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

2018
Annual Report

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Judy Chan *(Chairlady, Chief Executive Officer)*
Mr. Fan Chi Chiu

Non-executive Directors

Ms. Hou Tan Tan Danielle
Mr. Chow Christer Ho

Independent non-executive Directors

Mr. Ho Kent Ching-tak
Mr. Lim Leung Yau Edwin
Mr. Alec Peter Tracy

COMPLIANCE OFFICER

Mr. Fan Chi Chiu

COMPANY SECRETARY

Mr. Chiu Ming King

AUTHORISED REPRESENTATIVES

Mr. Fan Chi Chiu
Mr. Chiu Ming King

AUDIT COMMITTEE

Mr. Lim Leung Yau Edwin *(Chairman)*
Mr. Chow Christer Ho
Mr. Ho Kent Ching-tak

REMUNERATION COMMITTEE

Mr. Alec Peter Tracy *(Chairman)*
Ms. Hou Tan Tan Danielle
Mr. Lim Leung Yau Edwin

NOMINATION COMMITTEE

Ms. Judy Chan *(Chairlady)*
Mr. Chow Christer Ho
Mr. Ho Kent Ching-tak

COMPLIANCE ADVISER

Southwest Securities (HK) Capital Limited
40/F, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

AUDITOR

Ernst & Young
Certified Public Accountants
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1 Tim Mei Avenue
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Hong Kong

HONG KONG LEGAL ADVISER

H.M. Chan & Co in association with Taylor Wessing
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Hong Kong

REGISTERED OFFICE

Cricket Square
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KY1–1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

Corporate Information

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

China Construction Bank Corporation, Taigu Branch
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Taigu County
Jinzhong City
PRC

China Merchants Bank, Shanghai Branch, Taixing Sub-branch
No. 847 Xinzha Road
Jing'an District
Shanghai
PRC

STOCK CODE

8146

Chairlady's Statement

Dear Shareholders,

On behalf of the board of directors (the "Directors" or the "Board") of Grace Wine Holdings Limited ("Grace Wine" or the "Company", and together with its subsidiaries, the "Group", "we", "us" or "our"), I am pleased to present the Company's 2018 annual report.

In this statement, I highlight some of our achievements this year, which I hope will help you to gain a better understanding of our business beyond what can be learned from looking at the financial results.

For the whole year of 2018, our revenue grew to RMB72.6 million, representing an increase of 3.1% from RMB70.4 million for the same period in 2017. Our cost of goods sold ("COGS"), however, was negatively affected by past decisions made by us following 2013's significant market downturn. More specifically, in order to balance our sales and inventory, we decided to lower our production for the vintages 2013-2016, which raised our per-unit production costs. We expect that the COGS will return to historical norms in the second half of 2019 as we continue to reduce our inventories of wine made in the 2013-2016 period. Our listing costs, sale of subsidiaries and the change in our subsidiaries' dividend policy are the three other principal factors that affected our 2018 results. You can find further details in the section headed "Management Discussion and Analysis" section in this annual report.

The wine market in the People's Republic of China (the "PRC", "China" or "Mainland China") is dynamic and ever-changing. We compete not only with an increasing number of local producers, but also with producers from all over the world. We believe that continuing innovation and embracing technology is our key to moving forwards in the industry. We are particularly excited about the growth we have achieved on our online platforms. Compared to 2017, our online revenue in 2018 grew by 34.1%. Online platforms not only offer us an exciting way to grow; we are also able to use this channel to gather useful data about our consumers, helping us to understand how to service them better.

In my previous interim statement, I wrote about our collaboration with key opinion leaders (KOLs) in other industries. We continue to believe that this channel will enable us to tap into the non-drinking millennial market. Collaborations with KOLs can be difficult, however, as they can be costly to employ and are often selective when selecting their business partners. We have been able to overcome these challenges by leveraging the reputation that we have established in the industry and our brand recognition. In 2018, our revenue through this channel increased by 1.3 times from 2017 and we believe it will continue to grow in 2019.

Our brand is one of our most important assets and we will continue to focus our efforts on further strengthening our brand in the upcoming year. In 2018, our brand and wine products continued to receive awards and recognitions. Our brand was named a Top 10 Annual Influential Brand of 2017 by WBO Wine Industry. Each of our "Deep Blue 2015", "Tasya's Reserve Cabernet Franc 2015", "Premium Cabernet Merlot 2017" and "Nian Hua 2017" won the Silver Award in the 2018 Cathay Pacific Hong Kong International Wine & Spirit Competition.

Chairlady's Statement

As part of our corporation's social responsibilities, we commenced an energy and water-saving initiative at our Shanxi winery last year. With our team's commitment to the cause and their creative-thinking solutions, we were able to reduce our water and electricity consumption by 33% and 7%, respectively.

Finally, our viticultural and cellar teams continue to search for new potential varieties (after our success with our new products Aglianico, Marselan and Syrah) which suit our vineyards, as well as developing new products, lowering costs and improving our product quality. We welcome you to visit our winery and allow us share with you some of our results.

China's economy may be heading toward a period of slower growth, but we still believe strongly in the branded-consumer-goods market in China over the long term. Delivering satisfactory results to you is important to us and we are fully prepared to do our best in the upcoming challenging year. On behalf of the Board and the team, once again I would like to express my gratitude to our shareholders and clients for your support throughout the years.

Judy Chan
Chairlady

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") amounted to RMB90,000 billion in 2018, representing an increase of 6.6% as compared to the previous year. The overall national economy remained stable and continued to develop favorably in line with market expectation. With the continuous growth of the macroeconomy and ongoing urbanization in the PRC, the average income of urban households has risen in recent years. Per capita annual disposable income increased from RMB24,565 in 2012 to RMB36,396 in 2017, representing a compound annual growth rate ("CAGR") of 8.18%. Increased spending power suggests that consumers today are more likely to pursue wine of better quality and higher prices, which has brought a positive impact to the wine market.

Since the successful introduction of wine into the PRC market in the 1990s, the popularity of wine has increased among the middle class and wealthy class, and their attitudes and perspectives towards wine have also changed. Whereas wine-drinking used to be primarily of a business entertainment or social need, it has now become a pursuit for one's own health and interest. The awareness of different brands of wine has also increased. In recent years, in response to the rapid economic growth of some non-first tier cities, the wine market has been expanded to areas other than major coastal cities. Spending on domestic wine has also increased as a result of wine culture penetrating into the community.

According to data monitored by the Ministry of Commerce of the PRC, the year-on-year sales volume and sales of wine in the PRC increased by 33.5% and 3.3%, respectively, during the period from January to July 2018. According to the National Bureau of Statistics of China, the accumulated sales income of wine production enterprises above the national level from January to June 2018 amounted to RMB19.21 billion, representing a year-on-year increase of 4.7% and a growth rate of 4.3% as compared with the same period last year. The total profit amounted to RMB2.08 billion, representing a year-on-year increase of 4.3%.

According to the "13th Five-Year Plan of Wine Industry" (《葡萄酒行業十三五規劃》), the PRC government planned to implement the construction of wine grape cultivation bases to cultivate wine grapes that can better satisfy the taste of local residents. Those policies and measures are expected to have positive effects on the wine-making industry. For instance, both Shanxi and Ningxia governments have provided subsidies to the vineyard farmers. The China Alcoholic Drinks Association issued the "13th Five-Year Guidance of China Alcohol Beverage Industry" (《中國酒業「十三五」發展指導意見》), which suggested developing the wine industry and integrating the industrial chain from cultivating wine grapes to producing wine, and distributing and selling wine as well, to encourage the development of small and medium wineries. The Shanxi government has also published the "13th Five-Year Plan of Modern Agriculture in Shanxi Province" (《山西省「十三五」現代農業發展規劃》), which was aimed at promoting the planting of fruits, such as grapes and apples, and facilitating the development of processed wine-making for fruit wines such as grape wine. In addition, with the issue of a series of policies and regulations, such as the "Wine Industry 12th Five Development Plan" (《葡萄酒行業十二五發展規劃》) and "Wine Manufacturing Industry Access Conditions" (《葡萄酒製造業准入條件》), a considerable number of small and medium enterprises were forced to exit the market as they no longer met the corresponding standards. Large enterprises such as our Group, especially with integrated wine grape cultivation, wine production, logistics and sales, are likely benefit from these policies, bringing more opportunities to the Group.

Management Discussion and Analysis

Our gross profit margin, affected by the higher production costs of our inventory sold this year, had decreased in 2018. As the majority of our inventory with higher production costs was sold in 2018, our gross profit margin of sales is expected to improve in 2019. During the track record period, the first phase construction of our Ningxia Winery completed in December 2017 with a gross floor area ("GFA") of approximately 8,600 sq.m., which has 71 wine-making tanks and is expected to be fully operational after the harvest season of grapes in 2018. After a thorough consideration of the outlook of the current domestic economy, the market condition of the areas in which our key distribution channels are located, as well as the potential risks in increasing our investment in Ningxia especially given our current financial condition and expected sales trend, we believe that the Group should take a more prudent and cautious approach to our business development plan at the moment. We have therefore decided to suspend our construction plan of the second phase of our new winery in Ningxia. We will continuously monitor the development of the market and execute the plan when the best time comes.

Due to the seasonality of our sales and the effect of the generally unstable economic environment, the revenue of the Group for the first quarter of 2019 is expected to decrease as compared to the corresponding period in 2018. As a result, we foresee that it is possible for the Group to record a net loss for the first quarter of 2019. The Group plans to adopt a prudent and stable development approach in the future, and continue its effort to strengthen and promote our brand as well as to provide quality products. We hope that this will bring continuous sales growth and diversified development opportunities for us. In addition, with the rapid development of Internet technology and the increasing purchasing power of PRC consumers, the development of an online sales platform appears to be increasingly important. Therefore, we will continue to seek new sales and distribution channels while maintaining our distributors as a primary sales channel, including strengthening our online sales platform for further development as well as striving for a higher market share in the PRC market. We believe that as the population expands and urbanization moves ahead, living standards will enhance in the PRC and the number of people consuming wine will continue to increase, resulting in the continuous growth of the PRC wine market and bringing better business opportunities to the Group.

Management Discussion and Analysis

Revenue

Our revenue increased by RMB2.2 million or 3.1% from RMB70.4 million for the financial year ended 31 December 2017 ("FY2017") to RMB72.6 million for the financial year ended 31 December 2018 ("FY2018"), primarily due to the increase in sales by our distributor, ASC, and our online sales, offset by the decrease in sales by our distributor, Shanxi Jiajia. We sold 1,221,000 bottles in FY2018 as compared to 1,202,000 bottles in FY2017. The average selling price increased slightly from RMB58.5 in FY2017 to RMB59.4 in FY2018 due to the increase in selling prices of certain entry-level wine products during the year.

Cost of sales

Our cost of sales increased by RMB10.8 million or 29.8% from RMB36.3 million for FY2017 to RMB47.1 million for FY2018, primarily due to the increase in unit costs of production of the inventory sold during the period which was produced in years of lower production level and thus experienced a higher absorption of the fixed costs per unit.

Gross profit and gross profit margin

Our overall gross profit decreased by RMB8.7 million or 25.4% from RMB34.1 million for FY2017 to RMB25.4 million for FY2018, due to the increase in cost of sales as aforementioned. Our overall gross profit margin decreased from 48.4% for FY2017 to 35.3% for FY2018, mainly due to the increase in the unit cost of wine sold as aforementioned.

Other income and gains, net

Other net income and gains increased by RMB4.8 million or 2.4 times from RMB2.0 million for FY2017 to RMB6.8 million for FY2018, mainly due to the gain on disposal of subsidiaries amounting to RMB5.7 million for FY2018.

Selling and distribution expenses

Selling and distribution expenses increased by RMB0.8 million or 22.8% from RMB3.5 million for FY2017 to RMB4.2 million for FY2018, mainly due to the increase in promotion and exhibition expenses.

Administrative expenses

Administrative expenses remained steady at RMB24.1 million for FY2018 as compared to RMB23.2 million for FY2017.

Finance costs, net

No finance cost was incurred for FY2018 as compared to RMB0.6 million in FY2017 due to the full repayment of our bank loans in the previous year.

Income tax credit/(expense)

Income tax credit amounting to RMB2.5 million was recorded for FY2018 as compared to income tax expense of RMB7.5 million for FY2017, which was mainly attributable to (i) the reversal of the deferred taxation provision made in previous years amounting to RMB6.7 million for FY2018, and (ii) the decrease in current tax provision due to the decrease in profit before tax in our PRC operating subsidiaries. Deferred tax provision was mainly made for the withholding tax payable upon the dividend payment from the PRC subsidiaries to offshore subsidiaries. During FY2018, the Board had resolved that the dividend payout ratio of the PRC subsidiaries, with the consideration of the past experience and future capital requirement plans, should not exceed 30% of their distributable profits. As a result, the deferred taxation provision previously made with the basis of a dividend payout ratio by the PRC subsidiaries at 100% was adjusted to 30% accordingly. The effect of the reversal of such provision was a gain of RMB6.7 million recognised as the profit for the year.

Management Discussion and Analysis

Profit for the year

As a result of the foregoing, our profit for the year increased by RMB5.1 million from RMB1.1 million for FY2017 to RMB6.2 million for FY2018, and our net profit margin increased from 1.6% in FY2017 to 8.5% in FY2018.

Liquidity, financial and capital resources

Our principal liquidity and capital requirements primarily relate to our capital investment in the construction and purchases of equipment of the Ningxia Winery, acquisition of raw materials for wine production as well as other costs and expenses related to our business operation. As at 31 December 2018, the carrying amount of the Group's bank and cash balances was RMB82.1 million, representing an increase of 155.3% as compared with that of RMB32.2 million as at 31 December 2017. The increase was mainly due to the proceeds received from share issuance. As at 31 December 2018, the Group's bank and cash balances include RMB25.4 million and HK$16.4 million, some insignificant amounts of USD and EUR (31 December 2017: RMB20.2 million and HK$14.0 million, and some insignificant amounts of USD and EUR).

Gearing ratio

The Group's gearing ratio is measured by total external borrowings divided by total equity. The gearing ratio of the Group as at 31 December 2018 was nil (31 December 2017: nil) as the Group does not have any external borrowings.

Harvest result of self-cultivated grapes

The management believes that the harvest result for the year is one of the important non-financial information to the Group due to the fact that the average unit production costs of the inventory for that year's vintage are affected by the total production volume of self-cultivated grapes harvested for that year, which will therefore impact the financial result of the Group for the subsequent years in which the inventory produced in that year was sold. The table below sets out the quantities of the harvested grapes and the preliminary decision in the use for the production of wine in our Shanxi Vineyard for 2017 and 2018:

Shanxi Vineyard

	2018 vintage No. of tonnes	2017 vintage No. of tonnes
Grapes harvested	**269.50**	204.60
Base wine produced according to the preliminary classifications		
Entry-level wine	**63.69**	93.27
High-end wine	**115.35**	36.30
	179.04	129.57

Management Discussion and Analysis

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 in Mainland China where most of the transactions are denominated in RMB, therefore the individual companies within the Group have minimal exposures of foreign exchange risk to its functional currency. Given that the presentation currency of the Group's consolidated financial positions is also RMB, the exchange gain or loss arising from currency translation is also insignificant. For the Group's subsidiaries outside Mainland China, transactions, including the Group's financing activities, may be denominated in Hong Kong Dollars or United States Dollars, and therefore are exposed to foreign exchange risks. The Group does not have a foreign currency hedging policy and does not use any financial instruments for hedging purposes. The Board monitors the Group's foreign currency exposures closely and may take appropriate measures to minimise the foreign currency risk exposures accordingly.

Principal risk to the Group

A discussion on the principal risks and uncertainties faced by the Group, together with the Group's internal control, is set out on pages 31 to 32 of this annual report. The financial risks are covered in Note 35 to the financial statements in this annual report. A more comprehensive analysis of the Group's risk factors is set out on pages 34 to 58 of the prospectus of the Company dated 12 June 2018 (the "Prospectus").

Contingent liabilities

As at 31 December 2018, the Group had no contingent liabilities (31 December 2017: nil).

Pledge of assets

As at 31 December 2018, the Group did not have any assets pledged for credit facilities (31 December 2017: nil).

Employee and remuneration policies

As at 31 December 2018, the Group had, including Directors, 136 employees (31 December 2017: 118 employees). Staff costs, including Directors' emoluments, amounted to RMB10.1 million for FY2018 (FY2017: RMB10.2 million). The remuneration policies for our Directors and employees are based on their experience, level of responsibility and general market conditions, and is reviewed and adjusted on an annual basis. The Company has adopted a share option scheme (the "Share Option Scheme") on 1 June 2018 for the purpose of providing incentives and rewards to eligible members of the scheme.

Management Discussion and Analysis

Comparison of Business Objectives with Actual Business Progress

The following is a comparison of the Group's business objectives as set out in the Prospectus with the Group's actual business progress up to 31 December 2018:

Business objectives up to 31 December 2018 as set out in the Prospectus	Actual business progress up to 31 December 2018
(1) To increase our brand awareness	
We intend to use our internal resources to, or increase marketing and promotion efforts in, among others, (i) the 20th anniversary brochures and events, advertising campaigns; (ii) finalise a multi-faceted sales arrangement with a scalable, "online-to-offline" wine and spirit retailer in the PRC; (iii) strengthen our sales capability through online sales; and (iv) further promote our existing wine product portfolio.	We have increased our marketing and promotion efforts as planned in our business objectives. We successfully carried out the 20th anniversary celebration events and advertising campaigns in 2018. Our online sales went up for FY2018 with the increase in investment and effort into the online sales platforms. We also continued on strengthening the promotion of our existing products. The negotiation with the "online-to-offline" wine and spirit retailer in the PRC was, however, suspended due to commercial reasons.
(2) To increase wine-making capacity	
• We intend to use approximately 3.0% of the net proceeds, or approximately RMB1.0 million (equivalent to HK$1.2 million), to construct the second phase of our Ningxia Winery, namely, the construction of the winery, such as administration and application fees for licences and permits and constructing the visitors' centre and ancillary utilities and facilities.	With the consideration of factors including the potential slowdown of the expected economy growth of PRC, the consumption growth of wine products for the geographical locations of our key distribution channels and hence the sales growth trend of our Group, it is expected that the potential risk in increasing the investment is elevated. As a result, the construction of the second phase of our Ningxia Winery has been decided to be postponed in the coming year.
• We intend to use approximately 3.0% of the net proceeds, or approximately RMB1.0 million (equivalent to HK$1.2 million) for the initial production costs of the first phase of our Ningxia Winery, including the purchase of raw materials and utility expenses	We have invested in the initial production costs of the first phase of our Ningxia Winery as planned in our business objectives. We have acquired raw materials (mainly grapes) for the wine production from our new Ningxia Winery.

Management Discussion and Analysis

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 of an estimated amount of approximately HK$40.6 million (equivalent to RMB33.1 million) after deducting underwriting commissions and all related expenses. The net proceeds received from the Share Offer are intended to be used in the manner consistent with that mentioned in the paragraph headed "Future Plans and Use of Proceeds" of the Prospectus.

For FY2018, the Company focused on increasing the wine-making capacity in Ningxia Winery, including investing in the operating expenditures of the first phase of our Ningxia Winery and the construction of the second phase of our Ningxia Winery. Approximately RMB1.0 million was used in the procurement of grapes and other raw materials for the first phase of our Ningxia Winery.

An analysis of the planned usage of net proceeds as stated in the Prospectus and the actual utilization of the net proceeds from the Listing Date up to 31 December 2018 and the intended use of the proceeds and the expected timeline are set out as below:

	Total planned use of proceeds as stated in the Prospectus as at 31 December 2020 RMB'000	Planned use of net proceeds during the period from the Listing Date to 31 December 2018 (1) RMB'000	Actual use of net proceeds during the period from the Listing Date to 31 December 2018 RMB'000	Unutilized Proceeds RMB'000	Expected timeline for the unutilized proceeds
To construct the second phase of our Ningxia Winery					
(i) Construction of the winery	15,000	1,000	–	15,000	By 31 December 2019 Note (a)
(ii) Purchase of plants and equipment	6,800	–	–	6,800	By 31 December 2019
Initial production costs of the first phase of our Ningxia Winery	6,700	1,000	1,000	5,700	N/A
Sales and marketing expenses	3,000	–	–	3,000	The unutilized use of proceeds will be used as per the Prospectus Note (b)
General working capital	1,598	–	–	1,598	The unutilized use of proceeds will be used as per the Prospectus Note (c)

Notes:

(a) As mentioned in the above section headed "Comparison of Business Objectives with Actual Business Progress", the construction of the second phase of our Ningxia Winery has been decided to be postponed in the coming year. The expected timeline for this unutilized proceeds of RMB1,000,000 will be by 31 December 2019. Besides, as per the Prospectus, the Company intends to use RMB9,000,000 and RMB5,000,000 for the year ending 31 December 2019 and 2020.

(b) As per the Prospectus, the Company intends to use RMB1,500,000 and RMB1,500,000 for the year ending 31 December 2019 and 2020.

(c) As per the Prospectus, the Company intends to use RMB798,000 and RMB800,000 for the year ending 31 December 2019 and 2020.

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions and industry development made by the Company at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry and the Directors are not aware of any material change to the planned use of proceeds as of the date of this report.

Final dividend

Pursuant to its meeting held on 15 March 2019, the Board has resolved not to declare the payment of any final dividend for FY2018 (FY2017: nil).

Future plans for material investments and capital assets

Save as disclosed in the Prospectus, the Group does not have other plans for material investments and capital assets.

Events after the reporting date

The Group has no significant events subsequent to 31 December 2018 up to the date of this report.

Significant investments, material acquisition and disposals

Save for the corporate reorganisation (the "Corporate Reorganisation") arrangement undergone by the Group in the preparation for the Listing, the Group did not have any significant investments, material acquisitions or disposal of assets, subsidiaries, associates or joint ventures during the year. Details of the Corporate Reorganisation are set out in the section headed "History, reorganisation and corporate structure" of the Prospectus.

Valuation of property

For the purpose of the Listing, a valuation appraisal for the market value as at 31 March 2018 was conducted on the property held by our Group located at Dongjia Village, Rencun Town, Taigu County, Jinzhong City, Shanxi Province, the PRC (the "Property"). The Property's market value of RMB52,991,000 as at 31 March 2018, as estimated by AVISTA Valuation Advisory Limited, was disclosed in the Prospectus. The additional amount of depreciation to be charged in the consolidated statement of profit or loss and consolidated statement of comprehensive income had the Property been stated at such valuation would be RMB1,923,000.

