TONTINE

China Tontine Wines Group Limited

中國通天酒業集團有限公司

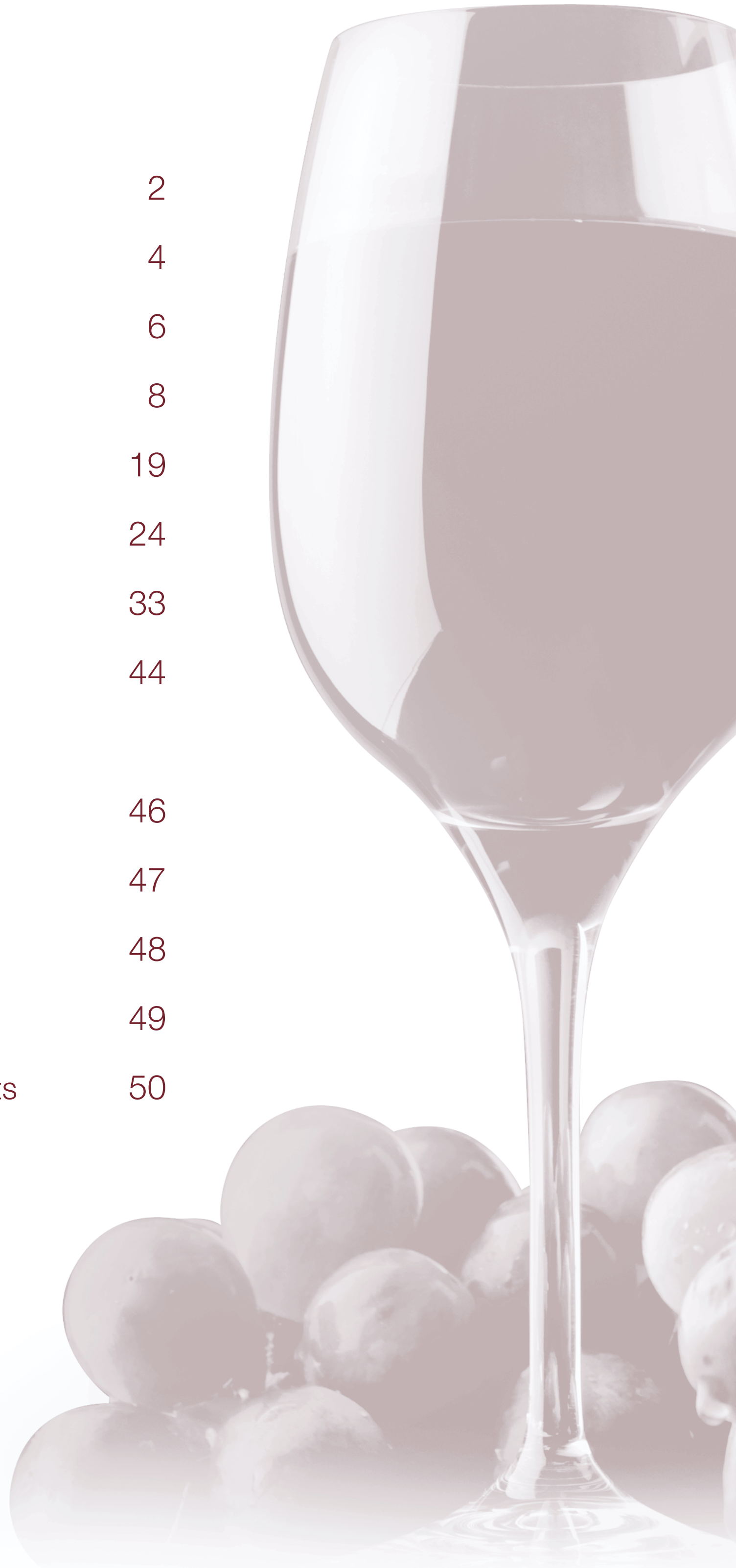
(Incorporated in Bermuda with limited liability)

Stock Code: 389

ANNUAL REPORT

2014

CONTENTS



Financial Highlights

	Year ended 31 December				
	2014	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profitability data					
Revenue	**286,320**	175,996	658,111	830,084	703,514
Gross (loss) profit	**24,942**	(90,147)	331,211	479,086	413,871
(Loss) profit and total comprehensive (expense) income for the year attributable to owners of the Company	**(658,968)**	(503,856)	88,868	188,835	208,125
(Loss) earnings per share					
– Basic *(RMB cents) (Note 1)*	**(32.7)**	(25.0)	4.4	9.4	11.9
– Diluted *(RMB cents) (Note 2)*	**(32.7)**	(25.0)	4.4	9.4	11.9

	Year ended 31 December				
	2014	2013	2012	2011	2010
Profitability ratios					
Gross (loss) profit margin	**8.7%**	(51.2%)	50.3%	57.7%	58.8%
Net (loss) profit margin	**(230.2%)**	(286.3%)	13.5%	22.7%	29.6%
Effective tax rate	**N/A**	N/A	37.3%	35%	31%
Return on equity *(Note 3)*	**(64.7%)**	(31.5%)	4.9%	11.0%	15.9%
Return on assets *(Note 4)*	**(54.7%)**	(28.6%)	4.6%	10.2%	14.7%
Operating ratios (as a percentage of revenue)					
Advertising and marketing expenses	**53.8%**	122.1%	15.6%	8.5%	6.1%
Staff costs	**10.4%**	12.5%	5.8%	4.3%	4.4%
Research and development	**2.9%**	5.7%	0.8%	0.3%	0.2%

Notes:

1. The calculation of basic (loss) earnings per share is based on the (loss) profit and total comprehensive (expense) income for the year attributable to owners of the Company divided by the weighted average number of ordinary shares in issue during the relevant period.

2. The calculation of diluted earnings per share for each of the years ended 31 December 2011 and 2010 does not assume the exercise of the Company's share options as the exercise price of those share options granted during the year ended 31 December 2010 was higher than the average market price per share from the date of grant to 31 December 2012.

3. Return on equity is equal to the (loss) profit and total comprehensive (expense) income for the year attributable to owners of the Company divided by the average balance of total equity as at the beginning of each year and as at the end of each year.

