

Yantai Changyu Pioneer Wine Co., Ltd.**2019 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 carefully read the semi-annual report on the media specified by the China Securities Regulatory Commission.

No directors, supervisors or senior executives issue a statement of objection to 2019 semi-annual report.

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
Duan Changqing	Independent director	On a business trip	Wang Zhuquan

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		
Abbreviation of the Shares after alteration	-		
Contact person and information	Secretary to the Board of Directors	Authorized Representative of the Securities Affairs	

Name	Mr. Jiang Jianxun	Mr. Li Tingguo
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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)	2,558,274,785	2,828,230,064	-9.55%
Net profit attributed to the shareholders of the listed company (CNY)	603,403,789	635,837,405	-5.10%
Net profit attributed to the shareholders of the listed company after deducting the irregular profit and loss (CNY)	552,490,695	606,678,719	-8.93%
Net cash flows from the operating activities (CNY)	499,476,006	552,753,472	-9.64%
Basic earnings per share (CNY/share)	0.88	0.93	-5.38%
Diluted earnings per share (CNY/share)	0.88	0.93	-5.38%
Weighted average for earning rate of the net assets	6.13%	6.89%	-0.76%
	The end of the report period	The end of last year	More or less than last year (%)
Total assets (CNY)	13,383,093,433	13,117,729,052	2.02%
Net Assets attributed to the shareholders of the listed company (CNY)	9,791,885,091	9,606,099,365	1.93%

3) Number of shareholder and shareholding situation

Unit: share

Total common shareholders at the end of report period	42,531	Total number of preferred shareholder recovering voting power at the end of report period (if have)	0			
The top 10 shareholders holding situation						
Name of Shareholders	Character of shareholders	Percentage (%)	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		
GAOLING FUND,L.P.	Foreign legal person	3.08%	21,090,219	0		
CHINA SECURITIES FINANCE CORP	State-owned legal person	2.25%	15,440,794	0		
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	Foreign legal person	2.22%	15,241,826	0		
SHENWAN HONGYUAN SECURITIES(HONG KONG) LIMITED	Foreign legal person	1.28%	8,798,233	0		
FIDELITY PURITAN TRUST: FIDELITY SERIES INTRINSIC OPPORTUNITIES FUND	Foreign legal person	0.93%	6,350,762	0		
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	Foreign legal person	0.76%	5,229,016	0		
CENTRAL HUIJIN ASSET MANAGEMENT LTD.	State-owned legal person	0.69%	4,761,200	0		
VANGUARD EMERGING MARKETS STOCK INDEX FUND	Foreign legal person	0.55%	3,788,487	0		
FIDELITY CHINA SPECIAL SITUATIONS PLC	Foreign legal person	0.55%	3,779,202	0		

The explanation for the associated relationship and accordant action of the top 10 shareholders mentioned above	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 shareholders who involved in financing activities and stock trading business (if have)	The top 10 shareholders do not involve in financing activities and stock trade business.

4) Changes of controlling shareholders or actual controllers

Changes of controlling shareholders during the report period

☐ Available ☒ Not available

There is no change to controlling shareholders during the report period.

Changes of actual controllers during the report period

☐ Available ☒ Not available

There is no change to actual controllers during the report period

5) Number of preferred shareholder and shareholding of preferred shares of top ten preferred shareholders

☐ Available ☒ Not available

There are no shareholdings of 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 needs 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 demand of domestic wine industry was relatively weak. Both domestic and imported wine had experienced decline at varying degrees in sales volume and sales revenue. The competition in domestic wine market, especially for middle-and-low-level wines, was very fierce. Due to continuously influences such as increase in the prices of raw materials and packaging materials, depreciation of fixed assets and increase in freight and labor costs, the Company's profitability was under greater pressure. Facing quite a lot of unfavorable factors, the Company insisted in taking the market as the center, insisted the development strategy of "Focus on middle-and-high level, Focus on high quality, Focus on big product" (the strategy of "Three Focuses") without wavering, continued intensifying internal reform, further optimized product structure and market layout. Through product innovation, management innovation and marketing innovation, the Company strived to promote product sales and achieved certain effects, under the background of the market that both domestic wine and imported wine show a large decrease wholly in China market, realizing the business income of CNY2558.27million in the first half year with a decrease of 9.55% compared with last year and the net profit attributable to the parent company's shareholders of CNY603.4million in the first half year with a decrease of 5.1% compared with last year.

