

## Yantai Changyu Pioneer Wine Co., Ltd. 2018 Semi-annual Report Abstract

### 1. Important Warning

This Semi-annual Report abstract comes from the whole contents of semi-annual report. If investors desire to comprehend the Company's operating results, financial situation and future development plan, please read the Semi-annual Report on the media specified by the China Securities Regulatory Commission.

Objections statement of directors, supervisors & senior managers

Directors, Supervisors, Senior Management Staffs of the Company have no objection with 2018 semi-annual report.

Statement

Except the following directors, all other directors have personally attended the meeting for deliberating the semi-annual report.

Director name with non-present in person	Director post with non-present in person	Reason for non-present in person	Name of mandatory
Sun Liqiang	Director	Business trip	Zhou Hongjiang
Augusto Reina	Director	Business trip	Aldino Marzorati

Non-standard audit opinion notice

Available  Not available

The preliminary scheme of the report period's common stock profit distribution or increasing equity with reserve deliberated by the board of the directors

Available  Not available

The Company has no plan to distribute cash dividends and bonus shares; capital reserve will not be transferred to equity.

The preliminary scheme of this report period's preferred share profit distribution deliberated and passed by the board

Available  Not available

### 2. Brief Introduction of the Company

#### 1) Company introduction

Abbreviation of the Shares:	Changyu A, Changyu B	Code number of the Shares	000869, 200869
Place of listing of the Shares	Shenzhen Stock Exchange		
Contact person and information	Secretary to the Board of Directors	Authorized Representative of the Securities Affairs	

Name	Mr. Qu Weimin	Mr. Li Tingguo
Address	56 Dama Road, Yantai, Shandong, China	56 Dama Road, Yantai, Shandong, China
Tel	0086-535-6633656	0086-535-6633656
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## 2) Key accounting data and financial indicators

Whether the Company makes retroactive adjustments or restates the accounting data of previous fiscal years.

Yes  No

	In the report period	In the same period of last year	More or less than last year (%)
Business revenue (CNY)	2,828,230,064	2,767,098,197	2.21%
Net profit attributed to the shareholders of the listed company (CNY)	635,837,405	670,069,054	-5.11%
Net profit attributed to the shareholders of the listed company after deducting the irregular profit and loss (CNY)	606,678,719	652,906,375	-7.08%
Net cash flows from the operating activities (CNY)	552,753,472	420,360,319	31.50%
Basic earnings per share (CNY/share)	0.93	0.98	-5.10%
Diluted earnings per share (CNY/share)	0.93	0.98	-5.10%
Weighted average for earning rate of the net assets	6.89%	7.84%	-0.95%
	The end of the report period	The end of last year	More or less than last year (%)
Total assets (CNY)	13,038,507,425	12,536,755,208	4%
Net Assets attributed to the shareholders of the listed company (CNY)	9,532,948,884	8,906,342,299	7.04%

## 3) Number of shareholder and shareholding situation

Unit: share

Total common shareholders at the end of report period	40,428 (21,831 of Stock A and 18,597 of Stock B)	Total number of preferred shareholder recovering voting power at the end of report period	0			
Shareholders holding more than 5% or the top 10 shareholders holding situation						
Name of Shareholders	Character of shareholders	Percent age (%)	Number of Shares held	Number of restricted shares	Pledged or frozen	
					Share status	Amount
YANTAI CHANGYU GROUP CO. LTD.	Domestic non-state-owned legal person	50.40%	345,473,856	0		0
GAOLING FUND,L.P.	Foreign legal person	3.08%	21,090,219	0		0
CHINA SECURITIES FINANCE CORP	State-owned legal person	2.27%	15,531,455	0		0
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	Foreign legal person	2.22%	15,241,826	0		0
SHENWAN HONGYUAN SECURITIES(HONG KONG) LIMITED	Foreign legal person	1.19%	8,144,869	0		0
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	Foreign legal person	0.95%	6,535,089	0		0
FIDELITY PURITAN TRUST: FIDELITY SERIES	Foreign legal person	0.89%	6,100,762	0		0