4. Return on assets is equal to the (loss) profit and total comprehensive (expense) income for the year attributable to owners of the Company divided by the average balance of total assets as at the beginning of each year and as at the end of each year.

Financial Highlights

	Year ended 31 December				
	2014	2013	2012	2011	2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities data					
Non-current assets	**214,295**	714,375	458,318	320,364	268,208
Current assets	**605,263**	876,871	1,448,969	1,625,852	1,499,305
Current liabilities	**63,319**	71,135	41,022	110,017	93,987
Non-current liability	**–**	23,015	41,707	34,707	27,555
Shareholders' equity	**688,734**	1,347,702	1,851,558	1,801,492	1,645,971
Non-controlling interests	**67,505**	149,394	–	–	–

	Year ended 31 December				
	2014	2013	2012	2011	2010
Other key financial ratios and information					
Current ratios *(Note 5)*	**9.6**	12.3	35.3	14.8	16.0
Quick ratios *(Note 6)*	**4.6**	8.7	29.1	13.0	13.9
Gearing ratio *(Note 7)*	**–**	–	–	–	–
Net asset value per share *(RMB) (Note 8)*	**0.34**	0.7	0.9	0.9	0.8
Inventory turnover days *(days) (Note 9)*	**462**	391	330	282	287
Trade receivables turnover days *(days) (Note 10)*	**100**	142	63	60	58
Trade payables turnover days *(days) (Note 11)*	**26**	16	24	33	30

Notes:

5. Current ratio equals current assets divided by current liabilities as at the end of each year.

6. Quick ratio equals current assets minus inventory, divided by current liabilities as at the end of each year.

7. Gearing ratio equals the debts incurred in the ordinary course of business divided by total assets as at the end of each year.

8. The calculation of net asset value per share for the year ended 31 December 2010 is based on the total number of shares in issue after the Company's placing of its shares on 9 November 2010 and at the end of the year.

9. Inventory turnover days are computed by dividing the average of the beginning and closing inventory balance in the respective financial year by cost of sales (excluding consumption tax and other taxes) and multiplied by 365 days.

10. Trade receivables turnover days are computed by dividing the average of the beginning and closing trade receivables balance in the respective financial year by revenue and multiplied by 365 days.

11. Trade payables turnover days are computed by dividing the average of the beginning and closing trade payables balance in the respective financial year by cost of sales (excluding consumption tax and other taxes) and multiplied by 365 days.

Corporate Information

EXECUTIVE DIRECTORS

Mr. Wang Guangyuan
Mr. Zhang Hebin
Ms. Wang Lijuan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sih Wai Kin, Daniel
Mr. Lai Chi Keung, Albert
Mr. Li Changgao

COMPANY SECRETARY

Mr. Sum Chi Kan, *CISA, FCCA*

AUDIT COMMITTEE

Mr. Sih Wai Kin, Daniel *(Chairman)*
Mr. Lai Chi Keung, Albert
Mr. Li Changgao

REMUNERATION COMMITTEE

Mr. Sih Wai Kin, Daniel *(Chairman)*
Mr. Lai Chi Keung, Albert
Mr. Li Changgao

NOMINATION COMMITTEE

Mr. Lai Chi Keung, Albert *(Chairman)*
Mr. Wang Guangyuan
Mr. Li Changgao

AUTHORISED REPRESENTATIVES

Mr. Wang Guangyuan
Mr. Sum Chi Kan

LEGAL ADVISERS

As to Hong Kong law

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place
Hong Kong

As to Bermuda law

Conyers Dill & Pearman
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

As to PRC law

Jingtian & Gongcheng Attorneys At Law
34/F, Tower 3, China Central Place
77 Jianguo Road
Chaoyang District
Beijing 100025
PRC

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

Corporate Information

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit No. 3612, 36th Floor
West Tower, Shun Tak Centre
Nos. 168-200 Connaught Road Central
Hong Kong

HEAD OFFICE IN THE PRC

No. 2199, Tuanjie Road
Tonghua County
Jilin Province
PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08
Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China Tower Branch
1 Garden Road
Hong Kong

Agriculture Bank of China
Tonghua County Branch
No. 679 Changzheng Road
Kuaidamao Town, Tonghua County
Jilin Province
PRC

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

COMPANY WEBSITE

http://www.tontine-wines.com.hk
(information on the website does not form part of this annual report)

SHARE INFORMATION

Listing date: 19 November 2009
Stock name: Tontine Wines
Number of issued shares as at 31 December 2014: 2,013,018,000 shares
Board lot: 2,000 shares

STOCK CODE

389

FINANCIAL YEAR-END DATE

31 December

Chairman's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of China Tontine Wines Group Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2014 (the "Year").

From 2012, China's grape wine industry has gradually entered a period of adjustment, with the lingering impacts of China's economic slowdown and a number of frugality policies enforced by the government, the business environment of the whole grape wine industry looked grim, and the high-end grape wine sector was in crisis of in-depth adjustment.

During the Year, the China's grape wine industry had continued to adjust. However, as the mass and commercial consumption had replaced the government consumption, we were able to see clearly the gradual bottom-out of the high-end grape wine sector. Particularly, its most significant manifestations were the decline of the distribution channels' inventories to a reasonable level, and the continued stabilization of the high-end grape wine retail prices. After the market adjustments, the consumption pattern and structure have become more rational, and the increasing mass and commercial consumptions have become a driving force for the development of the middle and low-end grape wine sectors. During the Year, the order of grape wine distribution industry was gradually restored and the development of the grape wine market was gradually stabilized.

The Group recorded revenue of approximately RMB286.3 million for the Year, representing an increase of approximately 62.7% as compared with last year. The loss and total comprehensive expense attributable to owners of the Company for the Year increased to approximately RMB659.0 million, or an increase of approximately 30.8% as compared to last year. Basic loss per share for the Year was approximately RMB32.7 cents (2013: RMB25.0 cents).

