

**Yantai Changyu Pioneer Wine Co., Ltd.****2020 Semi-annual Report Abstract****1. Important Notice**

This Semi-annual Report abstract comes from the full text of Semi-annual Report. If investors desire to comprehensively understand 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.

Except following directors, all other directors have personally attended the meeting for deliberating this 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
Enrico Sivieri	Director	Affected by COVID-19 epidemic	Zhou Hongjiang
Stefano Battioni	Director	Affected by COVID-19 epidemic	Zhou Hongjiang
Aldino Marzorati	Director	Affected by COVID-19 epidemic	Leng Bin
Liu Qinglin	Independent Director	Due to official business	Yu Renzhu

Non-standard audit opinion notice

☐ Available ☒ Not available

The pre-arranged planning of profit distribution for ordinary share or the pre-arranged planning of increasing capital stock with accumulation fund during the report period deliberated by the board of the directors

☐ Available ☒ Not available

The Company plans not to distribute cash dividend or give bonus shares or increase capital stock with accumulation fund.

The pre-arranged planning of profit distribution for preferred share during the report period deliberated and passed by the board of directors

☐ Available ☒ Not available

**2. Basic information of the Company**

**1) Brief introduction of the Company**

Abbreviation of Shares:	Changyu A, ChangyuB	Code number of the Shares	000869, 200869
Place of listing of Shares	Shenzhen Stock Exchange		
Contact person and information	Secretary of Board of Directors	Authorized Representative of Securities Affairs	
Name	Mr. Jiang Jianxun	Mr. Li Tingguo	
Address	56 Dama Road, Yantai, Shandong, China	56 Dama Road, Yantai, Shandong, China	
Tel	0086-535-6602761	0086-535-6633656	
E-mail	jiangjianxun@changyu.com.cn	stock@changyu.com.cn	

**2) Key accounting data and financial indicators**

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

☐ Yes ☒ No

	During the report period	In the same period of last year	Increase rate (%)
Business revenue (CNY)	1,401,606,792	2,558,274,785	-45.21%
Net profit attributed to the shareholders of the listed company (CNY)	307,035,572	603,403,789	-49.12%
Net profit attributed to the shareholders of the listed company after deducting the irregular profit and loss (CNY)	266,766,849	552,490,695	-51.72%
Net cash flows from the operating activities (CNY)	-29,652,821	499,476,006	-105.94%
Basic earnings per share (CNY/share)	0.45	0.88	-48.86%
Diluted earnings per share (CNY/share)	0.45	0.88	-48.86%
Weighted average for earning rate of the net assets	2.93%	6.13%	-3.20%
	The end of this report period	The end of last year	Increase rate (%)
Total assets (CNY)	13,286,972,498	13,647,932,568	-2.64%
Net Assets attributed to the shareholders of the listed company (CNY)	10,131,114,317	10,308,910,198	-1.72%

**3) Situation for the number of shareholders and shareholdings of the Company**

Unit: share

Total common shareholders at the end of report period	44,334	Total number of preferred shareholder recovering voting power at the end of report period (if have)			0	
Shareholdings of the top 10 shareholders						
Name of Shareholder	Character of shareholder	Shareholding ratio	Shareholding amount	Number of restricted share	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	2.25%	15,440,794	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	1.20%	8,235,333	0		0
HONG KONG SECURITIES CLEANING CO., LTD.	Foreign legal person	1.14%	7,815,014	0		0
FIDELITY PURITAN TRUST: FIDELITY SERIES INTRINSIC OPPORTUNITIES FUND	Foreign legal person	0.93%	6,350,762	0		0
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	Foreign legal person	0.76%	5,224,746	0		0
CENTRAL HUIJIN ASSET MANAGEMENT LTD.	State-owned legal person	0.69%	4,761,200	0		0

HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED- ACCOUNT CLIENT	Foreign legal person	0.60%	4,139,187	0	0
Explanation for above shareholders' associated relationship or concerted action		Among the top 10 shareholders, Yantai Changyu Group Company Limited has no associated relationship or concerted action relationship with the other 9 circulating shareholders, and the relationship among the other shareholders is unknown.			
Explanation for shareholders' who are involved in securities margin trading business (if have)		The top 10 shareholders are not involved in securities margin trading business.			

