMB'000*
Current – Mainland China		
Charge for the year	**6,303**	3,382
Over-provision in prior years	**–**	(20)
Deferred tax	**(2,148)**	(925)
Total tax charge for the year	**4,155**	2,437

8. DIVIDEND

	2021	2020
	RMB'000	*RMB'000*
Proposed special final– HK0.62 cents (2020: Nil) per ordinary share	**4,000**	–

The proposed special final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings/(loss) per share is based on the profit for the year attributable to owners of the Company of RMB7,740,000 (2020: loss of RMB562,000), and the weighted average number of ordinary shares of 800,000,000 (2020: 800,000,000) in issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2021 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amount presented.

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2020 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during that year.

10. TRADE RECEIVABLES

		2021	2020
	Note	***RMB'000***	*RMB'000*
Trade receivables from third parties		**1,548**	1,226
Due from a related party		**–**	14
Impairment		**(9)**	–*
Trade receivables	(i)	**1,539**	1,240

* Less than RMB1,000.

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

	2021	2020
	RMB'000	*RMB'000*
Within 60 days	**1,379**	1,240
61 to 90 days	**13**	–
91 to 180 days	**62**	–
181 to 365 days	**85**	–
	1,539	1,240

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:

	2021	2020
	RMB'000	*RMB'000*
Within 30 days	**518**	800
31 to 90 days	**6,163**	4,649
	6,681	5,449

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

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 RMB114.4 trillion[1] for the year of 2021, representing an increase of 8.1% as compared with the previous year. Following the implementation of large-scale and stringent control measures in China, the COVID-19 pandemic began to be brought under control in early 2021, production activities and other economic activities gradually recovered and the economy restored to positive growth, leading to a substantial resurgence in the first half of 2021. However, with the advent of the Delta and Omicron variants, confirmed cases of these variants have begun to emerge across China, and China's economic recovery has once again struggled, with the quarter-on-quarter GDP growth rate gradually declining from 18.3% in the first quarter to 4.0% in the fourth quarter.

In the first half of 2021, the wine market in China recovered significantly due to the control of the pandemic. Data from the China Merchant Industry Research Institute (中商產業研究院) shows that the national wine output was 84,000 kiloliters[2] during in the first quarter of 2021, representing an increase of 44.8% from the corresponding period last year, yet with the emergence of the COVID-19 variants, the production of wine was again significantly affected in the second half of 2021, with the national wine output for the year of 2021 being 268,000 kiloliters, representing a decline of 29.1% from the corresponding period last year. Although the wine market was once again affected by the pandemic in the second half of the year, showing a drop in production and sales. Once the pandemic is brought under control within the borders of China and the lives of residents are gradually returning to normal, we expect the domestic consumption of food and beverages as well as the operation of business venues will gradually recover to pre-pandemic levels, and domestic wine consumption is expected to recover as strongly as it did in the first quarter of 2021. China is currently the fifth largest wine-consuming nation 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, consumers' demand for wine will no longer be restricted to formal occasions such as business gatherings. Consumption of wine in informal settings, such as dining, leisure and entertainment venues will become more common. As wine culture slowly nurtures across the country, there is still room for stable long-term growth in consumption.

1 http://www.stats.gov.cn/tjsj/zxfb/202201/t20220117_1826404.html
2 https://www.askci.com/news/data/chanxiao/20220120/1005041729375.shtml

2021 is the first year of the "14th Five-Year Plan". The Chinese government plans to promote balanced regional development and new-type urbanisation, allowing corporates neighbouring regions with similar products can achieve a competitive strategy and seek cooperation amidst competition and cooperation which is conducive to the differentiation of wine products and improve the core competitiveness. China Alcoholic Drinks Association ("**CADA**") issued the "14th Five-Year Development Guide for the Chinese Alcohol Beverage Industry", which suggested (i) fostering the blending of wine types and wine-making, (ii) enhancing the financial credits support for the wine industry, (iii) establishing complete agricultural loan risk transferring and compensation mechanism, and (iv) 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 have been forced out of the market for failing to meet 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 on 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, which are committed to providing high-quality wine production, logistics and sales integration, will also benefit from the abovementioned policies and standards, bringing more opportunities to the Group.

In terms of the Group's financial position, the business for the year of 2021 improved significantly compared with last year, and revenue for the year of 2021 increased by 40.6%. This increase in revenue was mainly due to the recovery in sales of the Group's wine products as a result of the enhanced marketing and sales efforts to raise the market awareness following the COVID-19 pandemic. The significant decline in the number of gatherings domestically and wine consumption during the pandemic has negatively affected the short-term business of the Group. As the pandemic is gradually brought under control, wine sales are expected to usher in positive changes. The Group is still actively exploring different ways to expand its market and distribution channels. At the end of 2019, the Group entered into cooperation agreements with several offline distributors to expand its distribution channels. Currently, the Group also continues to actively seek cooperation with offline distributors in Shanxi region to diversify sales risks. 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 its sales channels and focus on brand advertisement to enhance our market presence. In the meantime, the Group will adjust the value of products and establish clear market position, thereby allowing us and more consumers to interact better and boost the effort in promoting our products.