During the Year, the Group had continued its effort in developing the middle and low-end products. In addition to introducing the 4 new products (including Yaluobai Grape – Bouquet White Wine「雅羅白•葡香型白酒」) to the markets, the Group had also worked actively with the existing distributors for sales promotion in a number of products in order to boost the sales of related products. In respect of cost control, the Group adopted a series of measures to streamline the sales system and the organizational structure, in order to reduce costs and improve operational efficiency. In respect of distribution network development, in addition to enhancing the existing traditional sales channels, the Group had also proactively developed on-line trading in order to capture more business opportunities. During the Year, the Group made product sales through jiuxian.com (「酒仙網*」) to further optimize the channel coverage and expedite sales.

* *For identification purposes only*

Chairman's Statement

China's grape wine industry has experienced a very difficult adjustment and the business environment encountered unprecedented challenges. However, retail prices of the grape wine products have gradually stabilized and the consumption structure of grape wine market has become more rational, I believe the worst time for the grape wine industry has passed and the industry will gradually bottom out in an orderly manner and head toward a brighter future.

Although the recovery of the high-end grape wine sector may not be significant in the near future, I believe that, in the long run, the market demand for grape wine products will be supported by the increasing income levels of Chinese citizens as well as the accelerated urbanization. Thus, the Group remains confident in the long term development of the grape wine industry.

In response to the current market condition, the Group will continue to implement its product and channel diversification strategy, and improve operational management to strengthen its competitiveness in the market. Firstly, the Group will continue to develop the middle and low-end sectors by increasing efforts on the promotion and sales of the new products to increase market share in the middle and low-end grape wine market. The Group will also continue to research and develop more middle and low-end products to meet the demand of different customers. Secondly, the Group will further strengthen the development of its traditional sales network with a focus on sales channels and networks which targeted the middle and low-end products, and will proactively explore more unconventional channels in addition to the traditional ones, such as major on-line shopping platform. Lastly, the Group will continue to ensure an effective allocation of resources through refined management in order to improve operational efficiency, and adopt stringent financial policies to create favorable conditions for its stable and long term sustainable development.

Recently, the Group has been named as a "National Leading Dragon Head Enterprise in Agricultural Industrialisation" ("農業產業化國家重點龍頭企業") and has been approved as a National 4A-Level Scenic Area ("國家4A級旅遊景區"). Going forward, the Group will continue strengthen its brand building efforts and boost its competitiveness in the market.

On behalf of the Board, I would like to express my deepest gratitude to our shareholders, business partners and customers for their continuous support, understanding and trust. I would also like to thank all the staff for their hard work and contribution. Facing the existing challenging market condition, I will continue to work hard with my fellow colleagues to overcome obstacles and to create better value and returns for our shareholders.

Wang Guangyuan
Chairman and Executive Director
26 March 2015

Management Discussion and Analysis

OVERVIEW

Following the deteriorating market condition from 2013, China's grape wine industry faced a challenging start in 2014. The gloomy outlook of global economy and the slower than expected economic growth of China adversely changed the market consumption sentiment. With a sluggish economy and frugal policies in abstaining ostentatious officials' spending in China, the business environment of the industry was in a crisis of in-depth adjustment. Though there were sights of stabilizing, wave of destocking continues. Fierce competition combined with rising operating costs pushed the industry to the edge of consolidation. While some smaller market players were forced to be phased out of the market, players with core brand value and the ability to respond quickly to market changes survived and were expected to benefit from this round of consolidation.

Amidst such a market landscape, the Group implemented effective measures and streamlining strategies to overcome such difficult period. Having considered the continuous challenging environment, the management has adjusted its strategies and undertaken a series of streamlining in the operations while proactively exploring new opportunities to sustain long-term development.

Despite the Group's efforts in taking adjustment measures in response to the market situation, the Group's overall performance for the Year still fell short of expectation. During the Year, faced with the industry issues such as sluggish high-end product market, rising costs in raw materials, labour and rental, etc., the Group proactively adjusted its product mix and pricing strategies to focus on middle and low-end products.

The Group recorded a revenue of approximately RMB286.3 million (2013: RMB176.0 million) for the Year, representing an increase of approximately 62.7% and the Group's loss and total comprehensive expense attributable to owners of the Company for the Year increased by approximately 30.8% to approximately RMB659.0 million (2013: RMB503.9 million).

The Company's basic loss per share for the Year was approximately RMB32.7 cents (2013: RMB25.0 cents) based on the weighted average number of shares in issue during the Year.

Management Discussion and Analysis

BUSINESS REVIEW

Sales and distribution network

The Group sells substantially all of its products to distributors, who distribute and sell such grape wine products to third-party retailers, including supermarkets, and speciality stores selling tobacco and alcohol, food and beverage outlets such as restaurants and hotel restaurants, as well as through their own direct sales distribution to end-consumers and other sub-distributors.

Generally, the Group selects distributors to distribute grape wines products within a designated geographical area and such selections are based on factors such as economic strength, sales network in the Group's target market, product knowledge, mutual goodwill and common objectives, good track record and successful experience in consumer goods distribution, and high moral integrity, credibility and social standing.

The Group constantly reviews the performance of the distributors within its sales and distribution network. During the Year, cooperation with 41 distributors was terminated by the Group after careful selection and evaluation. As at 31 December 2014, the Group's products were sold through 135 distributors in 22 provinces, 3 autonomous regions and 4 municipal cities in the People's Republic of China (the "PRC"). All distributors are independent third parties and are generally engaged in the business of distributing and selling of grape wine products.

The Group enters into standard distribution agreement with each of its selected distributors for a period of one year and following successful negotiation between the parties upon the expiry of the existing distribution agreements, the Group will renew such agreements with distributors each year. In order to facilitate and assist the marketing and sale of the Group's products by its distributors, the Group bears the delivery costs and implements advertising strategies primarily through television commercials and billboards to emphasize the health benefits of moderate consumption of grape wines in order to establish consumer loyalty and strengthen the popularity of its products.

The Group does not have any ownership or management control over its distribution network. In order to supervise these distributors, the Group assigns sales managers to work closely with the distributors in order to monitor their performance and obtain market feedback on the Group's products. In addition, the Group conducts annual appraisals of the performance of our distributors to determine whether the Group will renew the distribution agreements with them, taking into consideration their sales network, promotion approach, creditability and inventory accumulation.