Valuation of biological assets

For the purpose of the Listing, a valuation appraisal of the market value as at 31 December 2017 was conducted on our biological assets (the "Biological Assets"). The movement of the Biological Assets during FY2017, as estimated by AVISTA Valuation Advisory Limited, was disclosed in the Prospectus. The movement of the Biological Assets for FY2018, which was measured at fair value less costs, is disclosed in the Note 17 to the Financial Statements in this annual report.

Directors and Senior Management

EXECUTIVE DIRECTORS

Ms. Judy Chan ("Ms. Chan"), formerly known as Judy Leissner, aged 41, was appointed as an executive Director on 14 February 2012 and the Chairlady of the Board and chief executive officer of the Company (the "Chief Executive Officer") on 24 July 2017. She is the Chairlady of the Nomination Committee of the Company. She first joined the Group in June 2002 as a director of Shanxi Grace Vineyard Co. Ltd.*(山西怡園酒莊有限公司) ("Shanxi Grace Vineyard"). She is primarily responsible for overseeing the general management and business development and formulates the business strategies and policies for the business management and operations of the Group.

Ms. Chan has over 17 years of experience in the wine making industry. Prior to joining the Group, from March 2000 to November 2001, Ms. Chan worked as an analyst at Goldman Sachs (Asia) L.L.C., in Hong Kong. Ms. Chan has been an independent non-executive director of Sing Tao News Corporation Limited (SEHK: 1105) (principally engaged in media operations) since June 2013. She has been an independent non-executive director and a member of the remuneration committee of Memories Group Limited (SGX: 1H4) (principally engaged in tourism businesses in Myanmar) since December 2017.

Ms. Chan graduated from the University of Michigan in the United States with a bachelor's degree in psychology, women's studies and organisational studies in December 1999. Ms. Chan was named as one of the "2014 Most Innovative Women in Food and Drink" by Fortune magazine and Food & Wine magazine in September 2014. She was also named as one of the "Future Women in the Mix in Asia: 12 to Watch" by Forbes Asia in March 2013. She was named as one of the 50 most important people in "The Decanter Power List 2013" published by the Decanter in July 2013 and a "Young Global Leader" by the World Economic Forum in March 2013. Ms. Chan was also awarded "Asia Wine Personality of the Year 2012" by The Drink Business magazine and the Institute & Masters of Wine in 2012. She was named as one of "China's 25 Most Influential Businesswomen" by Fortune China magazine in November 2012 and one of the "50 Most Influential Women in the Wine Industry" by The Drink Business magazine in December 2012. Ms. Chan was also awarded "Entrepreneur of the Year China 2010" under the category of Hong Kong/Macau Region Emerging Entrepreneur of the Year by Ernst & Young in 2010. Ms. Chan has been a member of the Second Session of the Chinese People's Political Consultative Conference of Jinzhong County (中國人民政治協商會議第二屆晉中市委員會委員), a member of the Chinese People's Political Consultative Conference of Shanxi Province (中國人民政治協商會議山西省委員會委員) and a member of the 11th Session of the Chinese People's Political Consultative Conference of Shanxi Province (中國人民政治協商會議第十一屆山西省委員會委員) since May 2005, February 2008 and January 2013, respectively. She was appointed as a member of the Ninth Session of the Shanxi Qiaolian (山西僑聯第九屆委員) on March 2013 and an executive director of the Fifth Session of the Shanxi Overseas Friendship Association (山西海外聯誼會第五屆常務理事) since December 2012. Ms. Chan has also been a director of the Seventh Session of the board of trustees of Huaqiao University (華僑大學第七屆董事會董事) since November 2014 and an honorary chairlady of the First Session of the Huaqiao University Youth Federation (華僑大學青年聯合會第一屆名譽主席) since October 2013.

Ms. Chan is the daughter of Ms. Wong Shu Ying, the substantial shareholder of the Company (the "Substantial Shareholder"), and is the sister-in-law of Ms. Hou Tan Tan Danielle, the non-executive Director.

* *for identification purpose only*

Directors and Senior Management

Mr. Fan Chi Chiu ("Mr. Fan"), aged 33, first joined the Group and was appointed as an executive Director on 24 July 2017. He is primarily responsible for overseeing the financial management and strategies, compliance and investor relations of the Group.

Mr. Fan has over ten years of working experience in the auditing and financial management industry. Mr. Fan has worked at ELL Environmental Holdings Limited ("ELL") (principally engaged in the provision of waste water services in the PRC) (SEHK: 1395) since April 2015, with his current position as chief financial officer, where he is primarily responsible for overseeing the financial management and the company's compliance with laws and regulations in Hong Kong. From April 2014 to March 2015, Mr. Fan was a finance director at Vantasia Holdings (H.K.) Limited (principally engaged in financial services business in the PRC) where he was primarily responsible for financial management, business strategic planning and investor relations. From July 2011 to February 2014, he worked as an analyst at Barclays Investment Bank. From October 2007 to June 2011, he worked at PricewaterhouseCoopers, with his last position as a senior associate.

Mr. Fan obtained his bachelor's degree in business administration, majoring in professional accountancy, from The Chinese University of Hong Kong in December 2007. Mr. Fan has been a member of the Hong Kong Institute of Certified Public Accountants since January 2011.

NON-EXECUTIVE DIRECTORS

Ms. Hou Tan Tan Danielle ("Ms. Hou"), aged 34, was appointed as a non-executive Director on 24 July 2017. She is the member of the Remuneration Committee of the Company. She is primarily responsible for advising the Company on issues of strategy, policy, performance, accountability, resources, key appointments and standard of conduct.

Ms. Hou has been acting as the deputy art director of King Fook Holding Limited (SEHK: 280) since June 2016. From February 2015 to May 2016, she worked as a specialist trainee/cataloguer in the jewellery department of Sotheby's Hong Kong Limited. From July 2008 to August 2011, Ms. Hou worked as an analyst in the China investment banking department of Citigroup Global Markets Asia Limited.

Ms. Hou obtained her bachelor's degree in business administration from Abilene Christian University in the United States in May 2008.

Ms. Hou is the daughter-in-law of Ms. Wong Shu Ying, the Substantial Shareholder, and is the sister-in-law of Ms. Chan, the executive Director, Chairlady and Chief Executive Officer.

Mr. Chow Christer Ho ("Mr. Chow"), formerly known as Chow Ho, aged 45, was appointed as a non-executive Director on 24 July 2017. He is the member of the Nomination Committee of the Company. He is responsible for advising the Company on issues of strategy, policy, performance, accountability, resources, key appointments and standard of conduct.

Mr. Chow has over 16 years of experience in the real estate development and investment industry. Currently, Mr. Chow is a managing director of LaSalle Investment Management, a member of the Jones Lang LaSalle Group (principally engaged in real estate investment management), where he is primarily responsible for advising and managing real estate investment portfolios of institutional investors. From 2007 to March 2012, he worked at Jones Lang LaSalle, with his last position as the head of corporate finance, Greater China, where he was primarily responsible for providing real estate investment advisory and consulting services. From January 2003 to 2007, Mr. Chow worked at Hong Kong Disneyland Management Limited with his last position as development manager, where he was primarily responsible for the master planning, infrastructure and development management of the Hong Kong Disneyland Resort.

Mr. Chow obtained his bachelor's degree in civil engineering and his master's degree in civil engineering from the University of California, Los Angeles (UCLA) in the United States in June 1995 and June 1996, respectively. He then obtained his master's degree in business administration from the Hong Kong University of Science and Technology in August 2002. Mr. Chow also serves on the MBA Alumni Advisory Board of the Hong Kong University of Science and Technology business school since 2011 and has been on the jury board of the MIPIM Asia Awards, an internationally renowned real estate competition, since 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Kent Ching-tak ("Mr. Ho"), aged 38, was appointed as an independent non-executive Director on 1 June 2018. He is the members of the Audit Committee and Nomination Committee of the Company. He is responsible for providing independent judgement on strategy, policy, performance, accountability, resources, key appointments and standard of conduct.

Mr. Ho was a non-executive director from May 2010 to February 2014 and has been acting as an executive director of Sing Tao News Corporation Limited (SEHK: 1105) since February 2014 where he is primarily responsible for the development of digital media and related business in Hong Kong, North America, Australia, Europe and the PRC.

Mr. Ho has over eight years of experience in media business development. He is also experienced in wealth management and investments focusing on high-tech industries since 2015. In May 2015, Mr. Ho founded Spectrum 28, a venture capital firm based in Silicon Valley, where he has been a managing partner since June 2015.

Mr. Ho obtained his bachelor's degree in economics and a certificate in the markets and management programme from Duke University in the United States in May 2003. He then obtained a master's degree in business administration from Stanford Graduate School of Business in the United States in June 2009. Mr. Ho has also been a member of the board of directors of the Hong Kong Science and Technology Parks Corporation since July 2017, a member of the Hong Kong Trade Development Council's Innovation and Technology Advisory Committee since April 2017 and was conferred the title of Honorary Trustee of Peking University in December 2016.

Directors and Senior Management

Mr. Lim Leung Yau Edwin ("Mr. Lim"), aged 56, was appointed as an independent non-executive Director on 1 June 2018. He is the Chairman of the Audit Committee of the Company and the member of the Remuneration Committee of the Company. He is responsible for providing independent judgement on strategy, policy, performance, accountability, resources, key appointments and standard of conduct.

Mr. Lim has over 33 years of experience in the finance and banking industry. Currently, he is the Market Head of China and Taiwan at HSBC Private Banking since October 2018. From July 2016 to October 2018, he worked at Credit Suisse AG Hong Kong branch, with his last position as a managing director and the market group head. From June 2011 to July 2016, Mr. Lim worked at J.P. Morgan Private Bank, with his last position as a managing director and the head of private wealth management, Northeast Asia, where he was primarily responsible for leading and supervising his team and delivering investment, wealth and capital advisory services to high net worth clients in the North East Asia region. From August 2006 to June 2011, he worked at DBS Bank (Hong Kong) Limited, with his last position as head of North Asia, private banking and wealth management, where he was primarily responsible for providing wealth management advisory services to high net worth individuals in the region. Prior to that, from 1986 to 2006, Mr. Lim had worked at various banks including Credit Suisse, Citibank, N.A. and Barclays Bank Plc.

Mr. Lim obtained his bachelor's degree in business administration, majoring in finance, from The Chinese University of Hong Kong in July 1986. Mr. Lim has been certified as a private wealth professional by the Private Wealth Management Association Limited since March 2016.

Mr. Alec Peter Tracy ("Mr. Tracy"), aged 53, was appointed as an independent non-executive Director on 1 June 2018. He is the chairman of the Remuneration Committee of the Company. He is responsible for providing independent judgement on strategy, policy, performance, accountability, resources, key appointments and standard of conduct.

Mr. Tracy has over 23 years of experience in the legal industry. As of March 2018, Mr. Tracy is Chief Operation Officer and general counsel to Admiralty Harbour Capital Limited (formerly known as TCL Capital (Hong Kong) Limited) (principally engaged in asset management and advising on securities). Prior to this, Mr. Tracy was a counsel at Ascent Capital Advisors Limited (principally engaged in growth capital, middle market buyout and special situation investments) from January 2017 to December 2017, where he was primarily responsible for advising on legal matters and assisting with the making and monitoring of private equity investments. From September 1994 through June 2016, he practiced law with Skadden, Arps, Slate, Meagher & Flom LLP and its affiliated law practices ("Skadden"), with his last position as a partner in Skadden's Hong Kong office. At Skadden, he advised companies, investment banks, financial sponsors and governmental entities on cross-border mergers and acquisitions, corporate finance transactions and general corporate matters.

Mr. Tracy obtained his bachelor's degree in East Asian studies from Princeton University in the United States in June 1989. He then obtained a juris doctor degree from New York University in the United States in December 1994. Mr. Tracy was admitted to the New York State bar in August 1995 and as a solicitor of Hong Kong in June 2004.

Directors and Senior Management

SENIOR MANAGEMENT

Mr. Wei Dong Sheng (魏東升) ("Mr. Wei"), aged 42, first joined the Group in February 2012 as the general manager of Shanxi Grace Vineyard and he has also been the director of Shanxi Grace Vineyard since October 2015. He is primarily responsible for overseeing the daily operation of Ningxia Winery.

Mr. Wei has over 18 years of experience in sales and marketing in the alcohol beverage industry. Since March 2015, he was the legal representative and director of Ningxia Ganlin and was responsible for overseeing the daily operation of Ningxia Ganlin Agricultural Development Co. Ltd.* (寧夏甘霖農業開發有限公司). Prior to joining the Group, from June 2009 to March 2012, Mr. Wei worked as a business development project manager at Terra Cotta. From August 2006 to May 2009, he worked as the North West China regional sales manager in the sales and marketing department of Sichuan Jiannanye Sales Co., Ltd. (四川劍南液銷售有限公司) (principally engaged in the sale of "Jiannanye" branded baijiu. From June 2004 to July 2006, he worked as the North West regional sales manager at Luzhou Chunjiu Co., Ltd (瀘州春酒業有限公司) (principally engaged in wine distribution). From July 2003 to May 2004, he worked as a salesperson in the sales department of Fujian Hengfa Wine Co., Ltd (福建恆發酒業有限公司) (principally engaged in wine trading). From April 2002 to June 2003, he worked as a salesperson at the Xiamen branch of Fujian Fujitsu Co., Ltd (福建富士通有限責任公司). From September 2000 to March 2002, he worked as a supervisor in the marketing department of Hainan Yedao (Group) Co., Ltd. (SHA: 600238) (海南椰島（集團）股份有限公司) (principally engaged in the production and sales of liquor products).

Mr. Wei obtained a higher diploma in law from the Shaanxi Administrative Cadre Institute of Politics and Law (陝西省政法管理幹部學院) in the PRC in July 2000.

Mr. Lee Yean Yean ("Mr. Lee"), aged 37, first joined the Group in September 2006 and has been our production and technical director since November 2009. He is primarily responsible for overseeing the management of the cultivation bases, production and logistics departments of our Group. Mr. Lee has over eleven years of experience in the wine making industry. In September 2006, Mr. Lee first joined Shanxi Grace Vineyard as a winemaker assistant, and he was also a vineyard assistant and cellar hand. Prior to joining the Group, from July 2005 to July 2006, he was a northern region sales executive at Sony (Malaysia) Sdn. Bhd. From July 2004 to June 2005, he served as a northern region sales executive and wine buyer at Harrisons Wine of Harrisons Holdings (Malaysia) BHD, responsible for setting up a branch company in the northern region of Malaysia, sourcing new wine and managing the wine list. From May 2003 to June 2004, he was a sales executive at Denise Wine Shop (Malaysia) Sdn. Bhd.

Mr. Lee obtained a higher diploma in hotel and tourism management and a higher diploma in hotel and catering management from Kolej Damansara Utama in Malaysia in October 2002.

Mr. Wang Tairan (王泰然) ("Mr. Wang"), aged 38, first joined the Group in December 2007, and has been our deputy manager for production and quality control since February 2011. He is primarily responsible for overseeing the daily operation of Shanxi Vineyard.

Mr. Wang was the manager of the production department of Shanxi Grace Vineyard from April 2009 to January 2011, mainly responsible for overseeing the production department and executing the production plannings. He was the vice manager of the same department from January 2009 to March 2009, mainly responsible for assisting the manager in supervising the production staff and production plants. From December 2007 to December 2008, he served as an assistant to the manager of the same department, mainly responsible for sourcing ancillary materials for production of our wine products.

Prior to joining the Group, from August 2006 to May 2007 and from July 2005 to July 2006, Mr. Wang worked as a volunteer in the Bureau of Health of the Shuanghu County of the Tibet Autonomous Region (西藏自治區雙湖特別區衛生局) and in the Bureau of Husbandry of the Nagqu Prefecture of the Tibet Autonomous Region (西藏自治區那曲縣組織部、畜牧局) as part of the College Students to the West Voluntary Scheme (大學生志願服務西部計劃) where he was primarily responsible for assisting in the office staff on the basic operations of the departments.

Mr. Wang obtained his bachelor's degree in rural regional development from Renmin University of China (中國人民大學) in the PRC in July 2005.

COMPLIANCE OFFICER

Mr. Fan is the compliance officer of the Company. His biographical details are set out in section headed "Directors and Senior Management" in this report.

COMPANY SECRETARY

Mr. Chiu Ming King (趙明璟) ("Mr. Chiu"), aged 42, was appointed as the company secretary of the Company (the "Company Secretary") on 24 July 2017. He has worked at Vistra Corporate Services (HK) Limited since June 2012, with his current position as executive director of corporate services. Mr. Chiu has over 13 years of experience in the company secretarial field and has held various positions, including associate director of corporate services, in various corporate secretarial companies.

Mr. Chiu obtained his bachelor's degree of arts from the University of Toronto in Canada in June 1999 and received his master's degree of arts in professional accounting and information systems from the City University of Hong Kong in November 2003. He has been an associate member of the Institute of Chartered Secretaries and Administrators ("ICSA") and the Hong Kong Institute of Chartered Secretaries ("HKICS") since 2003 and became a fellow member of the ICSA and the HKICS since September 2015. He does not act as our full-time employee but he has been appointed as the Company Secretary pursuant to our engagement of an external company secretarial services provider, Vistra Corporate Services (HK) Limited.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company (the "Shareholder(s)") and enhance its corporate value. The Company has adopted with all the applicable provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules.

Except as expressly described below, the Company complied with all applicable code provisions set out in the CG Code throughout the period from the Listing Date to 31 December 2018 (the "Period").

Chairman and Chief Executive

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Ms. Judy Chan holds both positions in the Company. Ms. Judy Chan has been primarily responsible for overseeing the Group's general management and business development and for formulating business strategies and policies for our business management and operations since she joined the Group in 2002. Taking into account the continuation of management and the implementation of the Group's business strategies, the Directors (including our independent non-executive Directors) consider 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions (the "Model Code") by the 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 has confirmed that, having made specific enquiry of all the Directors, all Directors have complied with the Model Code during the Period.

Corporate Governance Report

THE BOARD

Composition

As at the date of this annual report, the composition of the Board is as follows:

Executive Directors

Ms. Judy Chan (Chairlady, Chief Executive Officer)
Mr. Fan Chi Chiu

Non-executive Directors

Ms. Hou Tan Tan Danielle
Mr. Chow Christer Ho

Independent non-executive Directors

Mr. Ho Kent Ching-tak
Mr. Lim Leung Yau Edwin
Mr. Alec Peter Tracy

In compliance with Rules 5.05A, 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed three independent non-executive Directors representing more than one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with the various guidelines set out in Rule 5.09 of the GEM Listing Rules.

Among members of the Board, Ms. Judy Chan, the executive Director, Chairlady of the Board and Chief Executive Director, is the daughter of Ms. Wong Shu Ying ("Ms. Wong"), the Substantial Shareholder, and is the sister-in-law of Ms. Hou Tan Tan Danielle, the non-executive Director, who is also the daughter-in-law of Ms. Wong. Save as disclosed herein, to the best of knowledge of the Company, there are no financial, business, family or other material or relevant relationships among members of the Board. With the various experience of the Directors and the nature of the Group's business, the Board considers that the Directors have a balance of skills and experience for the business of the Group.

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board Committees including the Audit Committee, the Remuneration Committee and the Nomination Committee. The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference. All Board Committees are provided with sufficient resources to perform their duties.

Corporate Governance Report

All Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability and shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

Directors' and Officers' Liabilities Insurance

The Company has arranged appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against Directors, officers and senior management of the Company arising out of corporate activities.

Appointment, Re-election and Removal of Directors

Each of the executive Directors, non-executive Directors and independent non-executive Directors of the Company has entered into a service contract or letter of appointment with the Company for a specific term. The non-executive Directors and independent non-executive Directors have been initially appointed for a term of three years unless and until it is terminated by either the Company or such Director. The term of appointment of each Director is subject to retirement by rotation and re-election at annual general meeting in accordance with the Articles of Association of the Company (the "Articles") and the GEM Listing Rules.

Pursuant to the Articles, one-third of all Directors (whether executive or non-executive) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation and re-election at each annual general meeting at least once every three years.

The Articles provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office only until the first general meeting of the Company or as an addition to the existing Board, shall hold office only until the next following annual general meeting of the Company after his/her appointment and shall then be eligible for re-election.

The Company may, in accordance with the Articles, by ordinary resolution remove any Director before the expiration of his/her term of office notwithstanding anything to the contrary in the Articles or in any agreement between the Company and such Director.

Board Diversity Policy

Pursuant to Rule 17.104 of the GEM Listing Rules, the nomination committee (or the board) has a policy concerning diversity of board members and shall disclose the policy on diversity or a summary of the policy in the corporate governance report. The policy specifies that in designing the composition the Board, Board diversity shall be considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The composition of the Board will be disclosed in the Corporate Governance Report every year and the Nomination Committee will supervise the implementation of this policy. The Nomination Committee will review the effectiveness of this policy, as appropriate, discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this annual report, the diversity of the Board is illustrated as below. Further details on the biographies and experience of the Directors are set out on pages 14 to 17 of this annual report.

	Gender	
Name of Director	**Female**	**Male**
Ms. Judy Chan	√	
Mr. Fan Chi Chiu		√
Ms. Hou Tan Tan Danielle	√	
Mr. Chow Christer Ho		√
Mr. Ho Kent Ching-tak		√
Mr. Lim Leung Yau Edwin		√
Mr. Alec Peter Tracy		√

		Age Group	
Name of Director	**30 to 39**	**40 to 49**	**50 to 59**
Ms. Judy Chan		√	
Mr. Fan Chi Chiu	√		
Ms. Hou Tan Tan Danielle	√		
Mr. Chow Christer Ho		√	
Mr. Ho Kent Ching-tak	√		
Mr. Lim Leung Yau Edwin			√
Mr. Alec Peter Tracy			√

	Professional Experience			
Name of Director	**Finance/ Accounting**	**Media Industry**	**Law**	**Real Estate**
Ms. Judy Chan	√			
Mr. Fan Chi Chiu	√			
Ms. Hou Tan Tan Danielle	√			
Mr. Chow Christer Ho	√			√
Mr. Ho Kent Ching-tak		√		
Mr. Lim Leung Yau Edwin	√			
Mr. Alec Peter Tracy			√	

Name of Director	Education Background				
	Accountancy	Business	Law	Psychology	Others
Ms. Judy Chan				√	
Mr. Fan Chi Chiu	√				
Ms. Hou Tan Tan Danielle		√			
Mr. Chow Christer Ho		√			√
Mr. Ho Kent Ching-tak					√
Mr. Lim Leung Yau Edwin		√			
Mr. Alec Peter Tracy		√	√		√

The Nomination Committee has reviewed the membership, structure and composition of the Board, and is of the opinion that the structure of the Board is reasonable, and the experiences and skills of the Directors in various aspects and fields can enable the Company to maintain high standard of operation.