The Group completed an acquisition of 100% equity interest in Maxco Asia Limited ("**Maxco Asia**") on 12 August 2019. Fujian Dexi Wine Company Limited is a direct non-wholly owned subsidiary of Maxco Asia, which was established in China and mainly produces whisky and gin in Fujian Province. Currently, the construction work of the production plant is progressing satisfactorily, with the total work completed approximately 80%, and it is expected to be completed and put into operation in mid-2022 (the "**Project**"). 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 Project will bring synergy to the Group's wine business and lay a foundation for the Group's entering into the spirits industry, leading the wine business into a diversified and sustainable development.

Looking forward to 2022, we believe that with the introduction of the COVID-19 vaccine against the mutated virus, coupled with strong medical testing and effective preventive measures, the pandemic is expected to be gradually subsided, which will return the general economy of the country to its previous level and bring considerable growth in the sales of the Group's products. 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 ahead, the Group will strive to build a competitive edge and differentiate itself from its peers by strengthening its sales network and producing distinctive and high quality wine products, as well as diversifying into the spirits industry to diversify its business, so as to diversify its risks and create value for the Group as well as bringing sustainable return to shareholders.

FINANCIAL REVIEW

Revenue

Our revenue increased by RMB24.5 million or 40.6% from RMB60.2 million for the financial year ended 31 December 2020 ("**FY2020**") to RMB84.7 million for the financial year ended 31 December 2021 ("**FY2021**") as a result of the increase in total sales volume.

We sold 1,092,000 bottles in FY2021 as compared to 780,000 bottles in FY2020, while our average selling price maintained at RMB77.5 per bottle in FY2021 as compared to RMB77.2 per bottle in FY2020. The table below sets out the analysis of revenue and sales volume by our product mix:

	FY2021		FY2020	
	Revenue	**Sales volume**	Revenue	Sales volume
High-end	**65.5%**	**28.4%**	66.6%	33.0%
Entry-level	**34.5%**	**71.6%**	33.4%	67.0%

Cost of sales

Our cost of sales increased by RMB7.2 million or 22.8% from RMB31.7 million for FY2020 to RMB38.9 million for FY2021 primarily due to the increase in total sales volume. Our average cost of sales per bottle decreased from RMB40.6 for FY2020 to RMB35.6 for FY2021.

Gross profit and gross profit margin

Our overall gross profit increased by RMB17.2 million or 60% from RMB28.5 million for FY2020 to RMB45.8 million for FY2021, primarily due to the increase in total sales. Our overall gross profit margin increased from 47.4% for FY2020 to 54.0% for FY2021.

Other income and gains, net

Other net income and gains slightly decreased by RMB0.2 million or 8.1% from RMB2.4 million to RMB2.2 million. Other income and gains, net mainly comprised income from government grants and bank interest income.

Selling and distribution expenses

Selling and distribution expenses increased by RMB4.5 million or 55.1% from RMB8.1 million for FY2020 to RMB12.5 million for FY2021, mainly due to the strengthened branding and marketing efforts and increased promotion events organized in the Shanxi Province and other sales regions. In addition, the Group has entered into cooperation agreements with several offline distributors to increase distribution channels.

Administrative expenses

Administrative expenses increased by RMB2.7 million or 12.9% from RMB20.7 million for FY2020 to RMB23.4 million for FY2021, which was mainly attributable to (i) the increase in staff costs due to the share-based payments made as remuneration to certain management personnel, insurance and other general administrative expenses; and (ii) in relation to our whisky and gin production project.

Finance costs

Our finance costs was RMB87,000, which represented the unwinding of the discounted lease liabilities recognised under HKFRS 16 Leases (FY2020: RMB126,000).

Income tax expense

Our income tax expense increased by RMB1.7 million or 70.5% from RMB2.4 million for FY2020 to RMB4.2 million for FY2021 due to the increase in profit before tax in our PRC subsidiaries.

Profit for the year

As a result of the foregoing, a profit for the year of RMB7.7 million was recognised for FY2021 (FY2020: Loss for the year of RMB0.6 million).

Liquidity, financial and capital resources

Our principal liquidity and capital requirements primarily relate to acquisition of raw materials for wine production as well as other costs and expenses related to our business operation, as well as capital investment in new projects. As at 31 December 2021, the carrying amount of the Group's cash and cash equivalents was RMB67.7 million, representing an decrease of 25.5% as compared with that of RMB90.8 million as at 31 December 2020.