Management Discussion and Analysis

The following map illustrates the Group's distribution network in the PRC as at 31 December 2014:

Notes:

1. **North-East Region** includes the Provinces of Heilongjiang, Jilin and Liaoning.
2. **Northern Region** includes the Provinces of Gansu, Hebei, Shaanxi, Shanxi, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, city of Beijing and city of Tianjin.
3. **Eastern Region** includes the Provinces of Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Zhejiang and city of Shanghai.
4. **South-Central Region** includes the Provinces of Guangdong, Hainan, Henan, Hubei and Hunan.
5. **South-West Region** includes the Provinces of Guizhou, Qinghai, Sichuan, Yunnan, Guangxi Zhuang Autonomous Region and city of Chongqing.
6. Distribution Network.

Management Discussion and Analysis

The following table sets forth a breakdown of our revenue by sales region for the Year:

	2014		2013	
	RMB'000	*%*	*RMB'000*	*%*
North-East Region *(Refer to note 1 above)*	**38,056**	**13.3%**	28,730	16.3%
Northern Region *(Refer to note 2 above)*	**61,772**	**21.6%**	35,281	20.1%
Eastern Region *(Refer to note 3 above)*	**88,169**	**30.8%**	52,235	29.7%
South-Central Region *(Refer to note 4 above)*	**43,459**	**15.2%**	24,683	14.0%
South-West Region *(Refer to note 5 above)*	**54,864**	**19.1%**	35,067	19.9%
Total	**286,320**	**100.0%**	175,996	100.0%

The geographical distribution of our sales remained relatively stable. Revenue derived from our sales in the eastern region of China made the largest contribution to our total revenue. The eastern region of China is our largest market because it is a comparatively more affluent region in the PRC with relatively high levels of per capita income, where consumers have a general preference towards wine products over other alcoholic beverages. The south-west and northern regions of China are also our significant markets, where some of our key distributors are located.

The Group will continue to expand and optimize its distribution network by working closely with the Group's distributors and leveraging their local resources and business networks.

Supply of grapes, grape juice and imported grape wines

Production of quality grape wine products is highly dependent upon sufficient supply of quality grapes and grape juice. Currently, we source our supply of grapes from 285 local grape farmer suppliers, whose vineyards are located in the regions around Ji'An City, Jilin Province, the PRC at the foothills of the Changbai mountain range on the banks of the Yalu river. In order to maintain reliable and stable supplies of quality grapes to meet our needs, we have entered into a 20 year long-term contract with each of our grape farmer suppliers and our vineyard management team supervises the planting, nurturing and harvesting of the grapevines. During the Year, the Group's grape juice supplies came from the PRC and France and the Group has also imported grape wines from France (e.g. "Cordes"「卡圖磨坊」, "Falyia"「法萊雅」, etc.). To ensure we have reliable and solid supplies of quality grapes, grape juice and imported grape wines to meet the production needs of our growing business as well as our expanded production capacity, the Group has kept identifying new grape farmers, grape juice and imported grape wine suppliers, who meet our quality requirements and thorough tests are conducted on the grapes, grape juice and imported grape wines they produce. These procedures ensure we procure quality grape farmers, grape juice and imported grape wine suppliers.

Management Discussion and Analysis

Production capacity

The Group's annual production capacity in Tonghua County, Jilin Province and the annual production capacity of 烟台白洋河釀酒有限责任公司 (Yantai Baiyanghe Winery Co. Ltd.*) ("Yantai Baiyanghe") in Qixia County, Shandong Province are 39,000 tonnes and 30,000 tonnes respectively. The combined production capacity enables the Group to promptly respond to market demand, enhances overall cost-effectiveness in terms of unit costs in the long run and provides a better platform for sustainable earnings growth in future.

The Tontine Wine Cellar, which is located in Tonghua County, Jilin Province, is a place where a stock of wine is properly stored under a controlled environment to undergo an ageing process to produce a range of winery products. The storage capacity of the wine cellar is designed to accommodate an ample storage for the holding or processing of up to approximately 600,000 bottles (750 ml).

In view of Chinese citizens' rising income level and accelerated urbanization in China, the Group remains confident in the recovery of the middle- to high-end grape wine sector in the long run. To reap the market share of the sector further and harvest the business opportunities ahead, the Group has developed the Tontine Wine Estate in Ji'An City, Jilin Province, to produce a premium range of our estate bottle wines from high quality grapes. Wines produced by the wine estate, which will be labelled as "Estate Bottled Wine", will be produced from high quality grapes grown in our self-operated vineyards within our wine estate. Our wine estate, with vineyards covering a total area of approximately 2,000 mu**, will be installed with wine production and wine cellaring facilities and is expected to have an annual yield of around 500 tonnes (approximately 600,000 bottles (750 ml)). The construction of the wine estate was completed in December 2013. Vineyards in the region that covers a total area of approximately 887 mu have been set up and planted with different types of grapes including Beibinghong (北冰紅) and Vidal (威代爾).

Business outlook

Looking into 2015, the grape wine industry will gradually bottom out and the business environment is expected to improve accordingly. It is our determination to continue to improve the Group's profitability and increase shareholders' value over the long-term. We see tremendous opportunities for our products and brands. We invest in our brands to invigorate future performance, to strengthen our competitive edge and to improve efficiency across our businesses. Due to the relatively tough and challenging market conditions in China, we expect that unfavourable business environment will still persist in this year but we remain positive about our business prospects over the long run. All in all, we remain optimistic that the China market would turn around in the near future.

* *for identification purpose only*

** *1 mu equals to approximately 667 square metres.*

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

Revenue represents proceeds from the sale of grape wine products. Our revenue increased by approximately 62.7% to approximately RMB286.3 million for the year ended 31 December 2014 from approximately RMB176.0 million in 2013. Our customers mainly comprised regional distributors in the PRC and we sold our products to our distributors at prices ranging from approximately RMB5.1 to RMB410.3 per bottle. The following table sets forth a breakdown of the Group's revenue for the Year:

	2014		2013		Growth in revenues
	RMB'000	*% of total revenues*	*RMB'000*	*% of total revenues*	*(%)*
Revenue					
Sweet wines	**151,908**	**53.1%**	119,911	68.1%	26.7%
Dry wines	**128,810**	**45.0%**	56,085	31.9%	129.7%
Brandy	**5,602**	**1.9%**	–	–	N/A
Total	**286,320**	**100.0%**	175,996	100.0%	

The growth in revenue and the change in price ranges were mainly due to (i) the inclusion of the revenue of Yantai Baiyanghe of approximately RMB89.8 million in which the Group acquired its 60% equity interest in 2013 and thus enrich the Group's wine products portfolio through the acquisition; and (ii) an increase in sales volume due to the improvement of the grape wine market for the Year.