INTRINSIC OPPORTUNITIES FUND						
CENTRAL HUIJIN ASSET MANAGEMENT LTD.	State-owned legal person	0.69%	4,761,200	0		0
VANGUARD EMERGING MARKETS STOCK INDEX FUND	Foreign legal person	0.55%	3,788,487	0		0
FIDELITY CHINA SPECIAL SITUATIONS PLC	Foreign legal person	0.55%	3,779,202	0		0
The explanation for the associated relationship and accordant action of the top 10 shareholders with unrestricted shares, the the associated relationship and accordant action between the top 10 shareholders with unrestricted shares and the top 10 shareholders				Among the top 10 shareholders, Yantai Changyu Group Company Limited has no associated relationship or accordant action relationship with the other 9 listed shareholders, and the relationship among the other shareholders is unknown.		
Explanation for the top 10 shareholders who involved in financing activities and stock trading business (if have)(see note 4)				The top 10 shareholders do not involve in financing activities and stock trade business.		

#### 4) Changes of controlling shareholders or the actual controllers situation

Changes of the controlling shareholders during the report period

Available  Not available

There is no any change of the controlling shareholders during the report period.

Changes of the actual controllers during the report period

Available  Not available

There is no any change of the actual controllers during the report period

#### 5) Number of preferred shareholder and situation of preferred shares held by top ten preferred shareholders

Available  Not available

There are no shares held by preferred shareholders during the report period.

#### 6) Company Bonds

Whether the Company exists public offering and lists on the Stock Exchange, and the Company is unable to fully pay company bonds in the approved announcement date of this Semi-annual report before maturity or in the maturity date.

No.

### **3. Management Discussion and Analysis**

#### **1) Brief introduction of operation situation during the report period**

Whether the Company need to follow the disclosure requirement of special business?

No.

#### **(1) Summarization**

During the report period, influenced by the slowdown of domestic economic growth, the overall domestic wine industry is relatively stable. Influenced by the further decrease in product price resulting from the overwhelming flow of foreign wine into Chinese market, the competition in domestic wine market, especially for middle-and-low-level wines, is very fierce, plus the great impact brought by E-commerce and other new channels to traditional sales channels in the meantime this company's E-commerce business is still in the beginning stage, resulting in bigger challenges for the Company to achieve sustained and steady growth. Facing quite a lot of external disadvantages, the Company insists to focus on the market, timely adjust the development strategy and marketing tactics, optimize the market layout and product structure, perfect the marketing channels and assessment system, strive to promote product sales, achieving good results and realizing business income of CNY2828.23 million, an increase of 2.21% compared with last year; but due to the impact of increase in operating cost, taxes and additional, sales expense and administrative expense, the Company realized net profit of CNY635.84 million belonging to the parent company's shareholders, an decrease of 5.11% compared with last year.

During the report period, the Company mainly did following works:

Firstly, the Company adjusted and fortified its management team, increasing the management level and capacity of management team.

Secondly, the Company proposed the strategy of "Focus on big product, focus on high quality, focus on middle-to-high end" (in other words "Three Focus" strategy), further clarifying its development direction.

Thirdly, the Company basically completed the reform and reorganization work in sales systems, improving the mode of market investment and enhancing marketing ability. The Company further implemented the measure of "personnel reduction while salary increase" in sales system, reduced redundant personnel, completed the personnel setting, position setting and personnel allocation work in business management department in sales system, perfected performance assessment method for marketing personnel and conducted authorized operation to partial business unit and provincial branches, improving the sales team's working enthusiasm, initiative and fighting capacity.