Continuing Professional Development

According to the code provision A.6.5 of the CG Code, all Directors shall participate in continuing professional development ("CPD") to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant.

Pursuant to the code provision A.6.1 of the CG Code, each newly appointed Director should be provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations.

During the Period, the Directors were regularly briefed on the amendments to or updates on the relevant laws, rules and regulations.

All Directors, namely Ms. Judy Chan, Mr. Fan Chi Chiu, Ms. Hou Tan Tan Danielle, Mr. Chow Christer Ho, Mr. Ho Kent Ching-tak, Mr. Lim Leung Yau Edwin and Mr. Alec Peter Tracy, have been updated with the latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. In addition, continuing briefing and professional development to Directors will be arranged whenever necessary.

Prior to the listing of the Company, each of the aforesaid Directors have attended the training courses conducted by the legal adviser of the Company. The content of such training related to the duties of directors and on-going obligations of listed companies.

The Directors are asked to submit their training record to the Company on an annual basis.

BOARD COMMITTEES

The Board has established three board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, which are sufficiently resourced to fulfil their roles and their terms of reference have been approved by the Board and are available on the Company's website (www.gracewine.com.hk) and the Stock Exchange's website (www.hkexnews.hk).

Audit Committee

The Audit Committee was established on 1 June 2018 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and paragraph C.3 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The Audit Committee comprises one non-executive Director, Mr. Chow Christer Ho, and two independent non-executive Directors, namely Mr. Ho Kent Ching-tak and Mr. Lim Leung Yau Edwin. 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.

There were two meetings of the Audit Committee held during the Period, the attendance record of the committee members is set out below. The following is a summary of work performed by the Audit Committee during the Period:

- reviewed the unaudited financial statements for six months ended 30 June 2018 and nine months ended 30 September 2018;
- reviewed the findings and recommendations of the external auditor; and
- monitored the Group's financial controls, internal control and risk systems.

Corporate Governance Report

Remuneration Committee

The Remuneration Committee was established on 1 June 2018 with written terms of reference in compliance with Rule 5.34 of the GEM Listing Rules and paragraph B.1 of the CG Code as set out in Appendix 15 to the GEM Listing Rules. The Remuneration Committee comprises one non-executive Director, Ms. Hou Tan Tan Danielle, and two independent non-executive Directors, namely Mr. Lim Leung Yau Edwin and Mr. Alec Peter Tracy. Mr. Alec Peter Tracy is the chairman of the Remuneration Committee.

The primary duties of our Remuneration Committee are to review and make recommendation to the Board on the remuneration package of our Directors and members of our senior management.

Pursuant to the terms of reference of the Remuneration Committee, Remuneration Committee meeting shall be held at least once every year. However, due to the fact that the Company was listed on 28 June 2017, no Remuneration Committee meeting has been held during the Period.

Subsequent to 31 December 2018 and up to the date of this annual report, a meeting of Remuneration Committee was held on 15 March 2019 to review and consider, among other things:

– review and recommendation to the Board regarding the fee of the Non-Executive Director; and

– review and recommendation to the Board regarding the fees of the Independent Non-Executive Directors

Details of the Directors' remuneration for the year are set out in Note 8 to the consolidated financial statements.

The remuneration of the senior management of the Group by band for FY2018 is set out below:

Remuneration bands	Number of senior management
HK$1 to HK$1,000,000	3

Nomination Committee

The Nomination Committee was established on 1 June 2018 with written terms of reference in compliance with paragraph A.5 of the CG code as set out in Appendix 15 to the GEM Listing Rules. The Nomination Committee comprises one executive Director, Ms. Judy Chan, one non-executive Director, Mr. Chow Christer Ho and one independent non-executive Director, Mr. Ho Kent Ching-tak. Ms. Judy Chan is the chairlady of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure, size and diversity (including the skills, knowledge and experience) of the Board and make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for Directors.

Pursuant to the terms of reference of the Nomination Committee, Nomination Committee meeting shall be held at least once every year. However, due to the fact that the Company was listed on 27 June 2018, no Nomination Committee meeting has been held during the Period.

Subsequent to 31 December 2018 and up to the date of this annual report, a meeting of Nomination Committee was held on 15 March 2019 to review and consider, among other things:

– the Board structure, size, composition and board diversity (including skills, knowledge and experience etc.);

– the effectiveness of the related Board Diversity Policy and Directors' Nomination Policy;

– the independence of independent non-executive directors; and

– the retirement and re-nomination of directors for re-election at the forthcoming annual general meeting of the Company (the "AGM").

Corporate Governance Function

The Board is responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Group, and the training and continuous professional development of directors and senior management. The Board reviews the disclosures in the corporate governance report to ensure compliance.

The Board's responsibility in this regard includes:

(a) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors;

(d) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board and report to the Board on matters; and

(e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

Corporate Governance Report

Attendance Records of Meetings

The attendance of each Director at Board meetings, Audit Committee meetings, Remuneration Committee meeting, Nomination Committee meeting and general meeting during the year is set out in the following table:

	Board meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	General meeting
Number of meetings held during the year	4	2	Nil	Nil	Nil
Name of Directors	**Number of meetings attended/Number of meetings entitled to attend**				
Executive Directors					
Ms. Judy Chan	4/4	–	–	–	–
Mr. Fan Chi Chiu	4/4	–	–	–	–
Non-executive Directors					
Ms. Hou Tan Tan Danielle	3/4	–	–	–	–
Mr. Chow Christer Ho	3/4	1/2	–	–	–
Independent non-executive Directors					
Mr. Ho Kent Ching-tak	3/4	2/2	–	–	–
Mr. Lim Leung Yau Edwin	4/4	2/2	–	–	–
Mr. Alec Peter Tracy	4/4	–	–	–	–

NOMINATION POLICY

The Board has adopted a nomination policy which set out the criteria and process in the nomination and appointment of Directors. Below are the nomination procedures and the process and criteria adopted by the Nomination Committee to select and recommend candidates for directorship.

(i) Selection Criteria

The Nomination Committee shall consider the following criteria in evaluating and selecting candidates for directorships:

- character, reputation and integrity;
- qualifications, experience and accomplishments, including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments;
- requirement for the Board to have independent directors in accordance with the GEM Listing Rules and whether the candidates would be considered independent with reference to the independence guidelines set out in the GEM Listing Rules;
- Board Diversity Policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board;
- any other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning; and
- such other perspectives appropriate to the Company's business.

(ii) Directors Nomination Procedures

The Board has the relevant procedures for Directors' nomination which are pursuant to GEM Listing Rules and the Articles. The details set out in the sections headed "Appointment, Re-election and Removal of Directors" and "Procedures for a Shareholder of the Company to propose a person for election as a Director" in this annual report.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for overseeing the Group's financial reporting process. In preparing the consolidated financial statements for FY2018, the Board has selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements of the Group on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditor's Remuneration

During FY2018, the remuneration paid or payable to the Company's auditor, Ernst & Young, in respect of their audit and non-audit services was as follows:

	HK$
Audit services	1,800,000
Non-audit services	1,185,000
Total	2,985,000

The remuneration for non-audit services represents the professional services as reporting accountants of the Company for the Listing and performance of agreed-upon procedures on the interim and quarterly financial reports.

COMPANY SECRETARY

The Company has appointed, externally, Mr. Chiu Ming King ("Mr. Chiu") as the Company Secretary. His biographical details are set out in the section "Directors and Senior Management" of this annual report. During FY2018, Mr. Chiu has confirmed that he has taken no less than 15 hours of relevant professional training in compliance with Rule 5.15 of the GEM Listing Rules. Mr. Chiu's primary contact with the Company is Mr. Fan Chi Chiu, the executive Director.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board acknowledged its overall responsibility to ensure that sound and effective risk management and internal controls are maintained, while the senior management is charged with the responsibility to design and implement an internal controls system to manage risks. A sound system of risk management and internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group has established a risk management and internal control systems. Different functions and procedures of the systems are responsible by the Board of directors, the audit committee, the management of the Group (the "Management") and the internal control review team. The system monitors risks of the Group including, but not limited to, operational, financial, reporting and compliance risks. The system also aims at covering Environmental Social and Governance ("ESG") related risk factors in order to govern the identified ESG risks to the businesses and provide a robust monitoring system in all aspects. We strive to constantly enhance the system and expand the coverage of the risk factors in a feasible way.

BOARD OF DIRECTORS

The Board has a duty to ensure the effectiveness of the risk management and internal control systems of the Group. The Board oversees the risk management and internal control systems, assesses and evaluates the Group's business strategies and risk tolerance. The Board reviews, with the assistance of the Audit Committee, at least annually the effectiveness of the system and monitors it in an on-going manner.

AUDIT COMMITTEE

The Audit Committee has the primary responsibility for risk management and internal control after the Board. It assists the Board in overseeing the Group's risk management and internal control systems by providing support and advice, including on-going monitoring of the execution of risk management processes, reviewing the Group's risk register as well as reviewing and approving the internal control review plan and results.

MANAGEMENT

The Management is responsible for identifying and monitoring the risks relevant to the Group during daily operations, including strategic, operational, financial, reporting and compliance risks. The Management reports to the Board and the Audit Committee on the risks identified and their changes. The Management is also responsible for developing appropriate internal control measures to mitigate the risks, and identify and resolve material internal control defects.

INTERNAL CONTROL

The Group has established the internal audit function and the scope of work includes reviewing the effectiveness of risk management and internal control systems. The scope of the risk management and internal control review is risk-based and is reviewed by the Audit Committee. The internal audit function is able to communicate with the Audit Committee directly regarding the results of its review.

RISK MANAGEMENT PROCESS

The procedures for identifying, assessing, responding and monitoring risks and their changes are defined by the risk management process. Through regular discussions with each operating function, the Group strengthens the understanding of risk management such that all employees can understand and report various risks they have identified in a timely manner. It enhances the Group's ability to identify and manage risks.

To identify and prioritize material risks throughout the Group, the Management communicates with each operating function, collects significant risk factors that affect the Group from bottom to top, including strategic, operational, financial, reporting and compliance risks. After identifying all relevant risks, the Management assesses the potential impact and possibilities of the risks and prioritizes the risks. Appropriate internal control measures are then developed to mitigate the risks identified and the changes of risks are monitored in an on-going manner.

INTERNAL CONTROL REVIEW TEAM

During FY2018, the Group had not established an internal control department internally. Instead, the Group has engaged an external internal control consulting company, Corporate Governance Professionals Limited, to conduct assessment and evaluation on the effectiveness of internal control measures and systems of the Group. Certain internal control enhancement suggestions have been identified and the Management has established action plans for improving the internal control effectiveness accordingly. An internal control review report has been provided to the Audit Committee which has also been reported to the Board about the findings and improvement measures. No material internal control deficiency has been identified during FY2018 and the Board considers that the risk assessment and internal control function of the Group to be adequate and effective.

Procedures and Internal Controls for the Handling and Dissemination of Inside Information

The Group strictly follows the requirements of the SFO and the GEM Listing Rules and ensures that inside information is disclosed to the public as soon as reasonably practicable unless the information falls within any of the safe harbours of the SFO. Before inside information is fully disclose to the public, such information is kept strictly confidential. In addition, the Group adopted the policy of disclosing relevant information only to appropriate staff within the Group.

In addition, as mentioned in the above section headed "Directors' Securities Transactions", the Company has adopted Model Code as its own code of conduct regarding securities transactions, directors and employees who are likely to be in possession of unpublished inside information (in which the matters relating to the sensitive information including both financial and non-financial information (e.g. harvest result of self-cultivated grapes for the year), etc.), shall be prohibited to deal in any of the Company's securities before the publication of such information.

SHAREHOLDERS' RIGHTS

Rights to convene Extraordinary General Meeting

As one of the measures to safeguard Shareholders' interests and rights, the Shareholders are encouraged to participate at the general meetings of the Company and to vote thereat. An annual general meeting of the Company shall be held each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

The annual general meeting of the Company will provide a forum for the Board and the Shareholders to communicate. The Board will answer questions raised by Shareholders at the annual general meeting.

Pursuant to Article 64 of the Articles, extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for a Shareholder of the Company to propose a person for election as a Director

Subject to the Articles and the Companies Law of the Cayman Islands (as amended from time to time), the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board.

Article 113 of the Articles provides that no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his/her willingness to be elected shall have been lodged at the Head Office (as defined in the Articles) or at the Registration Office (as defined in the Articles). The period for lodgement of the notices required under this Article will commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

Accordingly, if a Shareholder wishes to nominate a person to stand for election as a Director, the following documents must be validly served at the Company's principal place of business in Hong Kong at Unit 1-3, 11/F, Westlands Centre, No. 20 Westlands Road, Hong Kong or at the Company's Hong Kong share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, including (i) a notice signed by the Shareholder for which such notice is given of his/her intention to propose a candidate for election; and (ii) a notice signed by the proposed candidate of the candidate's willingness to be elected together with (a) that candidate's information as required to be disclosed under Rule 17.50(2) of the GEM Listing Rules, and (b) the candidate's written consent to the publication of his/her personal data.

Right to Put Enquires to the Board

Shareholders may, at any time, direct questions, request for publicly available information and provide comments and suggestions to Directors or management of the Company. Such questions, requests and comments can be addressed to the Company by mail to Unit 1-3, 11/F, Westlands Centre, No. 20 Westlands Road, Hong Kong or by email to contact@gracewine.com.hk.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its Shareholders, investors and other stakeholders. These include (i) the publication of quarterly, interim and annual reports and/or dispatching circulars, notices, and other announcements; (ii) the annual general meeting or extraordinary general meeting providing a forum for Shareholders to raise comments and exchanging views with the Board; (iii) updated and key information of the Group available on the websites of GEM and the Company; (iv) the Company's website offering communication channel between the Company and its stakeholders; and (v) the Company's share registrars in Hong Kong serving the Shareholders in respect of all share registration matters.

CHANGE IN CONSTITUTIONAL DOCUMENTS

An amended and restated memorandum and articles of association of the Company was adopted on 1 June 2018 and took effective on the Listing Date. Save as the above mentioned, there were no significant changes in the constitutional documents of the Company for FY2018.

Environmental, Social and Governance Report

ABOUT THIS REPORT

Grace Wine proudly presents the first Environmental Social and Governance ("ESG") Report (this "Report"), summarising our commitment, approach and achievements in creating sustainable value through our operation. The Group is substantially engaged in domestic wine production and sales in the PRC.

Covering the period from 1 January 2018 to 31 December 2018 (the "Reporting Period"), unless otherwise stated, this Report highlights our wine-making, operational process and sales' significant environmental and social impacts, covering our (i) Hong Kong office; (ii) Shanxi Vineyard; (iii) Ningxia Vineyard; and (iv) Xiamen Sales Offices.

In preparing this Report, we are in stringent compliance with the applicable disclosure requirements of the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). To facilitate continual review over the Group's Environmental Key Performance Index (KPI) in the future, 2018 will serve as the baseline year for comparison, analysis and improvement plan.

For the Corporate Governance section, please refer to the section headed "Corporate Governance Report" in this annual report.

About Grace Wine

Established in 1997, the Group is committed to producing quality, value for money wine as an award-winning brand "Grace Vineyard". In response to our customer preferences and with our enthusiasm for quality wine product mixing varied between our higher-end wine portfolio and entry-level wine portfolio, the Group is also devoted in research and development to identify the best self-cultivated grapes growing and harvesting at our Shanxi Vineyard and Ningxia Vineyard together with the purchase of externally sourced grapes from Ningxia in the PRC for producing a decent quality glass of wine. Being one of the vineyards included in Hugh Johnson & Jancis Robinson's "World Atlas of Wine (7th Edition), our wine products were invited to take part in different international tasting exhibition competitions. It is our honour to proudly received different awards and recognitions, including a "Platinum Best in Show" in "Decanter Asia Wine Awards 2017". Grace Wine was listed on the Stock Exchange of Hong Kong Limited since June 2018, setting another important milestone on our journey of pursuing quality wine produced in China.

Having enjoyed a fruitful harvesting year in 2018, the Group continues to produce a great portfolio of premier wines composed of red, white and sparkling types of wine while striving to research and develop new product series to be launched in the future in response to the rapidly changing trend of the retail sales market in the PRC. Meanwhile, considering the growing demand for premier and value for money domestic wine, the Group is delighted to introduce the new Ningxia Vineyards for wine production after the Phase One facility has been built up for operations since September 2018, further boosting up the production capacity. Apart from production, the Group has also actively participated in industry events, for example, being an co-organizer for the Forum of "The Development of Chinese Fine Wines in 20 Years" in early 2018 to share our experience with the PRC peers.

Environmental, Social and Governance Report

Vision

Grace Vineyard, in Chinese, implies a Vineyard that brings a soothing and relaxing experience to our people, to our customer, to everyone who loves Grace Wine. The Group aims to provide a moment of enjoyment with the quality Grace Wine in glass.

Mission

To promote our wine philosophy of "Pathway to a well-lived life" meaning a life that is guided by a solid and clear vision, creating value and appealing by consistently challenging and creating to live up to our values.

Awards and Recognition

- Cathay Pacific Hong Kong International Wine & Spirit Competition Silver Award Winner 2018
  - Grace Vineyard Treasure This Year 2017
  - Grace Vineyard Deep Blue 2015
  - Grace Vineyard Tasya's Reserve Cabernet Franc 2015
  - Grace Vineyard Premium Cabernet Merlot 2017
- 2017 WBO Wine Industry Annual Selection "Top 10 Annual Influential Brand"

Environmental, Social and Governance Report

Sustainable Development Approach

Successful production of premier quality wines relies on a sustainable development strategy which requires a long-term planning and strategy with environmental protection, employment practice and nearby society wellbeing for consideration. With the belief of Chan's Family, the founder of Grace Wine, in "Only the Clan can make fine wine generation by generation in long run", the Group embraces the value of "Sustainable Development" with the goal of maintaining vine balance that optimizes the quality of grape production and vine health without overloading the carrying capacity of the natural environment. The holistic ISO 9000 quality management system implementing in place provides a clear guidance throughout the entire sustainable wine production and sales processes to optimize the value chain vineyard operations.

With this sustainable manner as a responsible corporate citizen, the Group has formulated a set of policies to manage and promote different Sustainability-related issues, which include environmental protection, product quality and responsibility, labour practices, occupational health and safety and supply chain management, to guide our vineyard and sales operations as well as our business partners to fully integrate with the value of sustainability within the daily operation. The details of policies and associated corporate responsible measures being adopted together with our sustainability performances in each subject area are reported in the corresponding sections.

Stakeholder Engagement

Stakeholder Identification and Communication

The Group's stakeholders can be categorised into employees, customers, suppliers, distributors, seasonal farmers, business partners, shareholders and investors, government, media, and the wider community. We firmly believe that our sustainable growth and passion can be attributed to the unceasing support and trust from our valued stakeholders. We employ a wide range of communication channels, such as meetings, interviews, site visit, hotlines, official websites, official WeChat accounts and emails to interact with our Stakeholders. The Group can hence collect feedback and opinion from our stakeholders and respond to their needs, by which we can maintain a close and harmonious relationship with them to attain a long-term success.

Environmental, Social and Governance Report

Materiality Assessment

To formulate and update the sustainability approach and development direction, we have conducted the Materiality Assessment objectively. The Assessment provides an opportunity to understand our stakeholders' opinion and feedbacks over different material issues more thoroughly. We conducted the Assessment with the following steps:

Identifying ESG Issues

Through consulting professional third parties and analysing our operations, development strategy and growth plan thoroughly, we have identified 30 issues related to the sustainability of stakeholders' interest that may affect the Group's operation in various ways.

Rating ESG Issues

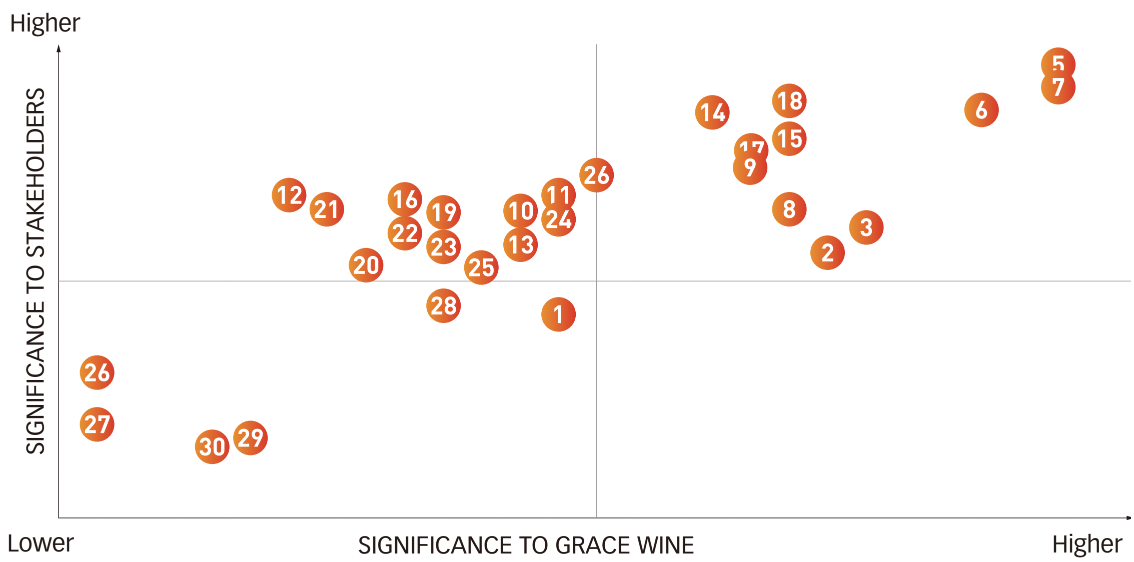
After identifying the relevant ESG issues, our team set up the stakeholder engagement questionnaire online and invited our valuable stakeholders to provide feedback and assess the different material issues. Participants were also asked to share their expectations and thoughts on the Group's future direction and strategy.

Analysing and Evaluating the Results

The results of the rating exercise were then analysed to understand the relative importance of the different material issues. After analysis and consolidating with the Group's Top Management opinion and comments, the Materiality Matrix is hence plotted. The issues that are on the top right corner is of significance importance to both stakeholders and the Group.

Based on the analysis, it is identified that there are 11 key factors that are important to our stakeholders while having the material impact on our Group's operation. The identified key factors will hence be the key focus for the Group's sustainable development planning.