#### 4) Changes in controlling shareholders or actual controllers

Changes in the controlling shareholders during the report period

☐ Available ☒ Not available

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

Changes in the actual controllers during the report period

☐ Available ☒ Not available

There is no change in the actual controllers during the report period.

#### 5) Total number of preferred shareholders of the Company and shareholding status of the top 10 preferred shareholders

☐ Available ☒ Not available

There is no shareholding status of preferred shareholders during the report period.

#### 6) Situation of corporation bonds

Whether or not there are the Company's corporation bonds issued in public and listed in the stock exchange, but not due on the issuance date approved in the semi-annual report or failing to pay in full on the due date  
No.

### 3. Management Discussion and Analysis

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

Whether the Company need to comply with the disclosure requirements of a particular industry  
The Company is not required to comply with the disclosure requirements of special industries, and the operating conditions during the report period are as follows:

##### ①Summary

During the report period, affected by many factors such as the slowdown of domestic economic growth, increased uncertainty caused by Sino-US trade frictions and COVID-19 epidemic, domestic wine consumption has experienced a sharp decline, and market competition is very fierce. The sales of both domestic wine and imported wine continued the “double decline” trend over the past two years. Some wine production and operation enterprises got into trouble. Facing quite a lot of unfavorable factors, while taking the protection of the health of employees and cooperative partners as the top priority of the work, the Company actively resumed all aspects of work based on the unified arrangements of the state and the actual situation. The Company insisted in taking the market as the center, insisted the development strategy of “Focus on high quality, Focus on middle-and-high level, Focus on big product” and the marketing concept of “Increasing sales from the terminal and continuously-cultivated consumers” without wavering, and strove to promote product sales. In the first half year, the Company realized the business income of CNY 1,401.61 million with a year-on-year decrease of 45.21% and the net profit attributable to shareholders of the parent company realized CNY 307.04 million with a year-on-year decrease of 49.12%. During the report period, the Company mainly did following work:

Firstly, the Company bended over backwards to raise anti-epidemic materials, carried out the prevention and control measures, and fight against the epidemic. After the outbreak, the Company immediately formulated relatively strict epidemic prevention and control measures, regulated responsibilities at various levels, paid close attention to relevant policies and measures and epidemic developments, and conducted publicity and guidance work to employees and partners through various tools such as WeChat, in order to guide them to respond correctly, not to be panic, not to believe and spread rumors and to spread positive energy. By contacting overseas acquisition companies and overseas partners, the Company purchased large numbers of anti-epidemic materials such as masks and protective clothing that are shortage in domestic from eight countries including Australia, Spain, Chile, France, South Korea, Japan, Malaysia and Thailand, and also provided a large amount of anti-epidemic materials to the Company’s overseas enterprises when the foreign epidemic situation is severe, better meeting the anti-epidemic needs of domestic and foreign employees and partners.

Secondly, the Company vigorously assisted distributors to accelerate product sales. After the outbreak of the epidemic, due to the drastic reduction in dinner gatherings and the slowdown in sales of alcoholic beverages, there were greater pressures on distributors’ inventory. The Company actively took efforts to make measures and maintained daily communication with distributors through calls, SMS, WeChat, FaceTime, etc. to keep abreast of the market situation and to ensure the

normal development of business to the greatest extent. After the country released the restrictions on personnel flow, the Company's marketing team seized various opportunities and rushed to the front line of the market to carry out marketing activities within the scope of the policy and make great efforts to promote product sales, alleviating the pressure on distributors' inventory and funds and ensuring the healthy operation in sales channels.

Thirdly, the Company re-marked brand positioning, focused on strategic brands and improved brand manager system. The Company divided the brands of all kinds of alcoholic products into four levels, strategic brand, key brand, cooperative brand and independent brand, according to the resource input, team input and future pursuit goals. Among them, the strategic brand is the brand built with the strength of the whole company, which will be promoted by the main sales team and is the main brand for future sales growth; the key brand is the brand that remains the current investment and policies basically unchanged; the cooperative brand is the brand that the company does not invest in resources and basically does not use the power of the sales team, which grows mainly in virtue of external forces and through actively seeking cooperation with large businessmen. For domestic wine, the Company formed 7 brand manager systems, containing Moser, AFIP and Golden Ice Valley, Castel and Baron Balbon, Rena Castle, Noble Dragon, Zenithwirl and J-Lormin. For Brandy, the Company formed a marketing department system for four major brands including Koya, Five-star, Mminni and Pageese. For imported wine, the Company has formed four brand teams including Kilikanoon, Indomita, Atrio and Mirefleurs. The Company reviewed, summarized, evaluated and improved the marketing contents provided by each brand manager in order to practically guide the market, preliminarily improving the creation and implementation of marketing contents of each brand system.