Fourthly, the Company fully implemented “Three Focus” strategy, accelerated the product carding as well as the backbone distributor system construction and increased the market investment, improving products’ market competitiveness. For high-end products, the Company focused on “MOSER”, “AFIP”, “CASTEL”, “Golden Icewine Valley”, “Baron Balboa”, “Rena”, “Tinlot” wine and “Koya” brandy and strived to build “MOSER” to a globally well-known high-end brand, to build “AFIP”, “CASTEL”, “Golden Icewine Valley” and “Koya” to nationally well-known high-end brands and to build “Baron Balboa”, “Rena”, “Tinlot” to regionally well-known high-end brands. For middle-end products, the Company focused on “Noble Dragon” and reserva five-star brandy, reinforced the market development in the ninth-edition Noble Dragon and reserva five-star brandy, continued consolidating and enlarging the position of “Noble Dragon” as domestic biggest single product in wine market and continually increased the market share of middle-end brandy. For low-to-mid-end products, the Company focused on “Zuishixian” and mini-brandy to digging consumption potential and to guide and cultivate new consumer group. For imported liquor, the Company mainly paid attention to acquired brands, such as Atrio, Mirefleurs, Indomita, Kilikanoon and Roullet Fransac in order to occupy important position in Chinese imported wine market. The Company also conducted comprehensive carding and reorganization to products and distributor team, reduced product items, eliminated and replaced unqualified distributors, implemented strict access system to distributors selling the ninth-edition Noble Dragon and new-edition “Zuishixian”, changed the market investment mode, intensified the fighting degree to fleeing goods, further standardized market order, better protected distributors’ interest and improved distributors’ enthusiasm.

Fifthly, the Company strengthened quality management and quickened the pace in product update and upgrade in order to better adapt to market change. During the report period, the Company revised internal quality management system, took unannounced inspection to eleven wineries and conducted update and upgrade work to products including partial chateau wine, Noble Dragon, reserva five-star brandy, five-star brandy and Zuishixian etc, effectively improving product quality and better satisfying the market need.

Sixthly, the Company reinforced financial management and audit work in order to strive to accomplish energy-saving and cost-reducing and to further reduce operating cost. During the report period, the Company further strengthened internal fund allocation and control, reasonably arranged loan structure, strived to reduce fund cost; intensified the cost management, such as advertisement and major raw material purchase and so on, and strongly reduced freight and storage expense; enhanced the financial management in overseas acquired enterprise and reinforced audit degree to investment project in order to prevent operating risk and improve investment benefits; made great efforts to increase the ratio of order-driven products, to shorten delivery time, to reduce inventory and capital occupying and to improve enterprise profitability.

Seventhly, the Company continued implementing internationalization strategy and orderly promoted overseas acquisition work. During the report period, the Company acquired 80% equity of Kilikanoon Estate Pty Ltd in Australia, optimizing the Company’s capacity layout and product structure and further improving the market competition of imported products. Through M&A and strategic cooperation, the Company’s production had extended to Asia, Europe, America and Oceania and the Company had completed the capacity layout in major global wine-producing countries and famous wine-producing region, such as France, Spain, Australia and Chile and so on. The Company also had deep brand cooperation with major wine enterprises in Italy, New Zealand, Argentina and other countries. Now the Company owned five overseas chateaux, eight domestic

chateaux and more than twenty foreign and domestic major brands and sold its products to more than seventy countries and regions in the world.

Eighthly, the Company strengthened the management in investment project and basically completed the installation and commissioning work of major production lines in Changyu industrial park, laying the foundation of putting into operation as soon as possible and further improving production efficiency.

In order to achieve the operation target set by the Company at the beginning of this year, the Company would do following work in the second half of 2018:

Firstly, the Company will intensify the brand construction and carding work and enlarge the cooperation breadth and depth with domestic E-commerce magnate and new media in order to improve brand awareness and reputation. The Company will intensify brand aggregation, continue teasing and reducing product quantity and optimize product line; for choice of media, bind up with high-flow platform, enhance resource exchange and share and take deep cooperation with precision media with high category permeability to form high-flow and strong-viscosity communication strategy; for publicity form, focus on output content, aim at different media attribute and make brand image output at different platforms including MicroBlog, WeChat official account, Zhihu account and TouTiao etc by adopting micro film, short video, multimedia, long image-text, live broadcast and other forms.