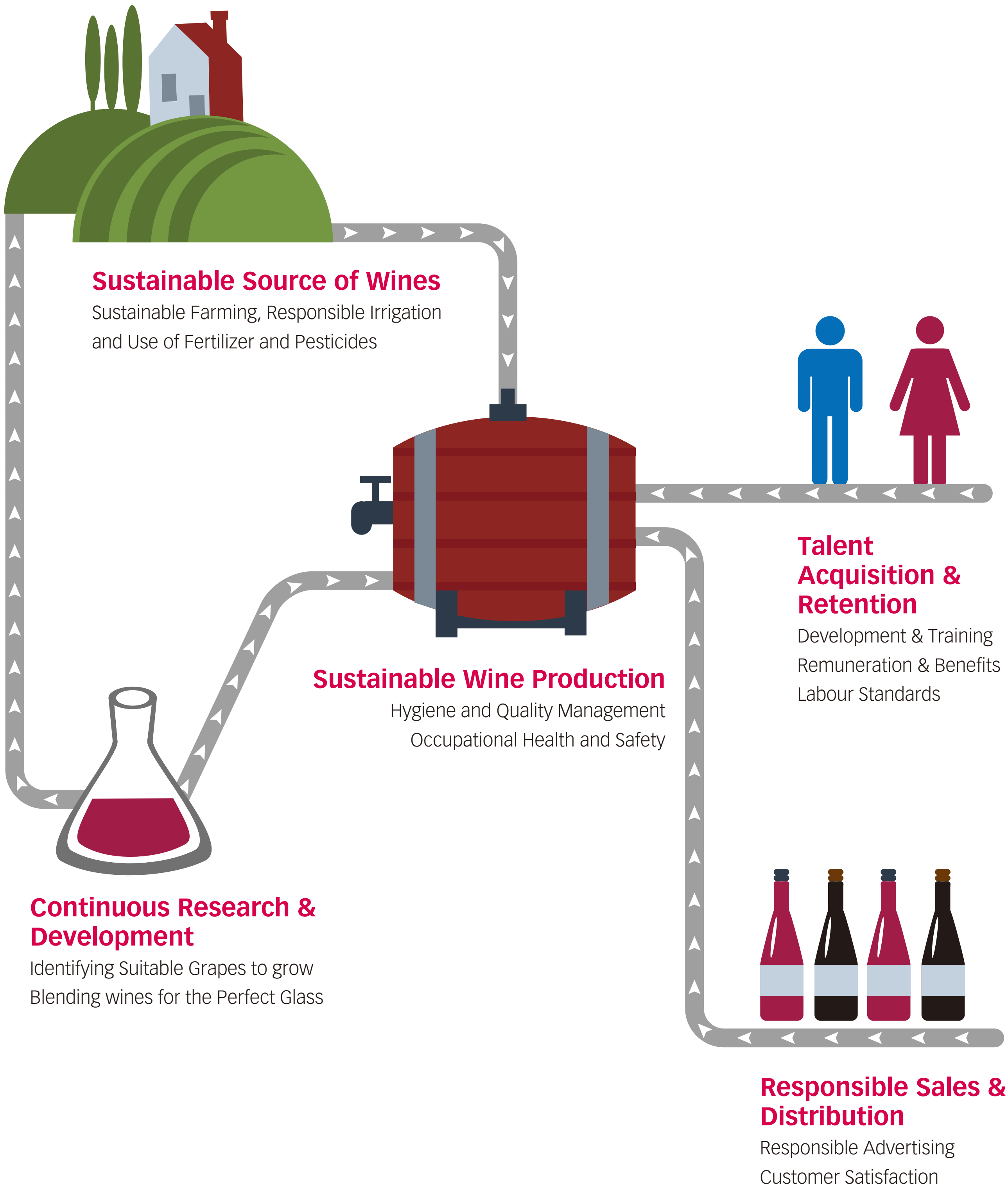
Materiality Matrix



Material Issues

No.	Issues	No.	Issues	No.	Issues
1	Anti-Corruption	11	Client's Information and System Security	21	Water Resources Management
2	Assessment of Supplier's Environmental and Social Performance	12	Diversity and Equal Opportunities	22	Waste Management
3	Supply Chain Management	13	Preventing Child Labour and Forced Labour	23	Use of Natural Resources (Including Paper and Packaging Materials)
4	Product Development	14	Employee Benefits	24	Other Impact on Environment (including use of pesticides and fertilizers)
5	Product Quality	15	Training and Development	25	Environmental Protection Promotion
6	Customer Service	16	Employment Relationship	26	Charity Donation
7	Product Safety	17	Communication with employee	27	Organizing Charity Events
8	Product Compliance	18	Occupation Health and Safety	28	Industry Participation
9	Intellectual Property Protection	19	Energy Efficiency	29	Trip of Resonation (University Student Participation)
10	Internet Information Safety	20	Greenhouse Gases Emission	30	Wine Charity Auction

Environmental, Social and Governance Report



Environmental, Social and Governance Report

Sustainable Production

Sustainable Sources of Grapes and Wines

The story of a bottle of Grace Wine starts from growing and harvesting grapes in vineyards. Our Group possess two major vineyards, Shanxi Vineyard and Ningxia Vineyard, where the majority of grapes used in producing wine are grown and harvested. As a responsible and sustainable winemaker, the entire growing and harvesting procedures are guided by "Vineyard Management Handbook" (《釀酒葡萄基地管理手冊》) which has been developed in accordance with "Agriculture Law of the People's Republic of China" (《中華人民共和國農業法》). The Handbook provides a detailed introduction to the Botany of Grapes, the characteristics of each grape, the best practice of pruning and positioning the grapes and some recommendations of managing the Grapes plants in different seasons. The Handbook also provides a suggested approach to manage the farmland and optimal the usage of agricultural chemicals such as pesticides and the use of fertilizers.

Use of pesticides and fertilisers are part of the major sources of pollutant being discharged into the land and water for growing grapes. To minimize the environmental impact and avoid the potential food safety issues associated with usage of the pesticides and fertilisers, our professional and experienced team has developed an "Annual Plan for the Use of Pesticide" (《年度噴藥計劃》) to ensure the amount being applied are in compliance with "Regulations on the management of pesticides in the People's Republic of China" (《中華人民共和國農藥管理條例》) and also to reduce pesticide use on grapes. The Annual Plan also outlines the ideal timing and methodology to apply the pesticides, which create a significant impact on the overall quality of the grapes harvested, and hence the wine production.

As part of the sustainable and responsible wine production, the Group would only purchase fertilizers from the qualified suppliers complying with "Soil Pollution Prevention and Control Law of the People's Republic of China" (《中華人民共和國土壤污染防治法》).

In addition, the Group also procures grapes from the adjacent nearby farms sharing the similar demographics and climate conditions whereas necessary. Our experienced procurement staff would perform a series of quality and tests based on "Tests Prior to Procurement of Grapes for Brewery" (《釀酒葡萄收購前判定記錄表》) to ensure the grapes meet our quality standards in terms of total sugar content, chemical residue, appearance, hygiene and purity.

Environmental, Social and Governance Report

Sustainable Wine Production Procedure

The grapes are getting mature after half year growing with irrigation and fertilizer treatment by our devoted staff, the grapes in vineyards are ready to be harvested within the period of September and October each year. Before going for a massive harvesting of the previous grapes of the growing season, a series of laboratory test and experiments will be conducted to ensure the chemical residue level complies with the section "Key Management Focus in 4 Seasons" of the Handbook. In addition, there is a series of sample tests, continuous monitoring and experiment to be conducted before deciding the optimal time for harvesting. The harvesting would only be conducted professionally by our team in the morning after dew on grape being dried up.

The harvested grapes will be sent to the Production Facility where our state-of-the-art wine production technologies and facilities are in place. With our stringent commitment on product quality compliance, we continuously undergo all stages of production control prevent the pollution occurring at various points in the wine production process.

Production Hygiene Management

Food safety is undoubtedly a material issue to the Group's brand and reputation. With the stringent compliance of "Regulation on the Implementation of the Food Safety Law of the People's Republic of China" (《中華人民共和國食品安全法實施條例》), the Group established the "Hygiene Management Policy for the Staff and Environment of Brewing Production Area" (《釀造部人員及環境衛生管理規範》) to provide clear guidance on procedures of maintaining a hygienic production to avoid contamination during the stages of "Crushing and Pressing" and "Fermentation". Staff who work in a production area must wear the uniform and personal safety equipment (PPE) as specified in the working area. Shoes and hand cleaning should be carried out before entering a production area. Staff who go to another production area are required to change the uniform and PPE accordingly. In addition, an annual body check will be provided for staff working in the wine production plant for Health Permit assurance. Staff who fail to obtain the Health Permit will not be allowed to enter the production area for working.

Environmental, Social and Governance Report

After completing "Fermentation", the wine will enter the final process of "Aging and Bottling" in the Factory before ready for sale and distribution. "Hygiene Management Policy for the Logistic Department Staff and Environment of Bottling Production Area" (《物流部灌裝包裝間衛生管理》) provides guidance and procedures to maintain the highest level of hygiene in the final stage of production so as to minimize the risk of wine contamination.

Maintaining a clean and efficient equipment operating in the Facility is of paramount importance to the smooth and clean production of Grace Wine. Following with the "Standard Procedure of Cleaning the Vessel" (《洗罐操作規程》) and the "Management Policy of Bottling" (《灌裝管理制度》), the water used to clean the production equipment is performed with a laboratory test in strictest compliance with "Sanitary standard for drinking water" (《GB5749-2006 生飲用水衛生標準》) to ensure the water for wine production is not contaminated and can be used safely in the plant operations.

The Group is dedicated to produce wines that are enjoyable and safe to drink. Throughout the entire production, different experiments and sampling tests outlined in the "Product Sample Check Policy" (《產品檢驗規程》) will be conducted in our laboratory to ensure the product and equipment used in production meets the statutory regulations in accordance with the "National Standard of Food Safety – The Limited Quantity of Pathogenic Bacterium in Food" (《GB29921-2013食品中致病菌限量》), "National Food Safety Standard – Maximum Residue Limits for Pesticides in Food) (《GB2763-2016食品中農藥最大殘留限量》), "National food safety standard Contamination Limit in Food" (《GB2762-2017-kw 食品中污染物限量》) and other applicable laws and regulations.

Commitment to Product Quality

Product Quality is one of the most important issues for the Group as well as the expectation of our precious stakeholders. With the entire wine production certified with ISO 9001:2015, the Group continues to strive for product excellence and to ensure high compliant hygienic standards. For the entire production process, starting from the bottling process, there is a regular on-site sample check conducted by our competent laboratory testing team to ensure the quality of the wine meets the product requirement. The regular quality check is guided by "Product Quality Check Procedure" which is developed in accordance with GB/T15037 "Wines" (《葡萄酒》) Nation Quality Standard. The procedure clearly outlines the steps and key quality indicator of the corresponding stage.

Labelling plays an important role in boosting consumer confidence in the wine products. To increase traceability, the Group established the "Labelling and Traceability Management System" to allow systematic management over every aspect of the entire wine production. This approach also allows the Group to identify and develop appropriate solution if any quality issue arises.

For continuous pursue of product quality, enhancing the product competitiveness and customer experience. The Group is committed to stabilising the product quality by achieving 100% passing on the quality test conducted by the market and 95% customer satisfaction rate based on the feedback collected. Meanwhile, the Group will continue to devote adequate resources in research and development to identify a new type of grape that can adapt to the environment and develop new products that meet the market needs. Continuous effort will also be made to improve the production procedures to improve product quality and production efficiency to minimize the associated environmental impacts.

Sustainable Production– Source of Pollution and Our Effort

We conduct business in the agricultural and food processing sector, which will not bring significant impact on the environment and natural resource. Major source of emissions from our operation includes production and domestic effluent discharge, greenhouse gas ("GHG") emission generated from the use of fertilizers, electricity and other fuel, and exhaust gas from boilers, vehicles and diesel-fuelled machineries.

Water Discharge, Treatment and Saving

The two main streams of wastewater from our winery are production wastewater and domestic wastewater. Production wastewater mainly originated from cleaning of containers and production equipment, bottles washing, cooling water and boiler blowdown. In stringent compliance with "Water Pollution Prevention and Control Law of the People's Republic of China" (《中華人民共和國水污染防治法》), the wastewater will go through various treatment process including filtration, anaerobic, aerobic and sedimentation. Internal and external testing will be conducted regularly to ensure concentration of pollutants at discharge point comply with relevant environmental requirements, including Integrated Wastewater Discharge Standard (《污水綜合排放標準 GB8979-2002》). To save the scarce water resources, the treated effluent will then be reused for on-site greenery irrigation.

	Unit	
Water Consumption in Total	m^3	40,372.73
Water Consumption in Intensity	m^3/Bottle[1]	0.03

1 The sizes of wine bottles include 350ml, 750ml and 1.5L while the majority of bottles sold in 2018 is in 750ml bottle size.

Waste Generated, Treatment and Saving

Throughout the production, stem, seeds, skins and other solids residual waste of grape will be generated. Other waste streams[1] include domestic waste generated from daily operation and paper and plastic waste from supplier's packaging material.

In accordance to"Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes" (《中華人民共和國固體廢物污染環境防治法》), the domestic waste will be collected by local government department. For organic waste like the grape residues, they will be stored up in designated area and reused as organic fertilizers next year to utilize natural resources and also minimize emission from the use of synthetic fertilizer.

	Unit	
Total Non-Hazardous Waste Produced	Tonnes	198.58
Non-Hazardous Waste Disposed	Tonnes	46.42
Paper	Tonnes	9.60
General Refuse	Tonnes	36.82
Non-Hazardous Waste Collected for Recycling	Tonnes	152.10
Paper	Tonnes	13.64
Plastic	Tonnes	0.88
Organic Waste	Tonnes	137.58
Electronic Waste	Tonnes	0.06
Total Non-Hazardous Waste Produced in Intensity	kg/Bottle	0.16

Packaging Materials

	Unit	
Packaging Materials in Total	Tonnes	636.46
Paper	Tonnes	89.79
Plastic	Tonnes	0.07
Glass	Tonnes	541.05
Wood	Tonnes	3.83
Other	Tonnes	1.72
Packaging Materials in Intensity	kg/Bottle	0.52

1 In 2018, the Group did not identify any hazardous waste in our operation.

Air Emission, Treatment and Reduction

GHG and air emission including sulphur oxide (SOx), nitrogen oxide (NOx) and particulate matter (PM) will be generated from electricity and fuel consumption, use of fertilizer, use of boiler, vehicle and diesel-fuelled machinery and cooking.

Complying with "Atmospheric Pollution Prevention and Control Law of the People's Republic of China" (《中華人民共和國大氣污染防治法》), the emission from boiler will be treated by dust removal process and regularly tested by qualified third party to ensure the fumes emitted meets the laws and regulation such as Emission Standard of Air Pollutants for Boiler (《鍋爐大氣污染物排放標準 GB13271-2001》). Furthermore, kitchen exhaust will be treated by electrostatic fume treatment system.

The Group continues to strive for opportunity to minimize the pollution. In 2018, to support Shanxi Province Government act of removing coal consuming equipment, an upgrade to the boiler installed in Shanxi Vineyard has been implemented. A new and more efficient natural gas boiler is installed to replace the original polluting boiler which used coal as fuel, resulting in a large amount of pollutants and greenhouse gases emitted.

	Unit	
GHG Emission in Total	Tonnes of CO_2e	2533.97
GHG Emission (Scope 1)	Tonnes of CO_2e	1,405.03
GHG Emission (Scope 2)	Tonnes of CO_2e	1,145.62
GHG Removal from Planted Trees	Tonnes of CO_2e	16.68
GHG Emission Intensity (Scope 1 and Scope 2)	kg of CO_2e/Bottle	2.08
Nitrogen Oxides (NOx)	kg	911.12
Sulphur Oxides (SOx)	kg	2,393.24
Particulate Matter (PM)	kg	398.51

Green Operation – Green Office Practice

The Group strives to minimize the environmental impact of the entire operation where Green Office is no exception. The Group establish the "Energy Management System" to systematically manage the usage of water, electricity, natural gas and oil. The System also outlines the responsibility of different departments in maintaining an efficient operation with minimizing the wastage of natural resources.

The System also provides some suggestions on efficient operation and action items. For example, regular system check-up has to be conducted to ensure there is no water leakage identified in the system. Reminders are posted in the office to remind the staff to turn off the unused equipment and after office hour. To save energy in the office area, natural lighting is utilized as much as possible and motion sensor has been installed in the corridor that the lights will only be switched on when there are people walking in the corridor.

	Unit	
Energy Consumption in Total	MWh	3,672.56
Purchased Electricity	MWh	1,347.41
Diesel Oil	MWh	103.97
Liquefied Petroleum Gas	MWh	68.78
Natural Gas	MWh	774.19
Unleaded Petrol	MWh	166.60
Coal	MWh	1,211.61
Energy Consumption in Intensity	kWh/Bottle	3.01

Responsible and Sustainable Supply Chain Management

Selection and Assessment of Supplier

The Group work closely with different suppliers for raw materials, packaging materials and externally-sourced grapes throughout the entire production lifecycle. To systematically manage the supplier selection and procurement process, the Group has established a "Procurement Management System" (《生產採購管理制度》) to provide a clear definition of the purchasing procedures for those purchased items affecting the Group's product quality.

After checking the required business licenses of a new supplier as required by the statutory regulations, a preliminary assessment of the suppliers' quality, service quality, reputation, background, after-sales services and prices will be conducted. Supplier will also be asked to provide quality assessment record and other necessary supporting documents. The qualified suppliers will be shortlisted and recorded. The final decision will be made by the departments involved and managers after reviewing the overall performance of the shortlisted suppliers before approval. The raw materials and externally-sourced grapes provided by the new supplier during the first purchase will undergo the internal laboratory testing to ensure the quality meeting with the corresponding statutory regulations and our internal standard.

To maintain the best in class suppliers on our pre-approved supplier list, we would perform annual evaluation with our existing suppliers over the year. The evaluation will be conducted and different factors including the pricing, prices, quality, delivery and after-sales services. Only suppliers who passed the evaluation will be kept on the pre-approved supplier list.

As of 31 December 2018, we had a total of 84 suppliers, composed of 79 suppliers from the PRC and 5 from other countries.

Responsible Sales and Distribution

The Sales and Marketing Department in Xiamen office will be responsible for the majority of the Sales and Distribution service provided by the Group. The Sales operations in Xiamen obtained the Business Licenses in accordance with the "Administrative Rules for Alcohol in Xiamen" (《廈門市酒類管理規定》), "Management Standard for Alcohol Commodities Retail" (《酒類商品零售經營管理規範》) and "Management Standard for Alcohol Commodities Wholesale" (《酒類商品批發經營管理規範》), to ensure our wine products, selling directly to end-users for personal use or to cater to personal, corporate and business events through a network of distributors and online sales channels, are following with our distribution strategies and marketing efforts in a compliance manner.

Customer Satisfaction

Customer's support and confidence in our wine products are the greatest rewards for us, hence the Group is committed to providing excellent service to our valuable customers. In accordance with the "Law of the People's Republic of China on the Protection of Consumer Rights and Interests" (《中華人民共和國消費者權益保護法》), customers are entitled to return and refund the product if there are any quality issues found. Customers purchasing from our official sales and distribution channels and platforms can contact our Customer Service Representative for after-sales support. Once the non-conforming case is confirmed, it will be handled in accordance with the "Non-Conforming Product and Product Recall Management System" (《不合格品和產品召回管理制度》) to ensure our Customer's right is protected. The System also emphasises the importance of analysing the non-conforming incident and identifying the room of improvement to improve the sales and distribution practice and avoid the issue from happening again to safeguard the consumers' confidence and trust to our wine products.

In addition, the Group actively interacts with our customers through different social media channels, including WeChat Official Account, Weibo, Official Website, Official E-Mail Account, Facebook and others. New products, discount promotion and greetings in festival will be posted while the Group also collects feedbacks and comments from users interacting with us. The Group will also send out monthly questionnaire to customers who made purchase recently to collect important feedbacks from customers. If the Group receives any complaints or feedbacks on the social media, the Customer Service Specialist will handle the case seriously according to the "Consumer Complaints Handling System" (《消費者投訴受理制度》) and forward the case to the responsible department for immediate follow-up. To ensure the customer receiving prompt assistance from us, we are committed to replying our valuable Customers for no more than 3 working days.

Consumer Privacy Data promptly collected from the e-commerce platforms will be encrypted and protected with highest level of security. The data can only be accessed by designated staff from the specific department while such data cannot be copied and shared with other third parties. The importance of safeguarding the consumer's confidential data is one of the key focus on training for staff who may or will handle the confidential data.

Responsible Advertising

The Group emphasises building a positive brand image by being a socially responsible and sustainable wine producer. To advertise responsibly, the Group prepares the advertisement and promotion materials in accordance with the "Advertising Law of the People's Republic of China" (《中華人民共和國廣告法》). The advertising materials will be reviewed to ensure that there are no over-exaggeration words like "BEST", "THE ONLY" are used.

The labels on each bottle of the wine list out all the ingredients in the wine with the label font imprinted in compliance with the "National Food Safety Standard General Standard for the Labelling of Pre-Packaged Foods"

《食品安全國家標準－預包裝食品標簽通則 GB7718-2011》), and the "General Standard for the Labelling of Pre-Packaged Alcoholic Beverage" (《預包裝飲料酒標簽通則 GB10344-2005》). The Group is also committed to promoting responsible drinking and we include the warning notice of "Excessive drinking could damage your health" (過量飲酒有害健康) on top of each bottle of Grace Wine.

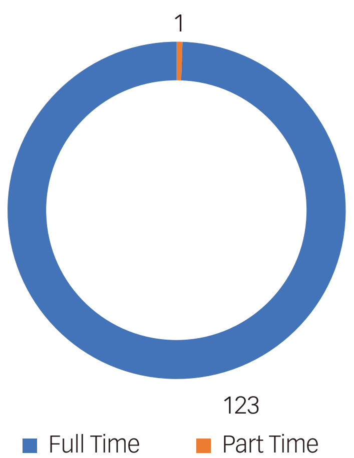
Our People

The professional and devoted teams in wine production, sales and distribution are the heart of our business. We build up our team and invest in our people who shared the vision and mission of the Group and hence every bottle of Grace Wine is filled with the passion and enthusiasm. From the top management to every staff, the culture of passing down the experience and love, striving for product quality and service quality excellence, being innovative, being enthusiastic and passionate at work to create a well-lived life, all are the corporate culture that prevails and guides the Group to grow continuously and sustainably.