The following table sets forth the number of units sold and the average selling prices of the Group's products for the Year:

	2014		2013	
	Total units sold *tonnes*	**Average[1] selling price** *RMB'000 per tonne*	Total units sold *tonnes*	Average[1] selling price *RMB'000 per tonne*
Revenue				
Sweet wines	**10,669**	**14.2**	7,950	15.1
Dry wines	**5,084**	**25.3**	2,513	22.3
Brandy	**359**	**15.6**	–	–
Total	**16,112**	**17.8**	10,463	16.8

During the Year, we did not adjust the individual selling prices of our products. The increase in the total units sold were mainly due to (i) the inclusion of products sold by Yantai Baiyanghe (approximately 3,930 tonnes); and (ii) the improvement of the grape wine market for the Year.

The increase in the overall average selling price was mainly attributable to the inclusion of products sold by Yantai Baiyanghe for the Year.

1 Weighted average selling prices of sweet or dry wine products (as applicable) taking into account the actual sales volume of each wine product.

Cost of sales

	2014		2013	
	RMB'000	*%*	*RMB'000*	*%*
Raw materials				
– Grapes and grape juice	**103,864**	**39.7%**	147,600	55.5%
– Yeast and other additives	**9,130**	**3.5%**	6,970	2.6%
– Packaging materials	**81,130**	**31.0%**	70,542	26.5%
– Others	**1,012**	**0.5%**	758	0.3%
Total raw material cost	**195,136**	**74.7%**	225,870	84.9%
Production overheads	**31,520**	**12.0%**	13,691	5.1%
Consumption tax and other taxes	**34,722**	**13.3%**	26,582	10.0%
Total cost of sales	**261,378**	**100.0%**	266,143	100.0%

The principal raw materials required by the Group in producing wine products are grapes, grape juice, yeast and additives as well as packaging materials including bottles, bottle caps, label, corks and packing boxes. During the Year, the cost of grapes and grape juice were the key component of cost of sales and accounted for approximately 39.7% of the Group's total cost of sales.

The percentage of the total raw material cost to total cost of sales decreased approximately 10.2% from approximately 84.9% to approximately 74.7% was primarily due to a reduction in amount of inventory being written off to approximately RMB1.0 million for the Year from approximately RMB138.4 million in 2013.

Production overheads primarily consist of depreciation, supplies, utilities, repair and maintenance expenses, salaries and related personnel expenses for the production and related departments and other incidental expenses for production. The increase in percentage of production overheads to total cost of sales as compared with last year was mainly due to the rise in labour costs, depreciation and other overheads as a result of the completion of the Tontine Wine Cellar and Tontine Wine Estate in the fourth quarter of 2013.

The consumption tax and other taxes increased approximately 3.3% from approximately 10.0% to approximately 13.3%, which was mainly attributable to the growth in revenue.

Gross profit (loss) and gross profit (loss) margin

Gross profit (loss) is calculated based on the Group's revenue less cost of sales. During the Year, the gross profit of the Group was approximately RMB24.9 million as compared with the gross loss of approximately RMB90.1 million for last year.

Our average gross profit margin was approximately 8.7% as compared with the gross loss margin of approximately 51.2% for last year.

Reasons for recorded in gross profit and gross profit margin for the Year are explained in the above paragraphs headed "Revenue" and "Cost of sales".

Selling and distribution expenses

Selling and distribution expenses mainly comprise advertising and promotional expenses, transportation costs, sales commission incurred and miscellaneous expenditures related to our sales and marketing personnel.

During the Year, the selling and distribution expenses decreased to approximately RMB192.3 million from approximately RMB238.7 million last year. The decrease was primarily attributable to a decrease in advertising and promotional charges to approximately RMB154.0 million for the Year from approximately RMB215.0 million last year. The Group will continue to engage in brand building activities, such as mass media advertising and will ensure that its promotion strategy is responsive to market dynamics and competition.

Administrative expenses

Administrative expenses mainly comprise salaries and welfare benefits incurred, directors' fees, product development expenses, insurance premium, other tax expenses, depreciation and amortization expenses and other incidental administrative expenses.

In 2014, administrative expenses increased to approximately RMB76.5 million from approximately RMB53.7 million last year. The increase was mainly attributable to the including the administrative expenses of Yantai Baiyanghe for the Year.

Impairment on tangible and intangible assets

During the Year, the economic benefits derived from the grape wine production contracted. As a result, we performed impairment tests for the property, plant and equipment, prepaid lease payment and intangible assets related to the grape wine business. Accordingly, impairment of approximately RMB523.1 million (2013: RMB158.7 million) has been recognized during the Year. (For more information on the determination of the impairment amounts, please refer to note 16 to 18 of the consolidated financial statements)

Income tax credit

Tax represents amounts of PRC EIT charged at the applicable tax rates in accordance with the relevant law and regulations in the PRC. Pursuant to the EIT Law and the Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. As at 31 December 2014, the Company had an income tax credit of approximately RMB22.6 million (2013: RMB25.1 million). This was due to the reversal of deferred tax on undistributed earnings of the PRC subsidiary in prior years.

Loss and total comprehensive expense for the year attributable to owners of the Company

Taking into account of the aforementioned, the loss and total comprehensive expense attributable to owners of the Company for the Year amounted to approximately RMB659.0 million (2013: RMB503.9 million).

Trade receivables analysis

We normally grant a credit period of 90 days for our distributors.

As at 31 December 2014, the trade receivables were approximately RMB97.1 million (2013: RMB59.1 million) and average trade receivables turnover days were approximately 100 days (2013: 142 days). The average trade receivables turnover days reduced in 2014 was primarily due to the improvement of the grape wine market.