Fourthly, the Company correctly understood the market development situation and further improved the marketing system. During the report period, with the rapid development of IT and the push from COVID-19, "online shopping" accelerated to replace "offline shopping", "experiential scenario" accelerated to replace "traditional physical shop", "online customer acquisition mode" accelerated to replace "traditional customer acquisition mode", and "online office" accelerated to replace "traditional office". In order to better adapt to the new market development trends, while consolidating the advantages of traditional channels, the Company vigorously promoted digital marketing transformation, made better use of blockchain technology, exploited new ways for consumers to interact deeply online and widely attract member customers by virtue of the brand applet and Smart Retail Mall applet developed by Tencent in order to further enhance customer stickiness, empower distributors, conduct offline diversion for them, provide big data analysis for regional consumers and accelerate the integration of online and offline businesses. Adopting the idea of "Establishing images and maintaining price system for nationwide brands, focusing on sales of brands owned by E-commerce company", for Noble Dragon, the Company proposed to adopt the online mode of "1+4" that made the sales in existing E-commerce company continue growing stronger and bigger and newly developed four major online enterprises and launched four individual sets of products to be sold online; for Brandy and Zenithwirl, the Company adopted the mode of "Mainly based on big online enterprises and supplemented by the E-commerce company" to strive to expand the scale of online sales.

Fifthly, the Company continued strengthening quality management and continuously improved product quality. In accordance with the quality improvement programme, the Company increased investment in key links and key equipment affecting product quality. It established brand winemaker system, completed the selection and appointment, salary settings and work procedures settings of winemakers at all levels, clarified the core requirements of winemakers at all levels in product shelf life, blind tasting result, international awards, external quality and presentation ability, and signed work commitment letter with every winemaker to further clarifying the quality improvement responsibilities of winemakers, giving full play to the professional potential of winemakers. It strengthened the integration of both global raw materials and global winemakers and selected first-class outsourcing design companies for product appearance design to reach the requirement of “not stunning, not to public”. Besides that, the Company established a dual quality evaluation system of internal quality management departments plus external consumers to evaluate the quality in an all-around way and connected the evaluation results with the income of the person in charge of production.

Sixthly, the Company strengthened financial management and internal audit to prevent operational risks. During the report period, the Company mainly strengthened capital management, budget management and tax planning, reduced capital occupation, improved capital turnover efficiency and enhanced the pertinence and effectiveness of budget management. It further improved the financial management system for overseas enterprises and focused on monitoring the cash flow to avoid debt repayment risks. It conducted special audit in key expenses, conducted off-office audit in key personnel, conducted settlement audit in technological transformation and infrastructure projects, and investigated personnel accountable for economic losses, ensuring the full implementation of the Company’s management and control system. It also conducted a comprehensive investigation, statistic and analysis to the inventory of Changyu products held by distributors, which provided important decision-making basis for operating management.

Seventhly, the Company accelerated the reform of employment system and improved the capacity of the team. During the report period, the Company implemented the employment strategy of “Strictly control the number of new recruits and release the restriction in demission”, raised the standards for employing new recruits, adopted the mode of “survival of the fittest”, and improved the overall capacity of the sales team through “upgrade, simplification and absorption”.

In order to achieve the business objectives set by the Company at the beginning of the year, the Company will focus on following work in the second half of 2020:

Firstly, the Company will take “pursuing market health” as the top priority to implement distributor-level code scanning during inbound and outbound and establish the timely reporting and monitoring system for distributors’ inventory. It will establish “limited quantity” and “reduced quantity” rules to distributors selling core products, which will be associated with cross region sales, sales at low price and online sales and so on. In addition, the Company will strengthen the flight audit in allopatric warehouses, cost and distributors’ inventory. It will also vigorously continue promoting the order-driven system to prevent malicious cross region sales, sales at low price and illegal online sales so as to maintain the overall stability and smoothness of the Company’s sales

system.