Secondly, the Company will continue paying attention to the construction of key distributor team and professional sales personnel team, conduct the tasting and promotion work of mid-to-high-end products, such as chateau wine, Noble Dragon, “Three Star” and above level brandy and Zuishixian and so on, and strive to promote the sales of mid-to-high-end products; do the preparation work for the opening of Koya chateau and the launch of new products, such as Koya brandy; continue promoting the sales work of acquired brands in domestic and foreign markets, such as Atrio, Mirefleurs, Donelli, Indomita and Kilikanoon and so on, further establish and perfect the domestic and foreign sales system, take full advantage of foreign sales network to enlarge the export scale of domestic wines; centralize marketing resources and focus on key markets to continually enlarge the quantity and coverage of dominated market.

Thirdly, the Company will start the order-driven business mode for Noble Dragon distributors, make great efforts to shorten delivery time and reduce inventory level and fund occupation.

Fourthly, the Company will further enlarge and implement authorized operation to improve the positivity, initiative and flexibility of front-line production and management personnel and to accelerate market reaction speed; improve the Company’s assessment and incentive measures to production and management department, enhance staff training and reorganization, strictly carry out assessment, reward, promotion and elimination system, and motivate all staff’s vitality and fighting capacity.

Fifthly, the Company will orderly proceed the construction of investment projects and focus on the connection between production and sales. The Company will pay special attention to the ending work of main body’s civil work in Yantai Changyu International Wine City (in other words Yantai Changyu Industry Park), accelerate the construction of intelligentization and informatization management system as well as the maintenance and transformation in Cognac Rouillet Fransac chateau and the fire engineering in the research institute; conduct the coordination work between

project construction and production and reasonably arrange construction and production progress to timely satisfy the market need.

Sixthly, the Company will strengthen the management in supply chain and fully accomplish the purchase in grape material. The Company will enhance the construction and management in the supply chain of overseas and domestic grape material and other packing materials, strive to realize diversification of material supply and make sure that, for all raw materials, the important segment could be monitored and the whole course could be traced; based on the material requirement in future years, scientifically make raw material purchase plan, further perfect raw material pricing mechanism, reasonably determine raw material purchase price, comprehensively complete raw material purchase work, preferably control raw material cost and improve raw material quality.

## (2) Analysis of main business

See “1. Summarization” in “Management Discussion and Analysis”.

Period comparison of main financial data

Unit: CNY

	In the report period	In the same period of last year	More or less (%)	Reason for changes
Operating revenue	2,828,230,064	2,767,098,197	2.21%	Mainly attributed to the Company's consolidation of companies in Chile and Australia that are included in the scope of consolidation making an increase in operating revenue
Operating cost	974,557,292	925,754,133	5.27%	Mainly attributed to the increase in prices of raw materials and packaging materials on year-on-year basis
Sales expense	710,659,033	668,735,726	6.27%	Mainly attributed to the increase in advertising promotion fees and marketing staff compensation on year-on-year basis
Management expense	160,091,888	130,542,386	22.64%	Mainly attributed to the increase of employee's compensation and depreciation expense on year-on-year basis
Financial expense	13,085,942	11,147,949	17.38%	Mainly attributed to the increase in interest expenses and handling fees on year-on-year basis
Income tax expense	211,979,735	228,752,790	-7.33%	Mainly attributed to the decrease in total profit (profit before tax) on year-on-year basis which results in a



				decrease in current income tax expenses on year-on-year basis
Net amount of cash flow generated in operating activities	552,753,472	420,360,319	31.50%	Mainly attributed to the increase of cash received from goods selling and labor service providing on year-on-year basis
Net amount of cash flow generated in investment activities	-291,217,548	-797,540,941	63.49%	Mainly attributed to the recovery of fixed term deposits making the cash injection in investment activities increased on year-on-year basis and the cash outflow from investment activities decreased on year-on-year basis
Net amount of cash flow generated in financing activities	-6,350,537	353,878,706	-101.79%	Mainly attributed to the year-on-year decrease in cash received from loans and the year-on-year increase in cash paid for debt repayment
Net increased amount of cash and cash equivalents	247,781,188	-27,454,401	1,002.52%	Mainly attributed to the increase in net cash flow from operating activities and net cash flow from investing activities on year-on-year basis

Whether there is any great change for the Company's profit structure or profit source during the report period

Available  Not available

There is no great change for the Company's profit structure or profit source during the report period.