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

Firstly, the Company's Board of Directors, Board of Supervisors and senior executives were successfully re-elected, injecting new forces, optimizing staff structure, enhancing the management level and decision-making ability of the management team and providing a reliable organizational guarantee for the Company's sustainable and healthy development in the future.

Secondly, the "Three Focuses" strategy was steadily advanced and initial results were achieved. During the report period, among the three core business segments of domestic wine, brandy and imported wine, the Company concentrated its main resources to focus on the three domestic wine brands such as MOSER, Noble Dragon and ZENITHWIRL; the two brandy brands "KOYA" and "Changyu Superior Five-star Special Fine Brandy" and the two imported wine brands Kilikanoon and INDOMITA achieved good results, which slowed down the Company's wine decline and achieved a small increase in brandy sales revenue.

Thirdly, the organization structure of sales system was basically completed in terms of adjustment and optimization. The transformation from management dealers to serving dealers was actively promoted and the construction of "Fund pool" with dealers was energetically developed. During the report period, the Company eliminated, adjusted, rotated and supplemented some of the provincial and municipal sales personnel, further rationalized the sales management system and enhanced the fighting capacity of the sales team. The authorized operation was deeply advanced, which further mobilized the enthusiasm and initiative of sales personnel. Besides, the Company improved the performance appraisal mode and work focus, which promoted sales personnel to be closer to the market and clients and better served terminals and consumers. Moreover, the construction of sales team and "Fund pool" with dealers was intensified, which alleviated the contradiction of insufficient market input.

Fourthly, the Company actively coordinated controlling shareholders and other relevant parties. After repeated communication and full argumentation, the Company re-determined the proportion of trademark use fee of "张裕"(Changyu) and other trademarks, revised and improved *Trademark License Contract* and eliminated defects in the contract. In addition, the Company cooperated closely with the controlling shareholders and was freely transferred part of trademarks and patents from the controlling shareholders, which better guaranteed the integrity of the Company's assets and reduced related transactions.

Fifthly, the Company optimized the layout of raw material bases, strengthened quality management, strived to reduce raw material costs and improved product quality. During the report period, the Company carried out an overall planning for domestic and foreign raw material supply bases and laid out medium and long-term raw material bases in Australia, Chile and France. In addition, the Company increased a large number of high-quality raw material bases in Xinjiang, Ningxia and Yantai, strengthened the assessments of basic management, profit and key work to the raw material bases, and use internal self-examination, random sampling, third-party inspection, flight inspection and other means to strengthen product quality monitoring and control. Moreover, the Company re-approved supplier list, eliminated unqualified suppliers and continuously improved the quality of raw material and packaging. As these measures become effective, the product quality and reduce raw material costs will be fundamentally improved.

Sixthly, it was to strengthen financial management and audit supervision, strive to reduce capital costs and operational risks, and improve the Company's operational efficiency. During the report period, after repeated communication and negotiation, the Company further reduced the bank loan interest rate and financing cost. In addition, the Company used the SAP system to monitor and allocate cash flow in real time, strictly implemented two-line management of financial revenues and expenditures and paid use system of funds, which accelerated capital turnover, improved funds use efficiency and reduced funds occupation. Moreover, the Company intensified the audit work of key areas such as the authenticity of financial revenues and expenditures, channel inventory, unsalable products, advertising fees and economic responsibility of outgoing personnel, and timely investigated and punished illegal acts, which effectively prevented significant operational risks.

Seventhly, scientific dispatch, carefully organization and close cooperation guaranteed the good quality and smooth progress of investment projects. During the report period, all projects under construction of the Company progressed as planned and the project quality was excellent.