Secondly, the Company will further clarify brand and product positioning, clearly divide strategic brands, key brands, cooperative brands and independent brands, formulate marketing scheme based on “life taste+ health concepts+ consumption guidance”, distribute market resources on the basis of brand positioning and do well in brand building and new product market cultivation in order to better play the role of different brands in promoting and driving product sales.

Thirdly, the Company will strengthen the marketing assessment, determine market personnel’s income, promotion and dismissal through considering the market health degree and the indicator assessment results, adhere to the assessment of proportion of salary in sales amount and proportion of sales expense in pre-tax sales amount, and promote the integration of regional logistics and distribution center in order to better control the market costs.

Fourthly, the Company will further improve the brand winemaker system and continue significantly improving product quality. It will take the best-selling product in domestic and overseas at the similar price as the benchmark, strive to realize a comprehensive surpassing in product quality and cost performance.

Fifthly, the Company will accelerate the pace of digital marketing transformation, work closely with Tencent and other outsourcing units to do well in the production of products integrating “anti-cross-region-sales code + marketing code + anti-counterfeiting code”, launch brand applet and Smart Retail Mall applet and strengthen cooperation with major online business so as to constantly expand the sales scale of the Company’s online products.

Sixthly, the Company will implement the Youth Excellent Talent Plan and adopt the way of “tutor leading apprentices” for tracking and training to provide more job exchanges and market practice opportunities for outstanding talents, which will enhance working ability and broaden promotion channels.

Seventhly, the Company will scientifically formulate the procurement plan of grapes and other raw materials according to the industry development trend and the Company’s future development in order to fully complete the procurement work of raw materials this year.

## **②Analysis of main business**

### **i. Change in major financial data on year-on-year basis**



Unit: CNY

	In the report period	In the same period of last year	More or less (%)	Reason for changes
Operating revenue	1,401,606,792	2,558,274,785	-45.21%	Mainly owing to the year-on-year decrease in sales volume affected by COVID-19 epidemic
Operating costs	574,650,677	936,252,225	-38.62%	Mainly owing to the year-on-year decrease in sales volume affected by COVID-19 epidemic
Sales expenses	250,531,046	591,970,801	-57.68%	Mainly owing to the year-on-year decrease in marketing activities and marketing input affected by COVID-19 epidemic
Administration expense	113,069,869	155,552,312	-27.31%	Mainly owing to the year-on-year decrease in employee compensation, repair charge and administrative expenses
Financial expense	11,961,102	8,789,583	36.08%	Mainly owing to the significant year-on-year increase in long-term loan
Income tax expense	109,689,969	210,281,578	-47.84%	Mainly owing to the significant year-on-year decrease in total profit caused by the reduce in profitability affected by COVID-19 epidemic
Net cash flow from operating activities	-29,652,821	499,476,006	-105.94%	Mainly owing to the significant year-on-year decrease in received cash from selling products and providing labor service affected by COVID-19 epidemic
Net cash flow from investment activities	-39,726,131	-114,534,608	65.32%	Mainly owing to the significant year-on-year decrease in the cash outflow for investment activities including purchase and construction of fixed assets and fixed time deposit etc
Net cash flow from financing activities	4,704,625	-18,128,357	125.95%	Mainly owing to the year-on-year increase in received cash from obtaining bank loan

Net increased amount of cash and cash equivalents	-64,982,286	366,866,743	-117.71%	Mainly owing to the significant year-on-year decrease in received cash from selling products and providing labor service affected by COVID-19 epidemic
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## ii. Composition of operating revenue

Unit: CNY

	This report period		The same period of last year		Year-on-year increase or decrease (%)
	Amount	Proportion in operating revenue	Amount	Proportion in operating revenue	
Total operating revenue	1,401,606,792	100%	2,558,274,785	100%	-45.21%
Sector-classified					
Sector of liquor and alcoholic beverage	1,401,606,792	100%	2,558,274,785	100%	-45.21%
Product-classified					
Wine	993,972,425	70.92%	1,928,554,268	75.38%	-48.46%
Brandy	372,909,239	26.61%	563,451,068	22.02%	-33.82%
Tourism	22,217,264	1.59%	42,604,382	1.67%	-47.85%
Others	12,507,864	0.89%	23,665,067	0.93%	-47.15%
Area-classified					
Domestic	1,183,622,477	84.45%	2,330,780,056	91.11%	-49.22%
Overseas	217,984,315	15.55%	227,494,729	8.89%	-4.18%