### Structure of main businesses

Unit: CNY

Item	Operating revenue	Operating cost	Gross profit	Increase or decrease of	Increase or decrease of	Increase or decrease of gross

			(%)	operating revenue over the same period of last year (%)	operating cost over the same period of last year (%)	profit over the same period of last year
Sector						
Wine and alcoholic beverages	2,828,230,064	974,557,292	65.54%	2.21%	5.27%	-1%
Product						
Wine	2,235,369,550	759,887,101	66.01%	3.92%	7.94%	-1.26%
Brandy	552,121,883	194,450,633	64.78%	-4.03%	-2.86%	-0.43%
Other	40,738,631	20,219,557	50.37%	0.22%	-6.23%	3.42%

**(3) Analysis to non-main business**

Available     Not available

**(4) Assets and liabilities situation****① Major changes of assets**

Unit: CNY

	The end of the report period		The end of the same period of last year		Proportion increase or decrease (%)	Explanation on significant changes
	Amount	Proportion in the total assets (%)	Amount	Proportion in the total assets (%)		
Monetary funds	1,683,038,453	12.91%	1,550,067,781	12.63%	0.28%	No significant changes
Receivables	243,413,092	1.87%	167,152,509	1.36%	0.51%	No significant changes
Inventory	2,338,925,432	17.94%	2,024,302,929	16.49%	1.45%	Mainly attributed to the increase in raw materials reserved at the end of the report period

Investment real estate	17,877,379	0.14%		0%	0.14%	No significant changes
Long-term equity investments				0%	0%	No significant changes
Fixed assets	5,457,575,677	41.86%	4,591,037,486	37.40%	4.46%	Mainly attributed to the transfer of constructions in progress during the report period
Construction in progress	1,015,914,753	7.79%	1,697,297,440	13.83%	-6.04%	Mainly attributed to the transfer of constructions in progress into fixed assets during the report period
Short-term borrowings	750,454,676	5.76%	846,881,075	6.90%	-1.14%	Mainly attributed to the return of short term bank loans
Long-term borrowings	153,965,191	1.18%	175,270,580	1.43%	-0.25%	No significant changes

## ② Measuring assets and liabilities at fair value

Available  Not available

## ③ Assets rights restricted situation up to the end of report period

Assets rights restricted situation of the Company up to the end of report period, please refer to *Announcement on External Guarantee* (announcement number: 2016-Temporary 021) and *Announcement on External Guarantee* (announcement number: 2017-Temporary 015) disclosed on *China Securities Journal, Securities* and the website ([www.cninfo.com.cn](http://www.cninfo.com.cn)) respectively on December 22<sup>nd</sup>, 2016 and December 12<sup>th</sup>, 2017.

## 2) Related items involving financial report

### (1) Explanation for the changes of the accounting policy, accounting estimation and accounting method

Available  Not available

There are no changes to the accounting policy, accounting estimation and accounting method during the report period.

**(2) During the report period, the situation explanation for the correction of major accounting errors which need to be retrospect and restated**

Available     Not available

There is no situation for the correction of major accounting errors which need to be retrospect and restated.

**(3) Compared with the previous year's financial report, explanation for the changes of the consolidated statements scope.**

Available     Not available

Owing that Indomita Wine Company Chile, SpA, established by the Company, completed the equity acquisition of Viña Indómita, S.A., Viña Dos Andes, S.A. and Bodegas Santa Alicia SpA in July 2017 and the Company completed the acquisition of 80% equity of Kilikanoon Estate Pty Ltd during the report period, above relevant enterprises have already been included in the consolidated statements scope during this report period. Besides this, compared with the previous year's financial report, there is no other change in the consolidated statements scope.

**Yantai Changyu Pioneer Wine Co. Ltd.**

**Board of Directors**

**August 30<sup>th</sup>, 2018**