Eighthly, it was to continue implementing the internationalization strategy and actively carry out joint venture and cooperation with strong foreign peers. During the report period, in order to reduce operating costs of a single winery and play a synergistic effect, the Company used its wholly-owned subsidiary in France Francs Champs Participations SAS to establish a joint venture company L&M HOLDINGS together with Advini SA's subsidiary SC Garri du Gai in France, promoting the management and operation level of the French wine business segment.

In order to achieve the business objectives set by the Company at the beginning of the year, the Company will focus on the following work in the second half of 2019:

Firstly, the current market situation has determined that the Company must unswervingly promote the development strategy of "Three Focus". The Company will continue classifying products,

compressing the number of products, centralizing superior resources and focusing on market exploration and marketing work.

Secondly, considering that the main contradiction for future development lies in the market, the Company will continue focusing on the construction of two teams of backbone distributors and full-time sales personnel and further establish and improve the sales system to extend market coverage. The Company will also make deep penetration into key markets and strive to achieve breakthrough. In addition, the marketing innovation will be strengthened and the communications media will be optimized in order to improve the marketing level. A systematic brand manager system will also be established and a full-time marketing team will be set up for providing systemic marketing solutions to boost brands by virtue of the top outsourcing companies in the industry. The Company will take full advantage and integrate online advantageous platform and explore the digital marketing mode in line with Changyu to provide consumers with a more perfect consumer experience and enhance user stickiness.

Thirdly, continuous improvement in product quality is the most fundamental thing to win the market competition. While strictly implementing various quality management measures, the Company will establish a systematic brand winemaker system, give full play to the main responsibility of winemakers at all levels and propose clear requirements of salary, appointment, selection, promotion and exit for winemakers at different levels in order to stimulate winemakers' enthusiasm and sense of responsibility and promote the significant improvement in product quality.

Fourthly, the establishment of a talent team that is compatible with the Company's development to the core to achieve sustained and rapid development. The Company will focus on cultivating 60 high-level provincial general managers and 600 outstanding city managers comprehensively optimize talent echelon and strive to make up the weakness in talents. Moreover, the Company will further optimize performance appraisal methods, establish and improve various flexible and efficient incentive mechanisms with the combination of long-term mechanism and short-term mechanism as well as complementary advantages, and further stimulate the Company's vitality to enhance the attraction and centripetal force to the outstanding talents.

Fifthly, the Company will reasonably arrange the production schedule, do well the connection between production and sales, make full use of sales peak season including Mid-Autumn Festival, National Day and Spring Festival, increase marketing efforts and promote product sales, providing important guarantee for achieving annual sales targets.

Sixthly, the Company will scientifically make procurement plan for raw materials such as grapes, rationally arrange procurement progress and fully complete the procurement work of grape raw material, providing core raw materials with sufficient quantity, complete varieties, high quality and low price for future development.

In short, we preliminarily judge that in the second half of this year, with the cumulative effects of various reform measures in the past year starting to appear, although the downward pressure on the domestic wine market is increasing, the sales situation of our company may actually gradually go out of the trough, and revenue may also begin to enter the growth track. The Company will strive to complete the established revenue target of not lower than CNY5.3 billion at the beginning of the year. In addition, affected by the double favorable factors of the national cutting taxes and fees policies and the controlling shareholder's offset of trademark use fee, the Company's profit level may be improved compared with the same period of last year.