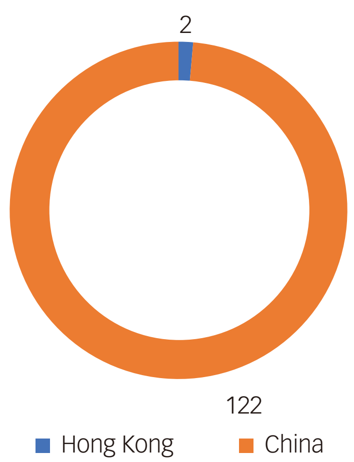
Talent Acquisition and Retention

As our winery business continues to grow, a sound "Recruitment Management System" was established to provide a standard mechanism to regulate the recruitment process and to ensure the fairness well covered in every step. The system also outlines the importance of fair and open recruitment by conducting comprehensive assessment for evaluating the applicant's different abilities.

Distribution of Employees by Employment Type

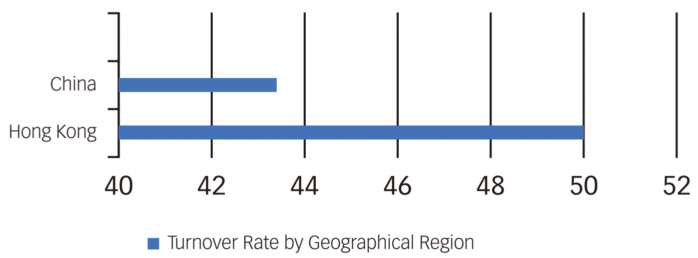


Distribution of Employees by Geographical Region



The Human Resources Department will firstly establish the Annual Human Resource Plan after meeting with different department to understand their needs and requirements of recruitment to meet our annual business plan. By benchmarking with the market's benefits and remuneration packages, the Human Resources Department can hence adjust the job offers to attract appropriate talents. Interview and other assessment will be conducted to ensure the applicants possess the essential skills and abilities to perform the required jobs. Recruitment decision can only be made after reaching consensus decision-making among different departments with management's approval to ensure a fair and objective recruitment process.

Turnover Rate (%) by Geographical Region



Remuneration and Benefits

The Group implements a competitive "Remuneration and Benefit" system to retain talents. In addition to basic compensation and benefits in accordance with the applicable local laws and regulations, we provide extra allowances and bonuses subject to the actual circumstance. The Human Resources Department will review the System regularly to ensure the compensation and benefit package that offering by the Group is attractive to the best talents.

Basic Compensation and Benefits	Extra Allowances and Bonuses
• Basic salary paid according to educational background, experience and grading	• Travel allowance
	• Festival bonus
• Job Duty Salary which is determined according to the job specific requirement, skills required, safety and work intensity	• Marriage and birth-giving bonus
	• Attendance bonus
• Social insurance (including national pension, medical insurance, employment insurance, occupational health and safety insurance)	• Performance bonus
	• Free shuttle bus
• Paid annual leave	• Subsidies for critical illness medical expenses
• Public holiday and leaves required by the law (compassionate leaves, sick leaves, marriage leaves, maternity leaves, paternity leaves, parental leaves and etc.)	• Annual body check

A close and positive relationship with our staff is a key to a sustainable and competitive committable workforce. To build a friendly environment and strengthen the bond among colleagues, the Group will organise different employee events throughout the year, including the Annual Dinner, Harvesting Ceremony and birthday gathering organised by the staff committee.

Performance Appraisal System

Staff performance appraisal and promotion system are formulated to evaluate the employee's job performance and develop a fair system for salary adjustment and promotions. The Annual Appraisal starts from the beginning of the year when the management and staff set up the development plan of according to the Group's Annual Development Plan and targets setting for different departments. Performance evaluation is conducted on a regular basis throughout the year to ensure a smooth progress towards the target achievement.

Labour Standards

To ensure a full compliance with statutory regulations over employment including the "The Labour Contract Law of the People's Republic of China", "The Labour Law of the People's Republic of China", the Group has formulated our "Staff Management System" to ensure the contracts terms are in line with the regulations.

As an equal opportunity employer, we take a zero-tolerance approach to discrimination of any sorts. We strive to providing an equal employment opportunity and fair assessment treatment to our potential and current employees regardless of gender, age, sexual orientation, marital status, race, ethnicity, social class, religion or disability.

We provide the draft contracts to suitable applicants for review and only sign off an official contract upon mutual agreement on the contract terms.

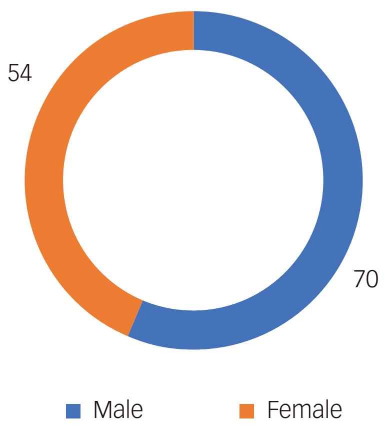
The Group strives to offering employees a harmonious, pleasant and safe workplace. All work should be voluntarily performed and any form of forced labour is strictly forbidden.

Child labour is prohibited in the Group. Human Resources Department will check the applicant's ID Card to ensure the applicant is eligible to work before offering the contracts. In case of occurrence, termination of the duty for the child labour will immediately take into effect.

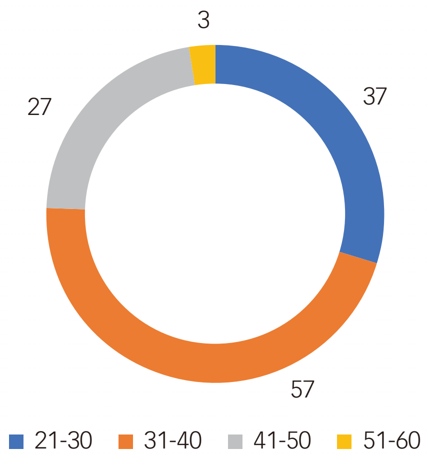
The Group implements a standard of 40 working hours per week. Prior management approval has to be obtained if employees are required work overtime and we compensate for the approved overtime work.

The Reward and Punishment System lists the act that would receive rewards and act that would constitute an offense. The details about dismissal in respective internal policy is also listed clearly in the Employee Handbook. Employees are also eligible to appeal the case to the management if unfair treatment is noticed.

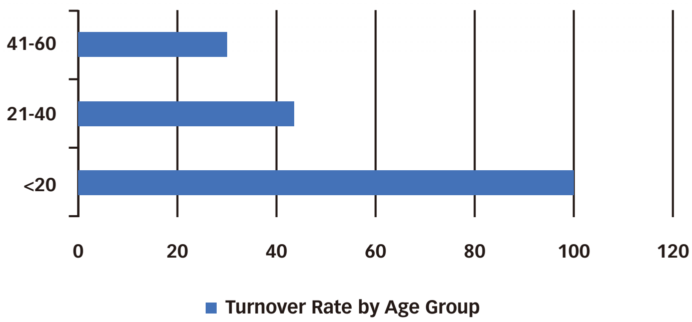
Distribution of Employees by Gender

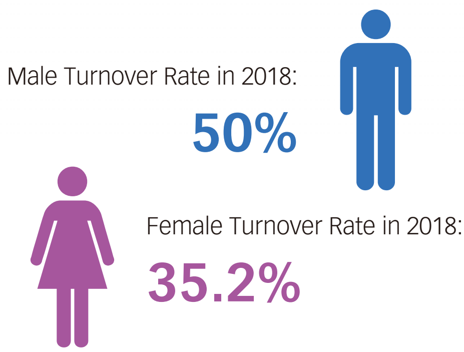


Distribution of Employees by Age



Turnover Rate (%) by Age Group





Occupational Health and Safety

The health, well-being and safety of our employees are top priorities at the Group and we are committed to ensuring safe and healthy workplaces for all. To ensure safe and accident-free working environments, the Group has established a "Safety Production Management System", requiring every department to analyse issues related to occupational health and safety simultaneously within the production. The System provides a framework to assist management systematically assess the working conditions of our employees to identify risks and potential dangers and provide our workforce with PPE and safety facilities if needed so as to minimize the risk of incidents. We also conduct regular training to heighten the awareness of workers and their managers on the subject of safety regulations and possible workplace hazards. Additional information in the form of posters and other materials are used to reinforce a "Safety First" culture with the Group.

Environmental, Social and Governance Report

In 2018, there was 1 recordable work-related injury case in Shanxi Vineyard. An Equipment Technician was hit by a dropping vessel pipe during maintenance work with a minor head injury resulting in 5 lost days. After the incident, the site operation management has reinforced the implementation of regular site inspection, provision of PPE and safety facilities together with staff safety training as remedial actions.

Precautionary Measures

The well-established "Safety Protection System" provides necessary fund for Workplace Safety Team to provide necessary PPE and safety facilities if, site inspection and training under the requirement of the "State Administration of Work Safety" (《安全生產監督管理總局》). Meanwhile, the Workplace Safety Team will also utilize the fund to procure PPE and safety facilities if and provide training and regular review to ensure all safety preventive measures are in place and staff are readily protected under any at-risk situation.

To prevent the Occupational Health issues and minimize the associated risks, the Technology Department is responsible formulating the plan and approach to minimize the chance of occupational disease in workplace and identify the potential issues under the "Preventing Occupational Disease Management Policy" in accordance with the "Law of the People's Republic of China on the Prevention and Control of Occupational Diseases" (《中華人民共和國職業病防治法》). The Team is also responsible to check and update the newly adopted technology, new production, equipment and materials. to ensure the quality meeting with the national and our internal standard.

Safety Training

To increase the employee's awareness of occupational health and safety, regular trainings will be provided to the employees at various levels under the "Safety Training and Education System". Top management and department heads are required to attend safety production training in accordance with the Government's regulation "Production Safety Law of the People's Republic of China" (《中華人民共和國安全生產法》) and obtain the relevant certifications before commencing work. New joiners and rotating staff are required to attend a complete series of training provided by the Workplace Safety Committee. In addition, employees have to attend relevant safety training if there is a new equipment, technology, procedure or new product going to roll out in the winery process.

Preparedness and Contingency Planning

Our employees are well equipped to meet the obligations of health and safety in the events of emergency. In an effort to manage the risks and hazards of any emergency situations, a series of emergency response plans have been developed. We periodically conduct emergency drills such as fire drills and blackout drills to raise the safety awareness of the employees and to strengthen their awareness to react in response to crisis or emergency. The drills serve as a platform to provide the closest real-life training to our employees on the necessary procedures during emergency and to identify aspects of deficiency in the emergency response plans for further improvement.

Environmental, Social and Governance Report

Practice Makes Perfect – 2018 March Fire Drills in Shanxi Vineyards

To ensure every staff is aware of their role and safety procedures in emergency situation, the Group would organise regular fire drill to keep the employees alert and ready in any accident. Cooperating with the city's Fire Service Department, Shanxi Vineyard organised the annual fire drill and training on 30 March 2018. Staff were evacuated from the production plant simulating if there were a fire accident in the production plant.

The local Fire Service Department also provided some on-site training to our Staff on basic first aid treatment, the injured staff was received a simple first aid treatment after evacuating to a safe place.

Reward and Punishment System

Our "Reward and Punishment System" for Workplace Safety supervised by Workplace Safety Committee is in place to reiterate the importance of occupational health and safety. Safe production, fire prevention in compliance with relevant laws and regulation are the key performance indicators for evaluation. Every staff is encouraged to provide effective and feasible suggestions on safety measures as well as prevention of occupational casualties and loss of corporate properties. For Staff who actively participates in safety training, discovers potential risk which could cause enormous damage to the Group, will receive the awards with prior management agreement. Punishment will be given to staff whom act was found constituting a breach of relevant laws or cause significant loss to the Company.

Development and Training

Continuous learning and upgrading the skillsets are important to our Staff's personal development and building a competitive workforce to maintain the Group competitive in the market. The "Training Management System" was hence established to ensure proper trainings and developments were assigned to staff with sufficient resources allocated.

TRAINING PRINCIPLES

ALL STAFF INVOLVED	Training should be provided to improve the integrated ability of every staff. Meanwhile, everyone from the Group, from top management to staff, has to understand the importance of training and proactively take part in the trainings
SPECIFIC	Training should be provided to meet a specific need to enhance staff performance at work
PLANNED	Training plan should be thoroughly developed to ensure different aspects are reviewed and considered
SUITABLE	Training plan should be customised for every staff to ensure every staff receives suitable training that is relevant to one's responsibility
TRACEABILITY	Upon completion of training the results should be reviewed in a timely manner to ensure the training's effectiveness

As guided by the training principles stated in the System, Human Resources Department will establish Annual and Monthly Training Plan over the year to meet the need of business growth and departmental-specific requirements. According to the training plan, there is a suitable internal or external training to be provided to maintain the staff's competitiveness.

Sustainable Relationship with Community

Anti-Corruption

Zero tolerance approach towards corruption and bribery leverages a significant importance for the Group's sustainable and healthy growth. With a Clear definition of acts constituting corruption and bribery, the consequences are stated clearly in the Employee Handbook. Meanwhile, the wines consumed to welcome guests on site must be recorded and the corresponding request has to be reviewed by management to ensure no occurrence of power abuse and bribery.

The Group is not aware of any violations related to bribery, extortion, fraud and money laundering under the "Criminal Law of the People's Republic of China" (《中華人民共和國刑法》) that had material impact during the Reporting Period.

Community Investment

Maintaining a positive relationship with nearby communities is one of the material issues that the Group continues to take effort as we understand the support from nearby community is an important momentum to the Group's success.

With the mission to promote "Pathway to a well-lived life", we continuously promote responsible drinking as a glass of Grace Wine would bring pleasure and moment of enjoyment. The Group is hence dedicated to educate university students, the future of our community, with the manner, attitude and way to appreciate wines from a responsible drinking perspective through organising different meaningful events.

In 2018, the Group organised the "Grace Wine's Wine Culture School Tour" to provide students an opportunity to learn the basic knowledge and manner of wine tasting together with improving students' communication skills. For the "Trip of Resonation", a site visit to the Group's Shanxi Vineyard was successfully organised and received much positive feedbacks from the participants. The tour provided an opportunity to the participants to learn more about wines and the way to appreciate and the way to bring additional enjoyment to life.

As one of the leading premiers in domestic wine producers, the Group takes an active role in promoting fine wines and wine enjoyment in China. In 2018, it is an honour for the Group to be able to cooperate with the Wine Business Observation (WBO) to co-organise "The Development of Chinese Fine Wine in 20 Years". The Forum provides an opportunity for the industry leaders, experts and fans to learn more about wines produced in China. Ms. Judy Chan, the vineyard owner and the President of Grace Wine, shared her experience and passion in wine.

Meanwhile, Ms. Judy Chan continues to devote the contribution back to the community by actively participating in different NGO events. In addition, as a "Woman of the Year", Ms. Judy Chan inspired and shared her experience with students around the globe, especially in China, about the importance of passion and perseverance through taking part in different sharing session as a guest speaker in lectures.

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Report of Directors

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for FY2018.

LISTING ON THE GEM OF THE STOCK EXCHANGE AND REORGANISATION

The Company was incorporated in the Cayman Islands on 14 February 2012 as an exempted company with limited liability. Pursuant to the corporate reorganisation of the Group to rationalise the group structure in preparation for the Listing, the Company became the holding company of the Group in September 2017. Further details are set in the paragraph "Reorganisation" in the section headed "History, Reorganisation and Corporation Structure" to the Prospectus.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the Company's principal subsidiaries are set out in Note 1 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the Group's business during the year and description of principal risks and uncertainties that the Group may be facing can be found in the "Management Discussion and Analysis" section on pages 6 to 13 of this annual report. Also, the financial risks are covered in Note 35 to the consolidated financial statements in this annual report. A more comprehensive analysis of the Group's risk factors is set out on pages 34 to 58 of the Prospectus.

In addition, discussions on the Group's environmental policies, relationships with its key stakeholders and compliance with relevant laws and regulations which have a significant impact on the Group are all contained in the "Environmental, Social and Governance Report" section on pages 35 to 63. The potential future business development of the Group is set out in the Chairlady's Statement on pages 4 to 5 and Business Review and Outlook section of the "Management Discussion and Analysis" on pages 6 to 13 in the of this annual report. Such discussion form part of this Report of Directors.

PRINCIPAL RISK AND UNCERTAINTIES

Details of principal risks and uncertainties are set out in the section headed "Management Discussion and Analysis" of this annual report on page 10.

CHARITABLE DONATIONS

During FY2018, charitable donations made by the Group amounted to RMB51,000.

DIVIDEND POLICY

The Company has adopted a dividend policy that, in recommending or declaring dividends, the Company shall maintain adequate and sufficient cash reserves for meeting its working capital requirements and future growth as well as its Shareholder value. The Board has the full discretion to declare and distribute dividends to the Shareholders, and any final dividend for a financial year will be subject to Shareholders' approval. In proposing any dividend payout, the Board shall also take into account, among other things, the Group's financial results, cash flow situation, business conditions and strategies, expected future operations and earnings, capital requirements and expenditure plans, interests of Shareholders, any restrictions on payment of dividends and any other factors the Board may consider relevant. Any payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands, the Articles and the Shareholders.

RESULTS AND DIVIDEND

The consolidation results of the Group for FY2018 are set out on pages 83 to 89 of this annual report.

Other than the payment of special dividend of approximately RMB10,000,000 paid to the then Shareholders on 4 June 2018, the Board does not recommend the payment of a final dividend for FY2018.

CLOSURE OF THE REGISTER OF MEMBERS

The AGM will be held on Friday, 14 June 2019. The register of members of the Company will be closed from Tuesday, 11 June 2019 to Friday, 14 June 2019, both dates inclusive, during which period no transfer of Shares could be registered for determination of entitlement of the Shareholders to attend and vote at the AGM. In order to qualify for attending and voting in the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Monday, 10 June 2019.

DEED OF NON-COMPETITION

On 1 June 2018, the Deed of Non-Competition (as defined in the Prospectus) was entered into by Ms. Judy Chan and Macmillan Equity Limited ("Macmillan Equity") in favour of the Company (for the Company and for the benefit of its subsidiaries) regarding non-competition undertakings, pursuant to which the controlling shareholders of the Company ("Controlling Shareholder(s)") unconditionally and irrevocably agrees, undertakes to and covenants with the Company (for itself and for the benefits of each other member of the Group) that they would not, and would procure that their close associates (other than any members of our Group) would not, directly or indirectly, either on their own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or otherwise, and whether for profit, reward or otherwise) any activity or business which competes or is likely to compete, directly or indirectly, with the business operated by the Group as described in the Prospectus. Further details of the Deed of Non-competition have been disclosed in the Prospectus under the section headed "Relationship with our Controlling Shareholders – Deed of Non-competition".

During FY2018, Ms. Chan proposed to sell her 50% interest in Intervine Capital Cienega Valley LLC ("Intervine"), a company incorporated in the United States, which operates a vineyard located in California, the United States, under the brand name of "Eden Rift", specialising in the production of wine made of pinot noir and chardonnay grapes (the "Proposed Disposal"). For details on Intervine, please refer to the section headed "Relationship with our Controlling shareholders – Other Related Business of the Controlling Shareholders" in the Prospectus.

Pursuant to the Deed of Non-Competition, the Board (including the independent non-executive Directors) reviewed the Proposed Disposal and considered factors such as the terms of the Proposed Disposal and our Group's long-term business strategies and operating plans. The Board (including the independent non-executive Directors) decided (i) not to pursue with the acquisition of Intervine from Ms. Chan, (ii) not to exercise their right of first refusal under the Deed of Non-Competition and (iii) to consent to and agree that Ms. Chan may proceed to dispose of her interests in Intervine to any potential purchaser other than our Group, which is in the interests of our Company and its shareholders as a whole.

Our Company has received from each of the Controlling Shareholders an annual written declaration as to the compliance with the terms of the Deed of Non-Competition during FY2018. The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the abovementioned Deed of Non-Competition have been complied with by the Controlling Shareholders up to the date of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property and equipment of the Group during FY2018 are set out in Note 13 to the consolidated financial statements.

SHARES ISSUED IN THE YEAR

Details of the Shares issued in the year are set out in Note 24 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company's reserves available for distribution to the Shareholders amounted to approximately RMB121.0 million (2017: RMB96.3 million).

LOANS AND GUARANTEES

During FY2018, the Group had not made any loan or provided any guarantee for any loan, directly or indirectly, to the Directors, senior management of the Company, the Controlling Shareholders or their respective associates (as defined in the Listing Rules).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles or the Companies Law of the Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period from the Listing Date to 31 December 2018 and up to the date of this report, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's largest customer contributed 63.4% (2017: 66.4%) of the total revenue for the year while the Group's five largest customers accounted for 84.5% (2017: 86.4%) of the total revenue for the year. The Group's largest supplier contributed 17.3% (2017: 17.0%) of the aggregation of cost of materials for the year while the Group's five largest suppliers accounted for 54.9% (2017: 59.0%) of the aggregation of cost of materials for the year. To the best of the knowledge of the Directors, none of the Directors, their respective close associates (as defined in the GEM Listing Rules) or any Shareholders (which to the best knowledge of the Directors, own more than 5% of the Company's issued Shares) had any beneficial interest in any of the Group's five largest customers or suppliers referred to above.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the Shareholders by reason of their respective holding of the Company's securities.

SHARE OPTION SCHEME

A Share Option Scheme was adopted by the Company on 1 June 2018. The purpose of the Share Option Scheme is to enable the Company to grant options to Eligible Participants (as defined in the paragraph below) as incentives or rewards for their contribution or potential contribution to the Group.

Unless otherwise cancelled or amended, the Board is entitled at any time within the period of 10 years from the date of adoption of the Share Option Scheme to make an offer to the below eligible participants (the "Eligible Participants") of the Share Option Scheme:

(i) any full-time or part-time employees, or potential employees, executives or officers of the Company or any of its subsidiaries;

(ii) any Directors (including executive, non-executive and independent non-executive Directors) of the Company or any of its subsidiaries; and

(iii) any suppliers, customers, agents and advisers who, in the sole opinion of the Board, will contribute or have contributed to our Company and/or any of its subsidiaries.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date, being 80,000,000 Shares. Subject to Shareholders' approval in general meeting, the Board may (i) refresh this limit at any time to 10% of the Shares in issue as at the date of the approval by the Shareholders in general meeting; and/or (ii) grant options beyond the 10% limit to Eligible Participants specially approved by the Shareholders in general meeting and the Eligible Participants are specifically identified by the Company before such approval is sought.

The total number of Shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Any further grant of options to an Eligible Participant in excess of the 1% limit shall be subject to approval by Shareholders in general meeting with such Eligible Participant and his or her close associates (or his or her associates if such Eligible Participant is a connected person) abstaining from voting.