Trade payables analysis

The credit period on purchase of raw materials ranges from two to three months.

As at 31 December 2014, the trade payables were approximately RMB19.3 million (2013: RMB13.1 million) and average trade payables turnover days were approximately 26 days (2013: 16 days) which were in line with the credit periods granted to the Group.

Inventories analysis

We generally maintain our inventories at certain acceptable levels to meet the seasonal, market and other commercial needs.

As at 31 December 2014, the inventories were approximately RMB315.2 million (2013: RMB258.5 million) and the average inventory turnover days were approximately 462 days (2013: 391 days). The longer inventory turnover period during the Year was primarily the result of the increase of the cost of grapes and grape juice during the Year and stocking up of unprocessed wines for the preparation of the production of “Wine Cellar Wine” and “Estate Bottled Wine”.

Financial management and treasury policy

The Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). Accordingly, there has been no significant exposure to foreign exchange fluctuation.

The net proceeds derived from the fund raising activities of the Company that were not already used for the intended purposes have been placed on short term deposits in Hong Kong and in the PRC. The Company also pays dividends in Hong Kong dollars when dividends are declared. The Board considers that the Group has limited foreign currency exposure because our operations are conducted in the PRC. Sales and purchases are mainly denominated in RMB. In view of the minimal foreign currency exchange risk, the Group had not used any financial instruments for hedging purposes. The Group would closely monitor the foreign currency movement instead of entering into any foreign exchange hedge arrangement.

The Group will continue to pursue a prudent treasury management policy and is in a strong liquidity position with sufficient cash to cope with daily operations and future development demands for capital.

With the strong cash and bank balances, the Group is in a net cash position and thus is exposed to minimal financial risk on interest rate fluctuation.

Liquidity and financial resources

Our working capital was healthy and positive for the financial years 2013 and 2014 and we generally financed our operation with internal cash flows generated from operations for the past years.

As at 31 December 2014, the Group's cash and cash equivalents amounted to approximately RMB172.6 million. It has sufficient financial resources and a strong cash position for satisfying the working capital requirements of business development, operations and capital expenditures.

Employment and remuneration policy

Quality and dedicated staff are our most important assets and are indispensable to our success in the competitive market. As part of our corporate culture, we strive to ensure a strong team spirit among our employees for them to contribute towards our corporate objectives. In achieving the goal, we offer competitive remuneration packages commensurate with the industry level and provide various fringe benefits, including trainings, medical, insurance coverage as well as retirement benefits to the employees in Hong Kong and in the PRC. A share option scheme has also been adopted with a primary purpose of motivating our employees to optimize their contributions to the Group and to reward them for their performance and dedications. Employees are encouraged to enroll in external professional and technical seminars, and other training programs and courses to update their technical knowledge and skills, enhance their market awareness and improve their business acumen. The Group reviews its human resources and remuneration policies periodically with reference to local legislation, market conditions, industry practice and assessment of the performance of the Group and individual employees (including Directors).

As at 31 December 2014, the Group employed a work force of 584 (including Directors and 202 staff of Yantai Baiyanghe) in Hong Kong and in the PRC (2013: 392). The total salaries and related costs (including the Directors' fee) for the year ended 31 December 2014 amounted to approximately RMB29.9 million (2013: RMB22.0 million).

Capital commitments and charges on assets

The Group made capital expenditure commitments including approximately RMB75.1 million that was authorised but not contracted for and approximately RMB26.7 million contracted but not provided for in the consolidated financial statements as at 31 December 2014. These commitments were required mainly to support the Group's production capacity expansion. The funding of such capital commitments will be paid out of the cash generated from operating activities.

As at 31 December 2014, none of the Group's assets was pledged (2013: nil).

EXECUTIVE DIRECTORS

Mr. Wang Guangyuan (王光遠), aged 53, was appointed as our executive Director on 8 September 2008. He is also the chairman and a member of the nomination committee of our Board and the chief executive officer of our Company. Mr. Wang is one of the founding management team members of Tonghua Tongtian Winery Co., Ltd ("Tonghua Tongtian") since its establishment in 2001. He is responsible for overall business strategy and development and management of our Group. Prior to establishing our Group, from November 1986 to August 2000, he served with Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange, and in September 1995 he was promoted as a deputy general manager. Mr. Wang is currently a member of the People's Representative of Tonghua City 6th People's Congress (通化市第六屆人民代表大會代表) and Tonghua County 16th People's Congress (通化縣第十六屆人民代表大會代表), the Vice Chairman of Tonghua County Industry and Commerce Association (通化縣工商業聯合會) and Tonghua County Non-government Commerce Chamber (通化縣民間商會), a standing director of Tonghua City Young Entrepreneurs Association (通化市青年企業家協會常務理事), and a member of the 10th Executive Committee of Jilin Provincial Young Entrepreneurs (吉林省青年聯合會第十屆委員會). Mr. Wang was awarded as the "Outstanding Worker of Tonghua County 1996-2001" (1996-2001年通化縣勞動模範) by People's Government of Tonghua County (通化縣人民政府) in October 2002. He was also conferred the title of "Excellent Sales Manager" (優秀銷售總經理) jointly by China Winery Industry Association Grape Wine Sub-branch (中國釀酒工業協會葡萄酒分會) and China Agriculture Association Grape Sub-branch (中國農學會葡萄分會) in June 2006. He was certified as a senior economist by the Ministry of Finance of the PRC (中華人民共和國財政部) on 29 May 2003. Mr. Wang obtained a bachelor's degree of business management from Jilin University (吉林大學) in July 1993. Mr. Wang is the brother of Ms. Wang Lijuan, an executive Director of our Company, and Ms. Wang Lijun, a deputy general manager of our Company.

Mr. Wang is beneficially interested in the entire issued share capital of Up Mount International Limited ("Up Mount"), a controlling shareholder of the Company, and is also a director of Up Mount.