As at 31 December 2021, the Group's cash and cash equivalents include RMB60.2 million, USD1.15 million and some insignificant amounts of HKD and EUR (31 December 2020: RMB76.7 million, USD2.1 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. As at 31 December 2021, the Group does not have any external borrowings (31 December 2020: nil).

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 conducted in 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 in RMB, the exchange gain or loss arising from currency translation is also insignificant.

For the Group's subsidiaries outside 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 risk exposure closely and may take appropriate measures to minimise the foreign currency risk exposure accordingly.

Contingent liabilities

As at 31 December 2021, the Group had no contingent liabilities.

Pledge of assets

As at 31 December 2021, the Group did not have any assets pledged for credit facilities.

Employee and remuneration policies

As at 31 December 2021, the Group had, including Directors, 147 employees (31 December 2020: 129 employees). Staff costs, including Directors' emoluments, amounted to RMB16.3 million for FY2021 (FY2020: RMB12.6 million). The remuneration policies for our Directors and employees are based on their experience, level of responsibility and general market conditions, and are reviewed and adjusted on an annual basis.

The Company has adopted a share option scheme on 1 June 2019 for the purpose of providing incentives and rewards to eligible members of the scheme.

Events after the reporting period

There were no significant events after the reporting period up to the date of this announcement.

Significant investments, material acquisition and disposals

During FY2021, Fujian Dexi Wine Company Limited ("**Fujian Dexi**"), an indirect wholly-owned subsidiary of the Company, has entered into a construction contract with Fujian Tongyuan Construction Project Co. Ltd. (the "**Contractor**"), an independent third party of the Company and its connected person, pursuant to which the Contractor will undertake construction works in respect of a distillery facility for the production of whisky and gin in Fujian Province (the "**Construction Work**") for a total contract sum of RMB23,853,211 (exclusive of value-added tax). The Contractor is established in the PRC and is principally engaged in, among other things, general contracting work in relation to water resources and hydropower construction, highway engineering construction and general building and construction.

As disclosed in the Company's announcements dated 12 August 2019 and 11 October 2019, it is part of the Group's plans to reposition and diversify its existing portfolio of products. Therefore, the Group acquired a whisky and gin plant in Fujian Province, the PRC through acquiring the investment holding company of Fujian Dexi. As at the date of this announcement, the Construction Work is still in progress. Please refer to the announcement of the Company dated 28 April 2021 for further details. Save as disclosed above, the Group did not have any significant investments, material acquisitions or disposal of assets, subsidiaries, associates or joint ventures.

Future plans for material investments and capital assets

Save as disclosed in the prospectus of the Company dated 12 June 2018 (the "**Prospectus**") and the investment in the whisky and gin production business as aforementioned, the Group does not have other plans for material investments and capital assets.

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 2021:

	Original allocation of Net proceeds as stated in the Prospectus *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 2020 to 31 December 2020 *RMB'000*	Unutilised Net Proceeds as at 1 January 2021 *RMB'000*	Actual use of Net Proceeds from 1 January 2021 to 31 December 2021 *RMB'000*	Unutilised Net Proceeds as at 31 December 2021 *RMB'000*	Expected timeline of application of the unutilised Net Proceeds *(Note 2)*
Issue of Shares and use of proceeds from initial public offering									
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	14,255	–	–
	33,098	8,448	24,650	24,650	10,395	14,255	14,255	–	

Notes:

(1) In accordance with 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 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.

Special final dividend

The Board recommended the declaration of a special final dividend of HK0.62 cents per Share for FY2021 (FY2020: Nil). Such special final dividend is subject to approval of the Shareholders at the annual general meeting of the Company ("**AGM**") to be held on 28 June 2022. The proposed special final dividend is expected to be paid to the Shareholders on 29 July 2022.

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Tuesday, 28 June 2022. Notice of AGM will be published and despatched in the manner as required by the GEM Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlements to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 23 June 2022 to Tuesday, 28 June 2022, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 22 June 2022.

For determining the entitlement to the proposed special final dividend, the register of members of the Company will be closed from Thursday, 7 July 2022 to Friday, 8 July 2022, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed special final dividend, all transfer of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 6 July 2022.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During FY2021, 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 FY2021.

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 (version up to 31 December 2021) set out in the CG Code throughout FY2021.

Under code provision A.2.1 (which has been re-numbered as C.2.1 since 1 January 2022) 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 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 (which has been re-numbered as D.3 since 1 January 2022) 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 FY2021 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 FY2021 as set out in this announcement have been agreed by the Company's auditor, 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, 18 March 2022

As at the date of this announcement, the Board comprises Ms. Judy Chan and Mr. Lam Wai Kit Ricky as the executive Directors, Mr. Chow Christer Ho and Dr. Cheung Chai Hong as the non-executive Directors and Mr. Ho Kent Ching-tak, Mr. Lim Leung Yau Edwin and Mr. Alec Peter Tracy as the independent non-executive Directors.

This announcement will remain on the "Latest Listed Company Information" 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.