Each of the grantees to whom an option has been granted under the Share Option Scheme shall be entitled to exercise his/her option in the manner set out in his/her offer document, provided that such period of time shall not exceed a period of ten years commencing on the date on which the option is granted. The exercise of any option shall be subject to the Shareholders in general meeting approving any necessary increase in the authorised share capital of the Company.

Upon acceptance of an option to subscribe for Shares granted pursuant to the Share Option Scheme (the "Option"), the Eligible Participant shall pay HK$1.00 to the Company as consideration for the grant. The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Board at its sole discretion and notified to the Participant and shall be no less than the highest of:

(a) the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of grant, which must be a day on which the Stock Exchange is open for business of dealing in securities;

(b) the average of the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five business days (as defined in the GEM Listing Rules) immediately preceding the date of grant; and

(c) the nominal value of a Share.

No share option has been granted pursuant to the Share Option Scheme since its adoption and there was no share option outstanding under the Share Option Scheme as at 31 December 2018.

Report of Directors

DIRECTORS

The Directors during FY2018 and up to the date of this report were:

Executive Directors
Ms. Judy Chan (Chairlady, Chief Executive Officer)
Mr. Fan Chi Chiu

Non-executive Directors
Ms. Hou Tan Tan Danielle
Mr. Chow Christer Ho

Independent non-executive Directors
Mr. Ho Kent Ching-tak
Mr. Lim Leung Yau Edwin
Mr. Alec Peter Tracy

Pursuant to the Articles, one-third of the Directors (whether executive or non-executive) shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has signed a service agreement with the Company commencing on the Listing Date for a term of three years (subject to termination in certain circumstances as stipulated in the service agreement). Each of our non-executive Directors and independent non-executive Directors has signed a letter of appointment with us commencing on the Listing Date for a term of three years (subject to termination in certain circumstances as stipulated in the relevant letters of appointment). None of the Directors (including those proposed for re-election at the AGM) has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during FY2018.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of their independence. The Nomination Committee has assessed the independence of the independent non-executive Directors and affirmed that all independent non-executive Directors remained independent.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares and underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were notified to the Company and the Stock Exchange, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(i) Interests in the Company

Name of Director	Capacity/ Nature of interest	Number of ordinary Shares held (1)	Approximate shareholding percentage
Ms. Judy Chan (2)	Interest in controlled corporation	420,000,000 (L)	52.5%

Notes:

1. The letter "L" denotes the person's long position in the Shares.

2. Macmillan Equity Limited wholly-owned by Ms. Judy Chan, and therefore Ms. Judy Chan is deemed to be interested in the 420,000,000 Shares held by Macmillan Equity pursuant to the SFO.

(ii) Interests in associated corporation of the Company

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of ordinary share(s) held [1]	Approximate Shareholding percentage
Ms. Judy Chan [2]	Macmillan Equity	Beneficial owner	100 (L)	100%

Notes:

1. The letter "L" denotes the person's long position in the Shares.

2. Macmillan Equity is wholly-owned by Ms. Judy Chan.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under the SFO), or pursuant to section 352 of the SFO, which were required to be recorded in the register referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, which were to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as the Directors and the chief executives of the Company are aware, as at 31 December 2018, other than the Directors and Chief Executives, the following persons had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO, or which would be, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group:

Name	Capacity/ Nature of interest	Number of ordinary Shares held (1)	Approximate shareholding percentage
Macmillan Equity (2)	Beneficial owner	420,000,000 (L)	52.5%
Palgrave Enterprises Limited ("Palgrave Enterprises") (3)	Beneficial owner	180,000,000 (L)	22.5%
Ms. Wong Shu Ying (3)	Interest in controlled corporation	180,000,000 (L)	22.5%
Mr. Chan Chun Keung (4)	Interest of spouse	180,000,000 (L)	22.5%

Notes:

1. The letter "L" denotes the person's long position in the Shares.

2. Macmillan Equity is wholly-owned by Ms. Judy Chan.

3. Palgrave Enterprises is wholly-owned by Ms. Wong Shu Ying, and therefore Ms. Wong Shu Ying is deemed to be interested in the 180,000,000 Shares held by Palgrave Enterprises Limited pursuant to the SFO.

4. Mr. Chan Chun Keung, the spouse of Ms. Wong Shu Ying, is deemed to be interested in the 180,000,000 Shares held by Ms. Wong Shu Ying, through her controlled corporation, Palgrave Enterprises, pursuant to the SFO.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any person or corporation (other than the Directors and the Chief Executives) who had any interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 or Part XV of the SFO, or pursuant to section 336 of the SFO, which would have to be recorded in the register referred to therein.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved as disclosed above, at no time during FY2018 and up to the date of this report, have the Directors and the chief executive of the Company and their respective close associates (as defined under the GEM Listing Rules) had any interest in, or had been granted, or exercised any rights to subscribe for Shares or underlying Shares of the Company and/or its associated corporations (within the meaning of the SFO).

Save as disclosed above in the section "Share Option Scheme", at no time during FY2018 and up to the date of this report was the Company, any of its subsidiaries, its associated companies or its holding companies a party to any arrangements to enable the Directors or the chief executive of the Company to hold any interests or short positions in the Shares or underlying shares in, or debentures of, the Company and/or its associated corporations (within the meaning of the SFO).

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

COMPETING INTERESTS

Since the date of Listing and up to the date of this report, none of the Directors, the Controlling Shareholders or their respective associates (as defined in the GEM Listing Rules) had any interests (other than their interest in the Company or its subsidiaries) in any business which competed or may compete, either directly or indirectly, with the business of the Group or any other conflicts of interests with the Group.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

During FY2018, there had been no contract of significance between the Company or any of its subsidiaries and a Controlling Shareholder (as defined in the GEM Listing Rules) or any of its subsidiaries, nor any contract of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder or any of its subsidiaries.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 32 to the Notes to Financial Statements in this annual report, none of the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of our Group, to which our Company or any of its subsidiaries was a party during FY2018.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for FY2018 are set out in Note 32 to the consolidated financial statements.

CONNECTED TRANSACTIONS

During FY2018, the Group has not conducted any "one-off connected transaction" or "continuing connected transaction" (as defined under Chapter 20 of the Listing Rules) which is subject to reporting and annual review requirements under the GEM Listing Rules. The transactions disclosed in note 32 to the Notes Financial Statements in this annual report as related party transactions did not fall under the definition of "connected transaction" or "continuing connected transaction" (as defined under Chapter 20 of the GEM Listing Rules) or are fully exempt continuing connected transactions under Rule 20.74(1) or Rule 20.96 of the GEM Listing Rules.

CORPORATE GOVERNANCE

The Company has complied with all applicable principles and the code provisions of the CG Code contained in Appendix 15 to the GEM Listing Rules during the Period (except for the deviation from CG code provision A.2.1). Details of the Company's corporate governance practices are set out in the section "Corporate Governance Report" of this annual report.

Besides, to maintain high standards of corporate governance, the Company regularly reviews and maintains a sensitivity list identifying factors or developments which are likely to give rise to the emergence of inside information or development of a false market for its securities. Where applicable, the Company will publish relevant announcement relating to the Company's operation, including the information on harvest results of self-cultivated grapes, on a timely manner.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Group is committed to support environmental protection to ensure business development and sustainability. The Group has implemented green office practices to reduce the consumption of energy and natural resources. These practices include the use of recycled paper, reduce energy consumption by switching off idle lightings, computers and electrical appliances and the use of environmentally friendly products whenever possible. The Environmental, Social and Governance Report are set out in the section headed as the same in this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS AND RELATIONSHIPS WITH KEY SHAREHOLDERS

The Company has complied with all applicable laws and regulations in all material respects and maintained good relationship with its customers, suppliers, employees and investors. During FY2018, there were no material and significant dispute between the Group and its employees, customers and/or suppliers.

COMPLIANCE ADVISER'S INTERESTS

As at 31 December 2018, save and except for the compliance adviser's agreement entered into between the Company and Southwest Securities (HK) Capital Limited (the "Compliance Adviser") dated 20 September 2017, neither the Compliance Adviser nor its directors, employees or close associates had any interests in relation to the Company which is required to be notified to the Group pursuant to rule 6A.32 of the GEM Listing Rules.

PERMITTED INDEMNITY PROVISIONS

The Articles provide that every Director shall be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses, whatsoever which they or any of them may incur as a result of any act or failure to act in carrying out their functions other than such liability (if any) that they may incur by reason of their own actual fraud or willful defaults. The Company has arranged for appropriate insurance coverage in respect of potential legal actions against its Directors and senior management.

EMOLUMENT POLICY

The remuneration policy of the Group is to reward its employees and executives based on, among other things, the Group's operating results, individual performance and comparable market statistics. Remuneration package typically comprises of salaries, contribution to pension schemes and discretionary bonuses.

The Remuneration Committee will review annually the remuneration of all the Directors to ensure that it is attractive enough to attract and retain a competent team of executive members. The Director's fee for each of the Directors is subject to the Board's review from time to time in its discretion after taking into account the recommendation of the Remuneration Committee. The remuneration package of each of the Directors is determined by reference to market terms, seniority, experiences, duties and responsibilities of that Director within the Group.

RETIREMENT BENEFITS PLAN

Details of retirement benefits plan of the Group for FY2018 are set out in "Employee benefits" section of Note 2.4 to the consolidated financial statements.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the Directors' remuneration and the five highest paid individuals for FY2018 are set out in Notes 8 and 9 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float of at least 25% of the issued Shares as at the latest practicable date prior to the issue of this annual report as required under the GEM Listing Rules.

EVENT AFTER THE REPORTING DATE

The Group has no significant events subsequent to 31 December 2018 and up to the date of this report.

UPDATE ON THE DIRECTORS' INFORMATION UNDER RULE 17.50A(1) OF THE LISTING RULES

Pursuant to Rule 17.50A(1) of the Listing Rules, changes in Directors' information since the date of the Prospectus are set out below:

Mr. Lim was appointed as the Market Head of China and Taiwan at HSBC Private Banking effective in October 2018 and resigned as managing director and the market group head of Credit Suisse AG Hong Kong branch.

AUDITOR

Ernst & Young will retire, and being eligible, offer themselves for re-appointment at the AGM. A resolution for their re-appointment as auditor of the Company will be proposed at the AGM. There has been no change of auditor of the Company since the Listing Date.

By order of the Board
Grace Wine Holdings Limited
Judy Chan
Chairlady, Chief Executive Officer and Executive Director

Hong Kong, 15 March 2019

Independent Auditor's Report

To the shareholders of Grace Wine Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Grace Wine Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 82 to 159, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report

To the shareholders of Grace Wine Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Valuation of biological assets	
As disclosed in note 17, to the consolidated financial statements, the Group's biological assets during the year comprised of grapes growing on bearer plants, and accounted for at fair value less costs to sale through to the point of harvest. At the point of harvest, the valuation of the grapes was approximately RMB2.3 million. The estimation of the fair value less costs to sell of the biological assets requires significant management judgement. Independent external valuations were obtained to assist management with their estimate of the fair value of the biological assets. Key assumptions adopted included the estimated market prices and growing costs. Related disclosures are included in notes 2.4, 3 and 17 to the consolidated financial statements.	Our audit procedures included the following: • We evaluated the independent external valuer's competence, objectivity and qualifications; • We evaluated the appropriateness of the methodologies used in valuing the biological assets by involving our internal valuation specialists; • We evaluated the appropriateness of the key assumptions and inputs, including the estimated market prices and growing costs, based on market available data and the historical performance of the Group; and • We assessed the adequacy of the fair value disclosures in relation to the biological assets.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

To the shareholders of Grace Wine Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

To the shareholders of Grace Wine Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report

To the shareholders of Grace Wine Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is CHIU, Caroline Su Yuen.

Ernst & Young
Certified Public Accountants
Hong Kong
15 March 2019

Consolidated Statement of Profit or Loss

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**72,556**	70,384
Cost of sales		**(47,124)**	(36,294)
Gross profit		**25,432**	34,090
Other income and gains, net	5	**6,841**	2,038
Selling and distribution expenses		**(4,245)**	(3,456)
Administrative expenses		**(24,123)**	(23,227)
Other expenses and losses		**(194)**	(214)
Finance costs, net	6	**–**	(572)
PROFIT BEFORE TAX	7	**3,711**	8,659
Income tax credit/(expense)	10	**2,454**	(7,545)
PROFIT FOR THE YEAR AND PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY		**6,165**	1,114
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted (RMB cents)	12	**0.88**	0.24

Consolidated Statement of Comprehensive Income

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR	6,165	1,114
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial information	2,425	4,965
Release of reserve upon disposal of subsidiaries	(65)	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	2,360	4,965
TOTAL COMPREHENSIVE INCOME FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY	8,525	6,079

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**81,513**	83,930
Prepaid land lease payments	14	**12,867**	13,836
Goodwill	15	**1,361**	1,361
Prepayment for acquisition of property, plant and equipment		**–**	68
Total non-current assets		**95,741**	99,195
CURRENT ASSETS			
Inventories	16	**65,051**	77,525
Biological assets	17	**–**	–
Trade receivables	18	**18,124**	12,797
Prepayments and other receivables	19	**3,458**	7,150
Cash and cash equivalents	20	**82,099**	32,152
Total current assets		**168,732**	129,624
CURRENT LIABILITIES			
Trade payables	21	**142**	860
Other payables and accruals	22	**8,676**	12,804
Tax payable		**2,064**	1,407
Total current liabilities		**10,882**	15,071
NET CURRENT ASSETS		**157,850**	114,553
TOTAL ASSETS LESS CURRENT LIABILITIES		**253,591**	213,748

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	23	**2,601**	9,318
Deferred income		**348**	370
Total non-current liabilities		**2,949**	9,688
Net assets		**250,642**	204,060
EQUITY			
Equity attributable to owners of the Company			
Issued capital	24	**674**	–
Reserves	25	**249,968**	204,060
Total equity		**250,642**	204,060

Judy Chan
Director

Fan Chi Chiu
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the Company						
	Issued capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (note 25(i))	Statutory reserve funds RMB'000 (note 25(ii))	Exchange fluctuation reserve RMB'000 (note 25(iii))	Retained profits RMB'000	Total RMB'000
At 1 January 2017	–	–	93	12,781	(12,887)	114,508	114,495
Profit for the year	–	–	–	–	–	1,114	1,114
Other comprehensive income for the year:							
Exchange differences on translation of financial information	–	–	–	–	4,965	–	4,965
Total comprehensive income for the year	–	–	–	–	4,965	1,114	6,079
Transfer from retained profits	–	–	–	763	–	(763)	–
2017 interim dividends (Note 11)	–	–	–	–	–	(20,708)	(20,708)
Loan Capitalisation (Note 24(i))	–	104,194	–	–	–	–	104,194
At 31 December 2017	–	104,194*	93*	13,544*	(7,922)*	94,151*	204,060
Effect of adoption of HKFRS 9 (Note 2.2(a))	–	–	–	–	–	(2)	(2)
At 1 January 2018 (restated)	**–**	**104,194**	**93**	**13,544**	**(7,922)**	**94,149**	**204,058**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**6,165**	**6,165**
Other comprehensive income for the year:							
Exchange differences on translation of financial information	**–**	**–**	**–**	**–**	**2,425**	**–**	**2,425**
Release of reserve upon disposal of subsidiaries	**–**	**–**	**–**	**–**	**(65)**	**–**	**(65)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**2,360**	**6,165**	**8,525**
Transfer from retained profits	**–**	**–**	**–**	**202**	**–**	**(202)**	**–**
Share Offer (Note 24(ii))	**169**	**58,847**	**–**	**–**	**–**	**–**	**59,016**
Capitalisation Issue (Note 24(iv))	**505**	**(505)**	**–**	**–**	**–**	**–**	**–**
Expenses incurred in connection with the issue of new shares (Note 24(iii))	**–**	**(10,957)**	**–**	**–**	**–**	**–**	**(10,957)**
2018 special dividend (Note 11)	**–**	**(10,000)**	**–**	**–**	**–**	**–**	**(10,000)**
At 31 December 2018	**674**	**141,579***	**93***	**13,746***	**(5,562)***	**100,112***	**250,642**

* These reserve accounts comprise the consolidated reserves of RMB249,968,000 (2017: RMB204,060,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**3,711**	8,659
Adjustments for:			
Bank interest income	5	**(528)**	(372)
Finance costs	6	**–**	572
Depreciation	7	**10,495**	10,125
Amortisation of prepaid land lease payments	7	**534**	553
Gains on disposal of items of property, plant and equipment, net	5	**(27)**	(213)
Losses/(gains) arising from changes in fair value of agricultural produce at the date of harvest	7	**418**	(884)
Government grants income	5	**(504)**	(1,190)
Write-off of inventories	7	**–**	11
Gain on disposal of subsidiaries	7	**(5,660)**	–
		8,439	17,261
Decrease in inventories		**15,812**	7,452
Additions to biological assets		**(3,195)**	(2,727)
Decrease/(increase) in trade receivables		**(5,325)**	29,458
Decrease/(increase) in prepayments and other receivables		**2,885**	(4,659)
Decrease in trade payables		**(703)**	(2,241)
Increase in other payables and accruals		**5,917**	5,040
Receipt of government grants		**504**	1,690
Cash generated from operations		**24,334**	51,274
Interest received		**297**	372
PRC income tax paid		**(3,306)**	(6,173)
Net cash flows from operating activities		**21,325**	45,473

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Net cash flows from operating activities		**21,325**	45,473
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(11,626)**	(13,113)
Proceeds from disposal of items of property, plant and equipment		**144**	979
Deposits received from disposal of an item of property, plant and equipment		**200**	–
Additions to prepayments of land lease payments	14	**–**	(14)
Prepayment of property, plant and equipment		**–**	(68)
Advances to related parties		**–**	(581)
Acquisition of subsidiaries	26	**–**	1,033
Disposal of subsidiaries	27	**(59)**	–
Withholding taxes paid on investing activities		**(300)**	(2,500)
Increase in non-pledged time deposits with original maturity of over three months when acquired		**(17,786)**	–
Net cash flows used in investing activities		**(29,427)**	(14,264)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceed from issue of new shares		**59,017**	–
Expenses paid in connection with the issue of shares		**(10,957)**	–
Repayment of bank borrowings		**–**	(26,000)
Interest paid	6	**–**	(1,072)
Dividend paid	11	**(10,000)**	(20,708)
Repayment of advances from related parties		**(131)**	(481)
Net cash flows from/(used in) financing activities		**37,929**	(48,261)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**29,827**	(17,052)
Cash and cash equivalents at beginning of year		**32,152**	51,367
Effect of foreign exchange rate changes, net		**2,334**	(2,163)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**64,313**	32,152
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**26,898**	32,152
Non-pledged time deposits with original maturity of less than three months when acquired		**37,415**	–
Non-pledged time deposits with original maturity of more than three months when acquired		**17,786**	–
Cash and cash equivalents as stated in the statement of financial position		**82,099**	32,152
Non-pledged time deposits with original maturity of more than three months when acquired		**(17,786)**	–
Cash and cash equivalents as stated in the statement of cash flow		**64,313**	32,152

Notes to Financial Statements

Year ended 31 December 2018

1. CORPORATE INFORMATION

Grace Wine Holdings Limited ("the Company") is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company had its listing (the "Listing") on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 June 2018.

The Company is an investment holding company. The Company's principal subsidiaries were engaged in the production and distribution of wine products.

The immediate and ultimate holding company of the Company is Macmillan Equity Limited, a company incorporated in British Virgin Islands ("BVI"). The entire issued capital of Macmillan Equity Limited is held by Ms. Judy Chan.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Dragonet Limited	Hong Kong 3 September 1997	HK$100	–	100	Investment holding and distribution of wine products
Shanxi Grace Vineyard Co., Limited*# (山西怡園酒莊有限公司) ("Shanxi Grace Vineyard")	People's Republic of China (the "PRC")/ Mainland China 7 August 1998	RMB46,800,000	–	100	Production and distribution of wine products
Shanxi Ziyuan Agricultural Development Co., Limited (山西紫源農業開發有限公司)*# ("Shanxi Ziyuan")	PRC/ Mainland China 21 November 2013	HK$1,300,000	–	100	Planting of vines and sale of wine grapes

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Deep Blue Wine Trading (Shanghai) Limited*# (創平酒業貿易(上海)有限公司)	PRC/ Mainland China 14 July 2010	US$200,000	–	100	Distribution of wine products
Ningxia Grace Vineyard Co., Limited (寧夏怡園酒莊有限公司)*# ("Ningxia Grace Vineyard")	PRC/ Mainland China 12 September 2012	US$5,000,000	–	100	Production of wine products
Xiamen Taofu Trading Co., Limited (廈門萄福貿易有限公司)*# ("Xiamen Taofu")	PRC/ Mainland China 29 September 2012	US$165,000	–	100	Distribution of wine products

Notes:

* *Registered as wholly-foreign-owned enterprises under the law of the PRC.*

\# *For identification purpose only.*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for biological assets, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.1 BASIS OF PRESENTATION (CONTINUED)

Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has applied the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC) – Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to HKFRS 2, amendments to HKFRS 4, amendments to HKAS 40 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows:

	Measurement category		**Carrying amount**		
			Original	New	Difference
	Original (HKAS 39)	New (HKFRS 9)	RMB'000	RMB'000	RMB'000
Non-current financial assets					
Prepayment for acquisition of property, plant and equipment	Loans and receivables	Amortised cost	68	68	–
Current financial assets					
Trade receivables	Loans and receivables	Amortised cost	12,797	12,795	(2)
Prepayments and other receivables	Loans and receivables	Amortised cost	7,150	7,150	–
Cash and bank balances	Loans and receivables	Amortised cost	32,152	32,152	–
Current financial liabilities					
Trade payables	Amortised cost	Amortised cost	860	860	–
Other payables	Amortised cost	Amortised cost	12,804	12,804	–

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

The adoption of HKFRS 9 has had no significant impact on the classification and measurement of the financial liabilities of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (Continued)

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in note 18 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017	Re-measurement	ECL allowances under HKFRS 9 at 1 January 2018
	RMB'000	RMB'000	RMB'000
Trade receivables	–	2	2
Financial assets included in prepayments and other receivables	–	–	–
	–	2	2

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on retained profits is as follows:

	Retained profits
	RMB'000
Balance as at 31 December 2017 under HKAS 39	94,151
Recognition of expected credit losses for trade receivables under HKFRS 9	(2)
Deferred tax in relation to the above	–*
Balance as at 1 January 2018 under HKFRS 9	94,149

* Less than RMB1,000.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The Group's principal activities consist of the manufacture and sale of wine products. The Group's contracts with customers for the sale of the wine products generally include one performance obligation. The Group has concluded that revenue from sale of the wine products should be recognised at the point in time when control of the asset is transferred to the customer. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (Continued)

Prior to the adoption of HKFRS 15, the Group recognised revenue from the sale of goods measured at fair value of the consideration received or receivable, net of allowances, trade discounts and/or volume rebates. If revenue cannot be reliably measured, revenue recognition is deferred until the uncertainty was resolved.