Mr. Zhang Hebin (張和彬), aged 54, was appointed as our executive Director on 8 September 2008. He is one of the founding management team members of Tonghua Tongtian since its establishment in 2001. Prior to May 2011, he was primarily responsible for sales, marketing and products promotion of our Group. Since May 2011, he has assumed responsibility for and is in charge of the merger and acquisition activities of our Group. Prior to joining our Group, from April 1984 to August 2000, he worked with Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange, and in February 1986, he was promoted as a district sales manager. He obtained a junior college diploma of economic management from the Party School of Jilin Province Government (吉林省黨委校) and graduated in July 1991.

Mr. Zhang is beneficially interested in the entire issued share capital of Wing Move Group Limited ("Wing Move"), a 6.58% shareholder of the Company, and is also a director of Wing Move.

Ms. Wang Lijuan (王麗娟), aged 57, was appointed as our executive Director on 17 December 2008, and is one of the founding management team members of Tonghua Tongtian since its establishment in 2001. She is responsible for overall administration and human resource matters of our Group. Prior to joining our Group, from December 1985 to August 2000, she worked at the Industry and Commerce Bank of China Tonghua Branch, and in April 1990 she was promoted to be a branch administrative manager. She has been nominated as a member of the 8th Tonghua County's People's Political Consultative Conference (通化縣政協委員) in November 2006. She obtained a junior college diploma of accounting from Liaoning University (遼寧大學) in July 1990. Ms. Wang is the sister of Mr. Wang, the chairman of our Board and chief executive officer and an executive Director of our Company, and Ms. Wang Lijun, a deputy general manager of our Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sih Wai Kin, Daniel (薛偉健), aged 47, was appointed as our independent non-executive Director on 28 October 2009. He is also the chairman of the audit committee and the remuneration committee of our Board. Mr. Sih majored in Finance and Economics at the University of Western Ontario, Canada and graduated with a degree in Bachelor of Arts (administrative and commercial studies) in October 1989. He obtained the Mandatory Provident Fund Intermediary Certificate from the Mandatory Provident Fund Schemes Authority in January 2008. Mr. Sih was also certified in November 2011 as a certified public accountant by the Montana Board of Public Accountants (MBPA), Montana State, USA. During the early period of his career, Mr. Sih had worked in the department of assurance and advisory business services of Ernst and Young (Hong Kong) and was then promoted as a manager responsible for conducting statutory audit and handling internal control engagements for companies listed or proposed to seek flotation in Hong Kong. He had also subsequently worked for, and held important positions in reputable companies in the financial industry in Hong Kong including Convoy Asset Management Limited (to which he was accredited and licenced under the SFO to carry on (i) Type 4 regulated activity (advising on securities) from 11 November 2004 to 18 June 2010 and (ii) Type 1 regulated activity (dealing in securities) from 18 June 2010 to 10 January 2011) and Manulife Asset Management (Hong Kong) Limited (to which he was accredited and licenced under the SFO to carry on Type 1 regulated activity (dealing in securities) from 6 April 2011 to 28 June 2013) and responsible for, among others, accounting and financial/treasury management; as well as providing consultation and recommendation in the areas of financial planning, market analysis and wealth management.

Mr. Lai Chi Keung, Albert (黎志強), aged 53, was appointed as our independent non-executive Director on 28 October 2009. He is also the chairman of the nomination committee, as well as a member of the audit committee and the remuneration committee of our Board. Mr. Lai has over 30 years' experience in the jewelry industry. He had worked for and held key management positions in various established jewelry companies, both listed and private, in Hong Kong and overseas. Mr. Lai has rich experience in sales management, marketing, distribution channel and resource planning strategies.

Mr. LI Changgao（李常高）, aged 46, has been an independent non-executive Director since 17 December 2008. Mr. Li is a qualified lawyer in the PRC and has been in the PRC legal profession for many years. Prior to becoming a PRC lawyer, he had once been a judge（審判員）in the People's Court of Tonghua County（通化縣人民法院）. Mr. Li graduated from Northeast Forestry University（東北林業大學）with a diploma of social sciences (politics) in July 1990, and from Jilin University（吉林大學）with a diploma of law in June 2001. He passed the national judicial examination held by the Ministry of Justice of the PRC（中華人民共和國司法部）and obtained the certificate of PRC legal professional qualification（中華人民共和國法律職業資格證書）in March 2004.

SENIOR MANAGEMENT

Mr. Wang Xiaoming (王曉鳴), aged 46, is the president of our Group in charge of the overall sales and operations for our Group in the PRC. Mr. Wang joined our Group in May 2011. He holds a post-graduate diploma in Chinese Studies from the Hunan City College (湖南城市學院) and was appointed as a MBA (Master and Business Administration) tutor for its MBA program (with an emphasis on sales and marketing) by the Graduate School of the Chinese Academy of Sciences (中國科學院研究生院), the PRC in October 2007. Mr. Wang is a senior economist in economic management. He has over 10 years' extensive and practical experience in sales planning, marketing, as well as corporate and operational management in the winery industry in the PRC. Mr. Wang was awarded with the "Outstanding Contribution Award in Grape and Grape Wine Industry" (葡萄與葡萄酒行業傑出貢獻獎) jointly by the China Winery Industry Association Grape Wine Sub-branch (中國釀酒工業協會葡萄酒分會) and the China Agriculture Association Grape Sub-branch (中國農學會葡萄分會) in June 2006.

Ms. Ji Chunhua (紀春花), aged 53, is the chief winemaker of our Company, and is one of the founding management team members of Tonghua Tongtian since its establishment in 2001. She is responsible for product development, production and quality control. Prior to joining our Group, from May 1979 to August 2000, Ms. Ji worked as a technician in Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange and she was promoted as the head of the technical department in August 1988. She has been a member of Tonghua City Wine Jury Panel (通化縣葡萄酒、果酒評委) since March 1988 as well as a member of the 4th National Jury Panel for grape (fruit) wine (第四屆葡萄酒(果酒)國家評委) from 2007 to 2012. Ms. Ji was also a member of Jilin Province Jury Panel for Fruit and Grape Wine (吉林省果、葡萄酒評委) from 1990 to 1993. She has been awarded as "Excellent Wine Maker" (優秀釀酒師) jointly by China Winery Industry Association Grape Wine Sub-branch (中國釀酒工業協會葡萄酒分會) and China Agriculture Association Grape Sub-branch (中國農學會葡萄分會) in June 2006. She was also awarded as the "Most Charming China Wine Angel 2008" (最具魅力中國葡萄酒天使) by Huaxia Wine News (華夏酒報) in June 2008. Ms. Ji attended a training course on quality supervision on wine at Chengdu Technology University (成都科技大學) from January 1991 to March 1991. She graduated from Jilin Television University (吉林廣播電視大學) with a junior college diploma of enterprise management degree in July 1994.