## iii. The cases of industry, product or area accounting for over 10% in the Company's operating revenue or operating profits

Unit: CNY

	Operating revenue	Operating cost	Gross margin	Year-on-year increase or decrease (%) of operating revenue	Year-on-year increase or decrease (%) of operating cost	Year-on-year increase or decrease (%) of gross profit rate
Sector-classified						
Sector of liquor and alcoholic beverage	1,401,606,792	574,650,677	59%	-45.21%	-38.62%	-4.40%
Product-classified						
Wine	993,972,425	397,080,517	60.05%	-48.46%	-41.62%	-4.68%
Brandy	372,909,239	164,881,016	55.79%	-33.82%	-28.22%	-3.45%
Tourism	22,217,264	6,492,009	70.78%	-47.85%	-47.25%	-0.33%
Others	12,507,864	6,197,135	50.45%	-47.15%	-56.10%	10.10%
Area-classified						
Domestic	1,183,622,477	442,340,877	62.63%	-49.22%	-44.09%	-3.43%
Abroad	217,984,315	132,309,800	39.30%	-4.18%	-8.84%	3.10%

Explanation on the causes of over 30% year-on-year changes of the related comparison data

During the report period, the Company's operating revenue and operating costs, as well as the operating revenue and operating costs of wine, brandy, tourism and domestic business, all decreased significantly over the same period of last year, mainly due to the decline in the sales volume of products affected by COVID-19 epidemic.

### ③ Assets and liabilities situation

#### i. Major changes in assets

	The end of this report period		The end of the same period of last year		Proportion increase or decrease (%)	Explanation for major changes
	Amount	Proportion in the total assets (%)	Amount	Proportion in the total assets (%)		
Monetary funds	1,476,207,055	11.11%	1,848,632,953	13.81%	-2.70%	Mainly owing to the year-on-year decrease in the cash inflow for operating activities affected by COVID-19 epidemic
Account receivable	167,738,633	1.26%	186,131,192	1.39%	-0.13%	No major change
Inventory	2,936,133,260	22.10%	2,606,781,436	19.48%	2.62%	Mainly owing to the year-on-year increase in work-in-process including bulk wine at the end of report period
Investment real estate	28,344,687	0.21%	30,560,470	0.23%	-0.02%	No major change
Long-term equity investment	42,810,445	0.32%	0	0%	0.32%	Mainly owing to the establishment of SAS L&M HOLDINGS
Fixed assets	5,818,499,845	43.79%	5,684,612,653	42.48%	1.31%	Mainly owing to the transfer-in of construction in process during the report period
Construction in process	647,036,593	4.87%	789,872,373	5.90%	-1.03%	Mainly owing to the transfer of construction in process into fixed assets during the report period
Short-term borrowing	737,183,701	5.55%	678,170,667	5.07%	0.48%	Mainly owing to the increase in short-term bank loan in the second half year of last year
Long-term loan	218,613,336	1.65%	165,949,250	1.24%	0.41%	No major change

## **ii. Limitations of assets rights up to the end of the report period**

For the limitations of assets rights up to the end of the report period, please refer to Announcement on External Guarantee (Announcement no.:2016- temporary 021), Announcement on External Guarantee (Announcement no.:2018- temporary 020), Announcement on External Guarantee (Announcement no.:2019- temporary 038) and Announcement on Guarantee provided by Spanish Atrio Company for Bank Loan (Announcement no.:2020- temporary 013) disclosed on China Securities Journal, Securities Times and CNINFO (<http://www.cninfo.com.cn/>).

### **(2) Items related to financial report**

#### **① Compared with the financial report of the previous accounting period, explanation for the changes of accounting policy, accounting estimation and accounting method**

☒ Available ☐ Not available

During the report period, the Company made changes to the accounting policy implemented for “Income” in accordance with the relevant regulations of the Ministry of Finance. For other information about changes in accounting policy, please refer to *Announcement on Changes in Accounting Policy* (Announcement no.: 2020- temporary21)

#### **② The situation explanation for the correction of major accounting errors which need to be retrospect and restated during the report period**

☐ 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 financial report of the previous accounting period, explanation for the changes of the consolidated statements scope**

☐ Available ☒ Not available

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

Yantai Changyu Pioneer Wine Co., Ltd.  
Board of Directors  
August 28<sup>th</sup>, 2020