Under HKFRS 15, a transaction price is considered variable if a customer is provided with trade discounts or right of return. The Group estimates the amount of consideration to which it will be entitled in exchange for transferring the wine products. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amount of allowances, trade discounts and right to return as this method better predicts the amount of variable consideration to which the Group will be entitled.

The Group has assessed that the adoption of HKFRS 15 did not materially affect how the Group recognised revenue and cost of sales under HKAS 18 when the customers have a right to allowance, trade discounts and volume rebates.

Consideration received from customers in advance

Generally, the Group receives short-term advances from its customers. Using the practical expedient in HKFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB106,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB200,000 was reclassified from other payables to contract liabilities in relation to the consideration received from a customer in advance for the sale of a residential flat.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC) – Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below. Whilst management has performed an assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. As set out in note 30, at 31 December 2018, the total future minimum lease payments under non-cancellable operating leases in respect of office premises and farmlands amounted to approximately RMB2,991,000 and RMB15,000 respectively.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (Continued)

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5% to 20%
Leasehold improvements	5% to 10%
Plant and machinery	9% to 48%
Furniture and fixtures	10% to 48%
Motor vehicles	20% to 33.3%
Vineyard infrastructure	10%
Bearer plants	Over the shorter of the lease terms and 5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction and bearer plants before they reach maturity, which are stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction/plantation during the period of construction/plantation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Biological assets

Biological assets comprise grapes before harvest in leased farms and are classified as current assets due to the short development period, prior to harvest.

Biological assets are stated at fair value less costs to sell from initial measurement up to the point of harvest, except where fair value cannot be measured reliably due to unavailability of quoted market prices and no reliable alternative estimates exist to determine fair value, in which case the assets are held at growing cost incurred less impairment losses.

Once the fair value becomes reliably measurable, the biological assets are measured at fair value less costs to sell and changes in fair value are recognised in the consolidated statement of profit or loss for the period in which it arises.

Biological assets that meet the definition of bearer plants (i.e., grapevines) are within the scope of HKAS 16 *Property, Plant and Equipment*. Bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. After initial recognition, bearer plants are measured at accumulated cost less any impairment before maturity. Subsequently when the bearer plants are mature, they are measured at cost, less any subsequent accumulated depreciation and impairment, with changes recognised in profit or loss.

The grapevines are presented and accounted for as bearer plants, see "property, plant and equipment". However, the fresh fruit bunches growing on the grapevines are accounted for as biological assets until the point of harvest. Harvested grapes are transferred to inventories at fair value less costs to sell when harvested. Fair value at the point of harvest is based on the selling prices for similar fruits prevailing in the market as at or close to the harvest dates.

Costs to sell include the incremental selling costs, including auctioneers' fees, commission paid to brokers and dealers and estimated costs of transport to the market but excludes finance costs and income taxes.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group provides for 12-month ECLs for all prepayments and other receivables at initial recognition. Where there is a significant deterioration in credit risk or when the prepayments and other receivables are assessed to be credit-impaired, the Group provides for lifetime ECLs. The ECLs incorporate forward-looking information such as forecast of economic conditions. Based on historical data and management's analysis, loss on collection is not material hence no provision is made. There were no prepayments and other receivables impaired or written off during the year ended 31 December 2018.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (Continued)

Financial assets carried at amortised cost (Continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related companies/parties and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost or the deemed cost for agricultural produce harvested from biological assets and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

The Group is mainly involved in the sale of wine products. Revenue is measured based on the fair value of consideration received or receivable specified in the contracts with customers.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and the payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Tourism and servicing income

Tourism and servicing income represented income earned from the provision of services to customers staying overnight in the vineyard. Revenue is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Revenue from other sources

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the services have been rendered; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal governments. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension schemes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The Company's functional currency is Hong Kong Dollar ("HK$"). Because most of the subsidiaries' functional currencies are RMB, the financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of operations with functional currencies other than RMB are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Fair value measurements and valuation processes of biological assets

The biological assets of the Group are measured at fair value less costs to sell for financial reporting purposes. The directors of the Company have engaged qualified external valuers to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of biological assets, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. Management reports the external valuers' findings to the board of directors of the Company regularly.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment are less than the original estimate useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful lives.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back of inventories in the period in which such estimate has been changed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of the reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Withholding taxes arising from the distributions of dividends

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2018, the Group has unremitted earnings that are subject to withholding taxes amounting to approximately RMB124,573,000 (2017: RMB119,897,000). Deferred tax liabilities have been recognised for withholding taxes that would be payable on portion of the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China since in the opinion of the directors, it is probable that these subsidiaries will distribute such earnings in the foreseeable future. Where the final distribution a portion of earnings is larger than the amount that initially recorded, the differences will impact on the income tax in the periods in which the distribution is made. As at 31 December 2018, deferred tax on withholding tax amounting to RMB2,879,000 (2017: RMB9,219,000) has been recognised.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., customer type and credit rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the food and beverage sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 18 to the financial statements.

4. SEGMENT INFORMATION

Operating segments

No operating segment information for the Group is presented as over 90% of the Group's revenue, expenses, assets, liabilities and capital expenditure are attributable to the production and distribution of wine products during the year.

Geographical information

No geographical information for the Group is presented as over 90% of the Group's revenue and assets are derived from customers and operations based in the PRC during the year.

Information about a major customer

Revenue amounting to 10 percent or more of the Group's revenue derived from sales to a single customer was RMB46,003,000 (2017: RMB46,767,000).

5. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contract with customers		
Sales of goods	**72,556**	70,384

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

	2018 RMB'000	2017 RMB'000
Geographical market		
Mainland China	**70,985**	68,950
Hong Kong	**1,233**	1,158
Other jurisdictions	**338**	276
Total revenue from contracts with customers	**72,556**	70,384

There were no contract assets or revenue-related contract liabilities at the end of the reporting period recognised as at the year end of the Group (2017: Nil).

The performance obligation for sales of goods is satisfied upon delivery of the wine.

5. REVENUE, OTHER INCOME AND GAINS, NET (CONTINUED)

Other income and gains

	2018 RMB'000	2017 RMB'000
Other income		
Bank interest income	528	372
Government grants*	504	1,190
Tourism and servicing income from related parties, net	–	3
Others	122	260
	1,154	1,825
Gains		
Gains on disposal of items of property, plant and equipment, net	27	213
Gain on disposal of subsidiaries	5,660	–
	5,687	213
Other income and gains, net	6,841	2,038

* The Group received various government grants for the promotion of the wine industry in Mainland China by its subsidiaries and also for the Group's contribution to the wine industry in Shanghai. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the statement of financial position. There were no unfulfilled conditions or contingencies relating to these grants.

6. FINANCE COSTS, NET

	2018 RMB'000	2017 RMB'000
Interest on bank loans	–	1,072
Less: Government grants*	–	(500)
	–	572

* The Group received government grants in respect of interest expense for the support of local agricultural businesses for the year ended 31 December 2017. The government grants received were deducted against interest expenses when the conditions of the government grants were fulfilled. There were no unfulfilled conditions or contingencies relating to these grants.

7. PROFIT BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold		**28,935**	13,726
Employee benefit expense (including directors' remuneration (note 8)):			
Wages and salaries		**8,476**	8,521
Pension scheme contributions (defined contribution schemes)		**1,631**	1,699
		10,107	10,220
Depreciation	13	**10,802**	10,461
Less: government grants released		**(22)**	(22)
Less: amount capitalised into inventories		**(285)**	(314)
		10,495	10,125
Amortisation of prepaid land lease payments	14	**868**	901
Less: amount capitalised into biological assets		**(334)**	(348)
		534	553
Minimum lease payments under operating leases			
– offices		**1,108**	753
– farmland		**4**	4
		1,112	757

7. PROFIT BEFORE TAX (CONTINUED)

	Notes	2018 RMB'000	2017 RMB'000
Auditor's remuneration		**1,636**	80
Listing expenses		**4,321**	11,069
Write-off of inventories*		**–**	11
Losses/(gains) arising from changes in fair value of agricultural produce at the date of harvest*	17	**418**	(884)
Foreign exchange differences, net		**585**	150

The above items are included in "Other expenses and losses" in the consolidated statement of profit or loss for the year.

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

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 RMB'000	2017 RMB'000
Fees	**1,232**	471
Other emoluments:		
Salaries, allowances and benefits in kind	**176**	86
Pension scheme contributions	**15**	8
	1,423	565

8. DIRECTORS' REMUNERATION (CONTINUED)

(a) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2018				
Judy Chan	**610**	**176**	**15**	**801**
Fan Chi Chiu	**305**	**–**	**–**	**305**
	915	**176**	**15**	**1,106**

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Year ended 31 December 2017				
Judy Chan	264	86	8	358
Wong Shu Ying	–	–	–	–
Fan Chi Chiu	133	–	–	133
	397	86	8	491

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Wong Shu Ying resigned as an executive director of the Company on 21 July 2017 and Fan Chi Chiu was appointed as an executive director of the Company on 24 July 2017.

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Non-executive directors

	2018 RMB'000	2017 RMB'000
Fees		
Hou Tan Tan Danielle	85	37
Chow Christer Ho	85	37
	170	74

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Hou Tan Tan Danielle and Chow Christer Ho were appointed as non-executive directors of the Company on 24 July 2017.

(c) Independent non-executive directors

	2018 RMB'000	2017 RMB'000
Fees		
Ho Kent Ching-tak	49	–
Lim Leung Yau Edwin	49	–
Alec Peter Tracy	49	–
	147	–

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Ho Kent Ching-tak, Lim Leung Yau Edwin and Alec Peter Tracy were appointed as independent non-executive directors of the Company on 1 June 2018.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2017: one director). The details of directors' remuneration are set out in note 8 above. Details of the remuneration of the remaining four highest paid employees whom are non-directors during the year are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**1,142**	959
Performance related bonuses	**110**	110
Pension scheme contributions	**134**	126
	1,386	1,195

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2018	2017
Nil to HK$1,000,000	**4**	4

During the year, no remuneration was paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

No provision for Hong Kong profits tax has been made for the year as the Group did not generate any assessable profits arising in Hong Kong during the year.

Under the Law of the PRC on Enterprises Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate for the PRC subsidiaries is 25%.

According to relevant EIT Law and Implementation Regulation of the EIT Law, certain subsidiaries in agricultural operation of the Group in the PRC were exempted from Enterprise Income Tax ("EIT") on profits derived from fruit cultivation for the years ended 31 December 2018 and 2017, 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.

	Note	**2018** **RMB'000**	2017 RMB'000
Current – Mainland China			
Charge for the year		**4,263**	7,995
Underprovision in prior years		**–**	452
Deferred tax	23	**(6,717)**	(902)
Total tax charge/(credit) for the year		**(2,454)**	7,545

10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company and the subsidiaries are domiciled to the tax expenses at the effective tax rates is as follows:

	2018		2017	
	RMB'000	%	RMB'000	%
Profit before tax	3,711		8,659	
Tax at the weighted average applicable tax rate	355	9.6	3,294	38.0
Tax exemption	–		88	
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	(6,340)		1,124	
Adjustments in respect of current tax of previous periods	–		452	
Income not subject to tax	(47)		(1,189)	
Expenses not deductible for tax	1,492		2,331	
Tax loss utilised from previous periods	–		(66)	
Tax losses not recognised	2,086		1,511	
Tax charge for the year	(2,454)	(66.1)	7,545	87.1

The weighted average applicable tax rate was computed at the weighted average of domestic tax rates applicable to profits/losses in the respective jurisdictions. The change in the weighted average applicable tax rate was caused by a change in the profitability of the Group's subsidiaries in the respective jurisdictions and the reversal of deferred tax due to the update in dividend policy on 9 November 2018.

11. DIVIDENDS

	2018 RMB'000	2017 RMB'000
First 2017 interim dividend at RMB9,714 per ordinary share	–	6,800
Second 2017 interim dividend at HK$22,857 per ordinary share (equivalent to RMB19,869 per ordinary share)	–	13,908
2018 special interim dividend at RMB10,000 per ordinary share (note (i))	10,000	–
	10,000	20,708

Note:

(i) On 4 June 2018, the Company declared and approved a special dividend of RMB10,000,000 to its then shareholders.

12. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share for the year ended 31 December 2018 is based on the profit for the period attributable to owners of the Company of RMB6,165,000 (2017: RMB1,114,000), and the weighted average number of ordinary shares of 703,013,699 (2017: 473,753,425) in issue during the year ended 31 December 2018.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2018 represented 1,000 ordinary shares of the Company as at 1 January 2018, 599,999,000 ordinary shares of the Company issued under the Capitalisation Issue (as defined in note 24) as if these additional shares issued under Capitalisation Issue had been in issue throughout the year ended 31 December 2018, and weighted average number of 103,013,699 ordinary shares of the Company issued upon the Listing on GEM of the Stock Exchange on 27 June 2018.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year ended 31 December 2017 represented 700 ordinary shares of the Company as at 1 January 2017, weighted average number of 90 ordinary shares of the Company issued under Loan Capitalisation (as defined in note 24), as well as the respective proportion of weighted average ordinary shares in issue, representing 473,752,635 ordinary shares of the Company issued under the Capitalisation Issue as if these additional shares issued under the Loan Capitalisation had been in issue throughout the year ended 31 December 2017.

No adjustment has been made to the basic earnings per share presented for the years ended 31 December 2018 and 2017 as the Group had no potentially dilutive ordinary shares in issue during these years.

13. PROPERTY, PLANT AND EQUIPMENT

	Notes	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Vineyard infrastructure RMB'000	Bearer plants RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018										
At 31 December 2017 and 1 January 2018:										
Cost		85,292	5,898	38,680	16,899	2,450	1,881	7,963	1,164	160,227
Accumulated depreciation		(25,131)	(2,705)	(27,540)	(13,785)	(2,382)	(824)	(3,930)	–	(76,297)
Net carrying amount		60,161	3,193	11,140	3,114	68	1,057	4,033	1,164	83,930
At 1 January 2018, net of accumulated depreciation		60,161	3,193	11,140	3,114	68	1,057	4,033	1,164	83,930
Additions		–	641	2,025	2,825	260	186	–	5,757	11,694
Disposal of subsidiaries	27	–	–	(2)	–	–	(765)	(2,092)	(333)	(3,192)
Disposals and write-off		(3)	–	(104)	–	(10)	–	–	–	(117)
Depreciation provided during the year	7	(4,748)	(560)	(2,828)	(1,739)	(87)	(121)	(719)	–	(10,802)
Transfers		2,456	–	1,906	–	–	–	920	(5,282)	–
At 31 December 2018, net of accumulated depreciation		57,866	3,274	12,137	4,200	231	357	2,142	1,306	81,513
At 31 December 2018:										
Cost		87,745	6,539	42,505	19,724	2,700	1,302	6,791	1,306	168,612
Accumulated depreciation		(29,879)	(3,265)	(30,368)	(15,524)	(2,469)	(945)	(4,649)	–	(87,099)
Net carrying amount		57,866	3,274	12,137	4,200	231	357	2,142	1,306	81,513

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Notes	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Vineyard infrastructure RMB'000	Bearer plants RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2017:										
Cost		58,953	5,763	35,137	17,724	2,380	2,053	7,963	15,894	145,867
Accumulated depreciation		(21,394)	(2,157)	(25,129)	(13,384)	(2,362)	(740)	(2,889)	–	(68,055)
Net carrying amount		37,559	3,606	10,008	4,340	18	1,313	5,074	15,894	77,812
At 1 January 2017, net of accumulated depreciation		37,559	3,606	10,008	4,340	18	1,313	5,074	15,894	77,812
Additions		98	–	807	1,187	–	4	–	14,903	16,999
Acquisition of subsidiaries	26	–	135	19	8	96	–	–	–	258
Disposals and write-off		(514)	–	–	(7)	–	(28)	–	(129)	(678)
Depreciation provided during the year	7	(3,749)	(548)	(2,431)	(2,414)	(46)	(232)	(1,041)	–	(10,461)
Transfers		26,767	–	2,737	–	–	–	–	(29,504)	–
At 31 December 2017, net of accumulated depreciation and impairment		60,161	3,193	11,140	3,114	68	1,057	4,033	1,164	83,930
At 31 December 2017:										
Cost		85,292	5,898	38,680	16,899	2,450	1,881	7,963	1,164	160,227
Accumulated depreciation		(25,131)	(2,705)	(27,540)	(13,785)	(2,382)	(824)	(3,930)	–	(76,297)
Net carrying amount		60,161	3,193	11,140	3,114	68	1,057	4,033	1,164	83,930

In prior years, the Group received a residential flat from the Shanxi government as a result of being a significant taxpayer in the region. The Group has been in the process of applying for the property certificate. The carrying value for this residential flat as at 31 December 2018 was RMB370,000 (2017: RMB392,000).

14. PREPAID LAND LEASE PAYMENTS

	Notes	2018 RMB'000	2017 RMB'000
Carrying amount at the beginning of the year		**14,736**	15,623
Additions		**–**	14
Disposal of subsidiaries		**(155)**	–
Recognised during the year	7	**(868)**	(901)
Carrying amount at the end of the year		**13,713**	14,736
Current portion included in prepayments and other receivables	19	**(846)**	(900)
Non-current portion		**12,867**	13,836

As at 31 December 2017, the prepaid land lease payments with net aggregate carrying amount of RMB85,000 were made on prepaid land lease of a parcel of land of which the Group was in the progress of applying the land use rights certificates. The land was disposed of during the year ended 31 December 2018.

15. GOODWILL

	Note	2018 RMB'000	2017 RMB'000
Cost at the beginning of the year		**1,361**	–
Cost			
Carrying amount at the beginning of the year		**1,361**	–
Acquisition of subsidiaries	26	**–**	1,361
Cost at the end of the year		**1,361**	1,361
At the end of the year			
Cost		**1,361**	1,361
Net carrying amount		**1,361**	1,361

15. GOODWILL (CONTINUED)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the online sale of wine cash-generating unit, which is a reportable segment, for impairment testing:

The recoverable amount of the sale of wine cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 22.2% (2017: 24.3%). The growth rate used to extrapolate the cash flows beyond the five-year period is 3% (2017: 3%).

Assumptions were used in the value in use calculation of the sale of wine cash-generating unit for 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increase for expected efficiency improvements, and expected market development.

Discount rate – the discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to key assumptions are consistent with external information sources.

16. INVENTORIES

	2018 **RMB'000**	2017 RMB'000
Raw materials	**3,065**	2,959
Work in progress	**56,171**	67,073
Finished goods	**5,815**	7,493
	65,051	77,525

17. BIOLOGICAL ASSETS

Movements of biological assets, representing grapes growing on bearer plants, are summarised as follows:

	Notes	**2018** **RMB'000**	2017 RMB'000
At the beginning of the year		**–**	–
Increase due to cultivation		**3,529**	3,075
Disposal of subsidiaries	27	**(796)**	–
Gains/(losses) arising from changes in fair value of agricultural produce at the date of harvest	7	**(418)**	884
Transfer of harvested grapes to inventories		**(2,315)**	(3,959)
At the end of the year		**–**	–

During the year, the Group harvested 269.5 tonnes (2017: 437 tonnes) of grapes. The directors measured the fair value less costs to sell of grapes at harvest based on market prices as at or close to the harvest dates.

Cultivation costs incurred are accounted for as additions to the biological assets. All grapes are harvested annually from late August to October of each year. After the harvest, plantation works commence again on the farmland. The directors consider that there was no active market for the grapes before harvest. The market approach is adopted to value the harvested grapes ("Agricultural Produce") and the cost approach is adopted to value the immature grapes ("Immature Grapes") during the growing period. The costs of direct raw materials, direct labour, labour service and cultivation cost incurred, including fertilisers, pesticides, labour costs and rentals of the farmlands, have been considered in the calculation of the fair values for the growing period and these costs approximate to their fair values. During the harvesting period, the market approach is adopted whereby the fair values of the Agricultural Produce are calculated to be the product of market price and estimated quantities of the Agricultural Produce after deducting reasonable costs related to selling.

The fair value measurement of the grapes is categorised as level 3 fair value measurement within the three-level fair value hierarchy as defined in HKFRS 13 *Fair Value Measurement*. Significant unobservable inputs are mainly the replacement cost for Immature Grapes and the market price for harvested grapes.

During the year, no transfers occurred between levels in the hierarchy.

The fair value was determined by the independent qualified valuer, Avista Valuation Advisory Limited, with reference to market-determined prices, cultivation areas, species, growing conditions, cost incurred and expected yield of crops. Avista Valuation Advisory Limited is located at 23rd Floor, Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong.

17. BIOLOGICAL ASSETS (CONTINUED)

The fair value of agricultural produce is calculated based on the inputs to the valuation technique used. The following table gives information about how the fair values of these biological assets are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

Biological assets	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Range
Immature Grapes	3	Replacement cost approach The key input is: Various costs for replacing	Various costs for replacing	The higher the costs incurred, the higher the fair value	Not applicable
Agricultural Produce	3	Market approach The key input is: Market price per kilogram ("kg") of grapes	Market price of grapes	The higher the market price, the higher the fair value	2018: RMB8.50 per kg to RMB9.50 per kg; (2017: RMB9.00 per kg to RMB10.50 per kg); varies for different types of grapes

Sensitivity analysis

For Agricultural Produce, a 10% increase in the market price or quantity would lead to a 10% increase in the value of the Agricultural Produce, causing the appraised value to be RMB2,546,000 (2017: RMB4,356,000) at the point of harvest in 2018. A 10% decrease in the market price or quantity would lead to a 10% decrease in the value of the Agricultural Produce, causing the appraised value to be RMB2,083,000 (2017: RMB3,564,000) at the point of harvest in 2018.