(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	2,558,274,785	2,828,230,064	-9.55%	Mainly owing to the year-on-year decrease in sales volume
Operating costs	936,252,225	974,557,292	-3.93%	Mainly owing to the year-on-year increase in the price of grape material
Sales expenses	591,970,801	710,659,033	-16.70%	Mainly owing to the year-on-year decrease in marketing expense and trademark use fee
Administration expense	155,552,312	157,964,882	-1.53%	No major change
Financial expense	8,789,583	13,085,942	-32.83%	Mainly owing to the year-on-year decrease in interest expenditure
Income tax expense	210,281,578	211,979,735	-0.80%	No major change
Research & Development Investment	2,706,811	2,127,006	27.26%	Mainly owing to the increased investment in scientific research
Net cash flow from operating activities	499,476,006	552,753,472	-9.64%	Mainly owing to the decrease in received cash from selling products and providing labor service
Net cash flow from investment activities	-114,534,608	-291,217,548	60.67%	Mainly owing to the decrease in the cash paid for purchasing fixed term deposit and the net cash paid by subsidiaries and other business units
Net cash flow from financing activities	-18,128,357	-6,350,537	-185.46%	Mainly owing to the year-on-year decrease in received fixed term deposit used for pledge of long-term loan
Net increased amount of cash and cash equivalents	366,866,743	247,781,188	48.06%	Mainly owing to the year-on-year decrease in the cash outflow of investment activities

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

	Operating revenue	Operating cost	Gross profit (%)	Increase or decrease of operating revenue over the same period of last year (%)	Increase or decrease of operating cost over the same period of last year (%)	Increase or decrease of gross profit over the same period of last year
By sector						
Manufacturing of liquor and alcoholic beverages	2,558,274,785	936,252,225	63.40%	-9.55%	-3.93%	-2.14%
By product						
Wine	1,928,554,268	680,125,496	64.73%	-13.01%	-9.65%	-1.31%
Brandy	563,451,068	229,703,175	59.23%	3.33%	18.50%	-5.22%
Tourism	42,604,382	12,307,699	71.11%	-7.44%	-12.47%	1.66%
Other	23,665,067	14,115,855	40.35%	19.01%	1.95%	9.98%
Total	2,558,274,785	936,252,225	63.40%	-9.55%	-3.93%	-2.14%
Region						

Domestic business	2,330,780,056	791,113,867	66.06%	-9.92%	-2.36%	-2.63%
Overseas business	227,494,729	145,138,358	36.20%	-5.50%	-11.69%	4.47%
Total	2,558,274,785	936,252,225	63.40%	-9.55%	-3.93%	-2.14%

2) Related items involving financial report

(1) Explanation for the changes of the accounting policy, accounting estimation and accounting method, compared with the last accounting period's financial report

☒Available ☐Not available

In 2017, the Ministry of Finance published the revised *Accounting Standard for Enterprises No.22 - Recognition and Measurement of Financial Instruments*, *Accounting Standard for Enterprises No.23 -Financial Assets Transfer*, *Accounting Standard for Enterprises No.24 - Hedge Accounting*, and *Accounting Standard for Enterprises No.37 - Presentation of Financial Instruments* (“New Financial Instruments Standard” for short). The Company began the accounting treatment in accordance with the new revised standards started from January 1st, 2019. According to connection requirements, data in comparable duration shall not be adjusted, and differences between the implementation of the new standard on the first day and the current standard retrospectively adjust the undistributed profit at the beginning of the report period. Affected by this, regarding the balance sheet consolidation on January 1st, 2019, accounts receivable changed from CNY242,153,083 to CNY237,781,161, deferred income tax assets changed from CNY285,436,259 to CNY286,529,2239, and undistributed profit changed from CNY8,008,982,547 to CNY8,005,703,605.

Based on the requirement of *Notification on Revising and Issuing Financial Statement Format for General Enterprises in 2019* (Accounting [2019] No. 6) , in the balance sheet, the item “Notes receivable and accounts receivable” is divided into “Notes receivable” and “Accounts receivable”, and the item “Notes payable and accounts payable” is divided into “Notes payable” and “Accounts payable”. In the income statement, regarding the item “Research and development expenses”, in addition to reflecting the expenses incurred during the research and development process, it also includes the amortization of self-developed intangible assets originally listed in the item “Administrative expenses”. The changes in accounting policy have no effect on consolidation and the Company's net profit and owner's equity.

(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

There is no change in the consolidated statements scope during the report period.

Yantai Changyu Pioneer Wine Co. Ltd.

Board of Directors

August 28th, 2019