18. TRADE RECEIVABLES

	Notes	2018 RMB'000	2017 RMB'000
Trade receivables from third parties		**18,089**	12,752
Due from related companies	(ii)	**37**	45
Impairment		**(2)**	–
Trade receivables	(i)	**18,124**	12,797

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period up to three months. The Group seeks to apply strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Notes:

(i) Trade receivables

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

	2018 RMB'000	2017 RMB'000
Within 60 days	**17,404**	12,790
61 to 90 days	**720**	7
	18,124	12,797

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	**–**	–
Effect of adoption of HKFRS 9	**(2)**	–
At beginning of year (restated)	**(2)**	–
Impairment losses, net	**–**	–
At end of year	**(2)**	–

18. TRADE RECEIVABLES (CONTINUED)

Notes: (Continued)

(i) Trade receivables (Continued)

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and credit rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than six months and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

		Past due			
	Current	**Less than 1 month**	**1 to 3 months**	**Over 3 months**	**Total**
Expected credit loss rate	**0.01%**	**0.50%**	**5.00%**	**5.00%**	**0.01%**
Gross carrying amount (RMB'000)	**18,057**	**69**	**–**	**–**	**18,126**
Expected credit losses (RMB'000)	**2**	**–***	**–**	**–**	**2**

* Less than RMB1,000.

The ageing analysis of the trade receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	12,720
Less than 90 days past due	77
	12,797

18. TRADE RECEIVABLES (CONTINUED)

Notes: (Continued)

(i) Trade receivables (Continued)

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that had a good relationship with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

(ii) Due from related parties

	Notes	2018 RMB'000	2017 RMB'000
Chan Kwan	(a)	8	23
Judy Chan		29	10
Chan Chun Keung	(b)	–	12
		37	45

Notes:

(a) Chan Kwan is a brother of Judy Chan.

(b) Chan Chun Keung is the father of Judy Chan and spouse of Wong Shu Ying.

The balances are unsecured, non-interest-bearing and have repayment terms of 90 days, which are on credit terms similar to those offered to other major customers.

19. PREPAYMENTS AND OTHER RECEIVABLES

	Note	2018 RMB'000	2017 RMB'000
Prepayments		1,160	4,440
Deposits and other receivables		1,182	884
Prepaid land lease payments	14	846	900
VAT recoverable		270	926
		3,458	7,150

Deposits and other receivables mainly represent rental and utility deposits.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20. CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**26,898**	32,152
Time deposits	**55,201**	–
	82,099	32,152

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to RMB25,414,000 (2017: RMB20,157,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. 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:

	2018 RMB'000	2017 RMB'000
Within 30 days	**94**	575
31 to 90 days	**48**	285
	142	860

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

22. OTHER PAYABLES AND ACCRUALS

	Notes	2018 RMB'000	2017 RMB'000
Accruals		**2,037**	2,729
Other payables	(i)	**6,123**	9,546
Advance from customers		**–**	106
Contract liabilities	(ii)	**200**	–
Deferred revenue		**46**	22
Due to related parties	(iii)	**270**	401
		8,676	12,804

Notes:

(i) Other payables are non-interest-bearing and have an average term of 30 to 90 days.

(ii) Contract liabilities mainly represents deposits received in respect of a disposal of a property.

(iii) Due to related parties:

	Note	2018 RMB'000	2017 RMB'000
Dragonfield Management Limited	(a)	**–**	324
Chan Kwan		**270**	77
		270	401

(a) Chan Chun Keung, Judy Chan, Wong Shu Ying, Chan Kwan and Chan Pak Lim Brian (brother of Judy Chan), effectively hold 60%, 10%, 10%, 10% and 10% equity interests in this company, respectively.

The outstanding balances with related parties are non-trade in nature, unsecured, interest-free and repayable on demand.

23. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

	Fair value of agricultural produce at the date of harvest RMB'000	Withholding taxes RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Deferred income RMB'000	Loss available for offsetting against future taxable profits RMB'000	Depreciation in excess of related depreciation allowance RMB'000	Impairment of financial assets RMB'000	Total RMB'000
Gross deferred tax assets/(liabilities) at 1 January 2017	(35)	(10,470)	–	104	–	–	–	(10,401)
Acquisition of subsidiaries (note 26)	–	–	(66)	–	247	–	–	181
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	(163)	1,251	66	(5)	(247)	–	–	902
Gross deferred tax assets/(liabilities) at 31 December 2017	(198)	(9,219)	–	99	–	–	–	(9,318)
Effect of adoption of HKFRS 9	–	–	–	–	–	–	–*	–*
Gross deferred tax assets/(liabilities) at 1 January 2018 (restated)	**(198)**	**(9,219)**	**–**	**99**	**–**	**–**	**–***	**(9,318)**
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	**199**	**6,340**	**–**	**(5)**	**–**	**183**	**–***	**6,717**
At 31 December 2018	**1**	**(2,879)**	**–**	**94**	**–**	**183**	**–***	**(2,601)**

* Less than RMB1,000.

23. DEFERRED TAX LIABILITIES (CONTINUED)

The Group has tax losses arising in Hong Kong of RMB40,740,000 (2017: RMB23,174,000) and subject to the confirmation of tax losses from the Hong Kong Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group has tax losses arising in Mainland China of RMB850,000 (2017: Nil) as at 31 December 2018, that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. Deferred tax liabilities have been provided based on the foreseeable dividend distributions in coming years by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

24. SHARE CAPITAL

	2018			2017		
	Number of shares	HK$'000	RMB'000 equivalent	Number of shares	HK$'000	RMB'000 equivalent
Authorised:						
Ordinary shares of HK$0.001 each	8,000,000,000	8,000		380,000,000	380	
Issued and fully paid:						
Ordinary shares of HK$0.001 each	800,000,000	800	674	1,000	–	–

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Issued capital RMB'000
At 1 January 2017	700	–
Loan Capitalisation (note (i))	300	–
At 31 December 2017 and 1 January 2018	1,000	–
Share Offer (note (ii))	200,000,000	169
Capitalisation Issue (note (iv))	599,999,000	505
At 31 December 2018	800,000,000	674

Notes:

(i) Pursuant to the loan capitalisation ("Loan Capitalisation") of HK$124,649,000 (equivalent to approximately RMB104,194,000), amounts owed to Judy Chan were deemed to have been fully repaid by the allotment and issue of 217 shares to Macmillan Equity Limited, which is wholly owned by Judy Chan, on 14 September 2017 and the share premium account of the Company has been credited for HK$124,649,000 (equivalent to approximately RMB104,194,000) as a result. On 14 September 2017, 83 shares were allotted and issued to Palgrave Enterprises Limited, which is wholly owned by Wong Shu Ying, at par value.

24. SHARE CAPITAL (CONTINUED)

Notes: (Continued)

(ii) In connection with the Listing of the share of the Company on the Stock Exchange, 200,000,000 new ordinary shares of HK$0.001 each of the Company were issued at a price of HK$0.35 per ordinary share for a total cash consideration, before expenses, of HK$70.0 million (equivalent to approximately RMB59.0 million) (the "Share Offer") and the amount of share capital issued was HK$200,000 (equivalent to approximately RMB169,000). Dealings in the shares of the Company on the Stock Exchange commenced on 27 June 2018.

(iii) Upon the Listing of the Company on 27 June 2018, the expense related to the issuance of new shares of HK$13.0 million (equivalent to approximately RMB11.0 million) was debited and deducted from the Company's share premium account.

(iv) Upon the creation of the Company's share premium account as a result of the Share Offer, an amount of HK$600,000 (equivalent to approximately RMB505,000) standing to the credit of the share premium account of the Company has been capitalised on 27 June 2018 by applying such sum towards paying up in full at par a total of 599,999,000 ordinary shares for allotment and issue to the then existing shareholders (the "Capitalisation Issue"). Immediately following the completion of the Share Offer and the Capitalisation Issue, the total outstanding ordinary shares of the Company was 800,000,000 ordinary shares including 200,000,000 ordinary shares issued upon the Share Offer.

25. RESERVES

The amounts of the Group's reserves and movements therein for the reporting period are presented in the consolidated statement of changes in equity.

(i) Capital reserve

Capital reserve represented the excess of capital contribution over the registered capital upon the capital injection of subsidiaries of the Group established in the PRC.

(ii) Statutory reserve funds

In accordance with the Law of the PRC for Enterprise with Foreign Investments and the articles of association of subsidiaries of the Group established in the PRC, appropriations from net profits, after offsetting accumulated losses brought forward from prior years, should be made to the reserve funds before distributions are made to the owners. The percentage of net profits to be appropriated to the reserve funds should not be less than 10% of the net profits. When the balance of the reserve funds reaches 50% of the paid-up capital, no further appropriations are required to be made.

(iii) Exchange fluctuation reserve

Exchange fluctuation reserve comprises all foreign currency exchange differences arising from the translation of the financial statements.

26. BUSINESS COMBINATION

On 22 February 2017, the Group acquired a 100% interest in Wide Source Development Limited, the wholly-owned immediate holding company of Xiamen Taofu from Judy Chan. Wide Source Development Limited is an investment holding company and Xiamen Taofu is engaged in the distribution of wine products. The acquisition was made as part of the Group's strategy to consolidate online sales function into the Group. The purchase consideration for the acquisition of HK$100 (equivalent to RMB80) was in the form of cash paid on the same date.

The fair values of the consolidated identifiable assets and liabilities of Wide Source Development Limited and Xiamen Taofu as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	258
Deferred tax assets		247
Cash and bank balances		1,033
Trade receivables		293
Prepayments, deposits and other receivables		261
Inventories		958
Trade payables		(2,814)
Other payables and accruals		(468)
Due to a related party		(1,063)
Deferred tax liabilities		(66)
Total identifiable net assets at fair value		(1,361)
Non-controlling interests		–
Goodwill on acquisition	15	1,361
Satisfied by cash		–

26. BUSINESS COMBINATION (CONTINUED)

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB293,000 and RMB261,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB293,000 and RMB261,000, respectively, of which no other receivables are expected to be uncollectible.

The Group incurred no material transaction costs for this acquisition.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	RMB'000
Cash consideration	–
Cash and bank balances acquired	1,033
Net inflow of cash and cash equivalents included in cash flows from investing activities	1,033
Transaction costs of the acquisition included in cash flows from operating activities	–
	1,033

Since the acquisition, Wide Source Development Limited and Xiamen Taofu contributed RMB11,001,000 to the Group's revenue and RMB1,108,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the year ended 31 December 2017 would have been RMB72,108,000 and RMB1,639,000, respectively.

27. DISPOSAL OF SUBSIDIARIES

On 1 June 2018, the Group and Judy Chan entered into a share transfer agreement, pursuant to which the Company transferred its 100% equity interests in Interfusion Limited and its subsidiaries Corpwealth Asia Limited and Ningxia Ganlin Agricultural Development Co., Limited (collectively the "Disposal Group") at a consideration of RMB1 to Judy Chan to rectify certain defects to the land use rights and non-compliant land usage of a parcel of land in Ningxia.

	Note	RMB'000
Net liabilities disposed of:		
Property, plant and equipment		3,192
Prepaid land lease payments		101
Inventories		59
Biological assets		796
Prepayments and other receivables		67
Cash and bank balances		59
Trade payables		(15)
Other payables and accruals		(9,984)
		(5,725)
Release of exchange fluctuation reserve upon disposal of subsidiaries		65
Gain on disposal of subsidiaries	5	(5,660)
Satisfied by:		
Cash		–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	RMB'000
Cash consideration	–
Cash and bank balances disposed of	(59)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(59)

28. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The table below details the cash flows and non-cash changes in the Group's liabilities arising from financing activities. Except as disclosed below, there were no non-cash changes in the Group's liabilities arising from financing activities.

	Interest-bearing bank borrowings RMB'000	Dividends payable RMB'000	Due to related parties RMB'000	Total RMB'000
At 1 January 2017	26,000	–	112,924	138,924
Financing cash flows	(26,000)	(20,708)	(481)	(47,189)
Non-cash changes				
Acquisition of a subsidiary	–	–	1,063	1,063
Dividends declared	–	20,708	–	20,708
Loan Capitalisation (note 24)	–	–	(104,194)	(104,194)
Effects of changes in foreign exchange rates	–	–	(8,911)	(8,911)
	–	20,708	(112,042)	(91,334)
At 31 December 2017 and 1 January 2018	**–**	**–**	**401**	**401**
Financing cash flows	**–**	**(10,000)**	**(131)**	**(10,131)**
Non-cash changes				
Dividends declared	**–**	**10,000**	**–**	**10,000**
	–	**10,000**	**–**	**10,000**
At 31 December 2018	**–**	**–**	**270**	**270**

29. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities.

30. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases farmland and offices under operating lease arrangements. Leases are negotiated for terms ranging from one to ten years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000	2017 RMB'000
Farmland		
Within one year	–	–
In the second to fifth years, inclusive	11	7
After five years	4	8
	15	15
Offices		
Within one year	1,119	384
In the second to fifth years, inclusive	1,872	230
	2,991	614

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following capital commitments at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Construction in progress	527	–

32. RELATED PARTY TRANSACTIONS

(a) In addition to those transactions and balances disclosed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	2018 RMB'000	2017 RMB'000
Sales of products		
– Xiamen Taofu (note (a)(i))	–	218
– Rugao Hengfa Water Treatment Company Limited (note (a)(ii))	–	17
– Chan Kwan	9	161
– Chan Chun Keung	90	79
– Wong Shu Ying	11	–
– Judy Chan	64	99
– Fan Chi Chiu	1	–
– Lo Ying Ying (note (a)(iii))	2	–
– Keyway Pride Limited (note (a)(iv))	22	–
Tourism and servicing income		
– Rugao Hengfa Water Treatment Company Limited (note (a)(ii))	–	3

Notes:

(a) (i) This company has ceased to be a related party and became a subsidiary of the Group since 22 February 2017. The above information included the transaction amounts for the period up to 22 February 2017. Further details of the business combination are given in note 26 to the financial statements.

(a) (ii) Judy Chan and Wong Shu Ying, effectively hold 20% and 30% interests in this company, respectively. The remaining 50% equity interest is held by Chan Chun Keung. Judy Chan also serves as a director of this company.

Rugao Hengfa Water Treatment Company Limited is a wholly-owned subsidiary of ELL Environmental Holdings Limited. Chan Kwan has an equity interest in ELL Environmental Holdings Limited. Judy Chan also serves as a director of Rugao Hengfa Water Treatment Company Limited.

(a) (iii) Lo Ying Ying is a director of subsidiaries.

(a) (iv) Keyway Pride Limited is a wholly-owned company of Judy Chan.

(a) (v) All of the above transactions were conducted at prices mutually agreed between the parties.

The above transactions also constitute connected transactions as defined in Chapter 20 of the GEM Listing Rules.

32. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) The Group has sub-leased commercial premises for use as offices from Dragonfield Management Limited, where RMB590,000 (2017: RMB293,000) was incurred during the year. The expense in respect of other administrative services provided by Dragonfield Management Limited during the year on behalf of the Group was RMB808,000 (2017: RMB401,000).

(c) The Group also received administrative services provided by Shanghai Taihuan Environmental Technology Company Limited# ("Shanghai Taihuan") (上海泰環環保科技有限公司) during the year at nil consideration as mutually agreed with Shanghai Taihuan.

(d) On 22 February 2017, the Group acquired the entire equity interest in Wide Source Development Limited and its subsidiary Xiamen Taofu from Judy Chan. Further details are included in note 26.

(e) On 1 June 2018, the Group disposed of its 100% equity interest in the Disposal Group to Judy Chan. Further details are included in note 27.

(f) Outstanding balances with related parties:

Details of the Group's balances with the related parties are included in notes 18 and 22 to the financial statements.

(g) Compensation of key management personnel of the Group:

	2018 **RMB'000**	2017 RMB'000
Fee	**1,084**	471
Salaries, allowances and benefits in kind	**1,156**	1,185
Performance related bonuses	**46**	124
Pension scheme contributions	**179**	187
	2,465	1,967

Further details of directors' emoluments are included in note 8 to the financial statements.

The English name of this company represents the best effort made by management of the Company to directly translate the Chinese name of this company as it has not registered any official English name.

33. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group as at the end of the reporting period are loans and receivables, and financial liabilities stated at amortised cost, respectively.

34. FAIR VALUE HIERARCHY

At the end of the reporting period, the Group did not have any financial assets or financial liabilities measured at fair value.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk refers to the risk on the fluctuation of fair value or future cash flows of financial instruments which arose from changes in exchange rates.

The Group's businesses are mainly located in Mainland China and are mainly transacted and settled in RMB. Accordingly, the directors considered that the Group's foreign currency exchange risk is insignificant. Certain sales and purchases were settled in other currencies including Hong Kong dollars, United States dollars and Euro. The fluctuation of the exchange rates of such currencies against RMB will affect the Group's results of operations. In addition, RMB is currently not a freely convertible currency. The PRC Government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in the availability of foreign currencies may restrict the ability of the Group's PRC subsidiaries to remit sufficient foreign currencies to pay dividends or other amounts to the Group.

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate PRC Government authorities is required where RMB is to be converted into foreign currencies and remitted out of Mainland China to pay capital account items, such as the repayment of bank loans denominated in foreign currencies.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (Continued)

Currently, the Group's PRC subsidiaries may purchase foreign exchange for settlement of current account transactions, including payment of dividends to the shareholders of the PRC subsidiaries, with the prior approval of the State Administration for Foreign Exchange. The Group's PRC subsidiaries may also retain foreign exchange in their current accounts to satisfy foreign exchange liabilities or to pay dividends. Since foreign exchange transactions on the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange, this could affect the Group's subsidiaries' ability to obtain the required foreign currency amounts through debt or equity financing, including by means of loans or capital contributions from the Company. There are limited hedging instruments available in the PRC to reduce the Group's exposure to exchange rate fluctuations between RMB and other currencies. To date, the Group has not entered into any hedging transactions in an effort to reduce the Group's exposure to foreign currency exchange risks. While the Group may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and the Group may not be able to hedge the Group's exposure successfully, or at all. A reasonably possible change of 5% in the exchange rate between the Hong Kong dollar and RMB would have no material impact on the Group's profit during the year and there would be no impact on the Group's equity.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, trade receivables and prepayments, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The Group has no significant concentration of credit risk on prepayments and other receivables, with exposure spread over a large number of counterparties and customers.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

Maximum exposure and year-end staging as at 31 December 2018 (Continued)

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	18,124	18,124
Financial assets included in prepayments and other receivables					
– Normal**	1,182	–	–	–	1,182
Cash and cash equivalents					
– Not yet past due	82,099	–	–	–	82,099
	83,281	–	–	18,124	101,405

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 18 to the financial statements.

** The credit quality of the financial assets included in prepayments and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Maximum exposure as at 31 December 2017

At 31 December 2017, the Group had certain concentrations of credit risk as 81.9% of the Group's trade receivables were due from the Group's largest customer, and 96.2% of the Group's trade receivables were due from the Group's five largest customers.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 18 to the financial statements.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

Liquidity risk refers to the risk that an enterprise may encounter difficulties to obtain adequate finance to repay the debt related to financial instruments. Liquidity risk may arise from the inability to dispose of financial assets promptly, counterparties being unable to repay their contracted debt obligations, the repayment of debts before the maturity dates of debt obligations, or the inability to generate the expected cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of cash deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group's objective is to maintain a balance between continuity of funding and flexibility through the funding from related parties. In the opinion of the directors of the Company, the Group expects to have adequate sources of funding to finance the Group and manage the liquidity position.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	Within 1 year or on demand	
	2018	2017
	RMB'000	RMB'000
Trade payables	**142**	860
Other payables and accruals	**8,160**	12,275
Due to related parties	**270**	401
	8,572	13,536

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, and to maintain healthy capital ratios in order to support its business.

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a net debt to equity ratio, which is calculated as total interest-bearing bank borrowings net of cash and bank balances, and divided by total equity and multiplied by 100%. Net debt includes interest-bearing bank borrowings (as shown in the consolidated statement of financial position) less cash and bank balance. Total equity includes all components of equity attributable to owners of the Company. The Group aims to maintain the net debt to equity ratio at a reasonable level. The net debt to equity ratios as at the end of the reporting period were as follows:

	2018 **RMB'000**	2017 RMB'000
Net cash	**(82,099)**	(32,152)
Total equity	**250,642**	204,060
Net debt to equity ratio	**N/A**	N/A

36. EVENTS AFTER THE REPORTING PERIOD

No subsequent event has occurred after the reporting period which may have a significant effect on the assets and liabilities or future operation of the Group.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**3**	3
CURRENT ASSETS		
Due from subsidiaries	**139,143**	128,749
Prepayments	**132**	3,593
Cash and bank balances	**36,192**	11,676
Total current assets	**175,467**	144,018
CURRENT LIABILITIES		
Other payables and accruals	**2,029**	2,803
Due to subsidiaries	**44,702**	44,092
Total current liabilities	**46,731**	46,895
NET CURRENT ASSETS	**128,736**	97,123
Net assets	**128,739**	97,126
EQUITY		
Issued capital	**674**	–
Reserves (note)	**128,065**	97,126
Equity	**128,739**	97,126

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000 (note 24)	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017	–	(49)	(332)	(381)
Profit for the year	–	–	13,163	13,163
Other comprehensive income for the year:				
Exchange differences on translation of financial statements	–	858	–	858
Total comprehensive income for the year	–	858	13,163	14,021
Interim dividend paid (Note 11)	–	–	(20,708)	(20,708)
Loan capitalisation (Note 24)	104,194	–	–	104,194
At 31 December 2017 and 1 January 2018	**104,194**	**809**	**(7,877)**	**97,126**
Profit for the year	**–**	**–**	**(12,685)**	**(12,685)**
Other comprehensive income for the year:				
Exchange differences on translation of financial statements	**–**	**6,239**	**–**	**6,239**
Total comprehensive income for the year	**–**	**6,239**	**(12,685)**	**(6,446)**
Share offer (Note 24(ii))	**58,847**	**–**	**–**	**58,847**
Capitalisation Issue (Note 24(iv))	**(505)**	**–**	**–**	**(505)**
Expense incurred in connection with the issue of new shares (Note 24(iii))	**(10,957)**	**–**	**–**	**(10,957)**
2018 special dividend (Note 11)	**(10,000)**	**–**	**–**	**(10,000)**
At 31 December 2018	**141,579**	**7,048**	**(20,562)**	**128,065**

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 March 2019.

Financial Summary

A summary of the results and assets and liabilities of the Group for the last four financial years, as extracted from the Company's audited consolidated financial statements and the Prospectus, is set out below:

RESULTS

	Year ended 31 December			
	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**72,556**	70,384	53,367	68,436
Profit before tax	**3,711**	8,659	16,941	26,608
Income tax credit/(expense)	**2,454**	(7,545)	(5,656)	(8,250)
Profit for the year	**6,165**	1,114	11,285	18,358

ASSETS AND LIABILITIES

	As at 31 December			
	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**264,473**	228,819	296,681	273,849
Total liabilities	**13,831**	24,759	182,186	163,299
Total equity	**250,642**	204,060	114,495	110,550