Mr. Yu Dazhou (于大洲), aged 59, is the vineyard manager and winemaker of our Company and he joined our Group in August 2003. He is responsible for overseeing and managing the vineyards of the local grape farmers whom we have entered into long-term contracts with, in order to ensure optimal quality control throughout the entire growing, nurturing and harvesting stages of grape growing as well as the early production stage of base wine production from freshly harvested grapes. From May 1979 to December 1997, Mr. Yu worked at Ji'An Winery Factory (集安葡萄酒廠), and he was promoted to a deputy general manger in July 1988 and was responsible for technology. Mr. Yu worked in Ji'an Forestry Winery Factory (集安森林葡萄酒廠) from 1997 until it was acquired by our Group in 2003. Mr. Yu was appointed as a member of the 2nd National Jury Panel for Wine (第二屆果酒國家資格評委) since December 1995 for five years by China National Food Industry Association (中國食品工業協會). He graduated from Tianjin Light Industry College (天津輕工業學院) with a junior college diploma of food in July 1991.

Directors and Senior Management

Mr. Sun Yankun (孫延坤), aged 58, is a deputy general manager of our Company and is one of the founding management team members of Tonghua Tongtian since its establishment in 2001. He is responsible for our procurement and logistics. From December 1978 to August 2000, Mr. Sun served in Tonhwa Winery Limited (通化葡萄酒股份有限公司), a wine company currently listed on the Shanghai Stock Exchange and in October 1997 he was promoted to a division chief in charge of raw materials and supply procurement. He graduated from Tonghua City No.11 High School (通化市第十一中學) in 1974.

Ms. Wang Lijun (王麗君), aged 47, is a deputy general manager of our Company. She joined our Group in January 2010 as executive manager. In December 2010, she was promoted to deputy general manager and is responsible for administration and human resources matters of all the Company's subsidiaries in the PRC. Prior to joining our Company, from August 2006 to September 2009, she worked in Dubon Property and Casualty Insurance Company Limited Jilin branch (都邦財產保險股份有限公司吉林分公司) as business general manager and was responsible for business management. From July 1994 to August 2006, she was the deputy general manager in China Pacific Life Insurance Company Limited Tonghua branch (中國太平洋人壽保險股份有限公司通化中心支公司) and responsible for administration matters. Ms. Wang graduated from Jilin Industry University (吉林工業大學) with a bachelor's degree in accounting in July 1998. Ms. Wang is the sister of Mr. Wang, the chairman of our Board, the chief executive officer and an executive Director of our Company, and Ms. Wang Lijuan, an executive Director of our Company.

Ms. Zhao Dan (趙丹), aged 36, is the chief financial officer of our Company. She joined our Group in September 2001 and was promoted to current position in December 2014. She is responsible for the financial and accounting management of our Group. Ms. Zhao graduated from Jilin University (吉林大學) with a higher diploma in finance and accounting in July 2000. She was conferred her qualification of mid-level accountant in May 2005.

Mr. Zhang Xuexin (張學鑫), aged 34, is a deputy general manager of our Company. He joined our Group in December 2001 and is responsible for project management of the Group. In December 2010, Mr. Zhang was promoted from project manager to his current position. Mr. Zhang graduated from Jilin University (吉林大學) with a higher diploma in economic in July 2002.

Ms. Feng Fu Qin (封福琴), aged 49, is the production manager of our Company. She joined our Group in September 2001 and was promoted from production supervisor to her current position in January 2011. Ms. Feng is responsible for supervising the overall production and manufacturing processes of the products of our Group. Prior to joining our Group, Ms. Feng had over 7 years' experience in production management. Ms. Feng graduated from Tianjin Light Industry College (天津輕工業學院) with a college diploma in chemistry in July 1992.

COMPANY SECRETARY

Mr. Sum Chi Kan (岑志勤), aged 43, is the company secretary and the vice president of the control and compliance department of our Company. Mr. Sum is responsible for the company secretarial functions and reviewing and supervising our Group's overall internal control systems and provides advice to the Board and audit committee. Mr. Sum is employed on a full-time basis. He joined our Group in May 2009 and is responsible for overseeing matters related to control and compliance of our Group. Prior to joining our Group, he has worked as internal control and compliance manager in J.V. Fitness Limited, a company involved in operating premium fitness centres across the Asia Pacific region. Mr. Sum had over 10 years of experience in auditing, control and compliance. In 1994, he graduated from the Hong Kong University of Science & Technology with a Bachelor degree in Accounting. In 2007, he graduated from the Hong Kong Polytechnic University with a master degree in corporate governance. He has been an associate member of the Hong Kong Institute of Certified Public Accountants since March 2000 and became a fellow of the Association of Chartered Certified Accountants in June 2004.

Directors' Report

The Directors are pleased to present their annual report (the "Annual Report") and the audited financial statements of China Tontine Wines Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2014 (the "Year").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group continue to be the production and sales of grape wine in the mainland China. Revenue and contribution to operating profit are mainly derived from activities carried out in the mainland China. Particulars of the principal activities of the Company's principal subsidiaries are set out in note 34 to the consolidated financial statements.

RESULTS AND DIVIDEND

The Group's profit for the year ended 31 December 2014 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 46 to 106.

The Directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2014 (2013: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 19 May 2015 to 21 May 2015 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting (the "AGM") of the Company to be held on 21 May 2015. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates should be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on 18 May 2015.

PROPERTY, PLANT AND EQUIPMENT

During the Year, the Group spent approximately RMB246.7 million on additions of property, plant and equipment mainly for the expansion and enhancement of its production capability. Details of movements in property, plant and equipment of the Group during the Year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the Year are set out in note 27 to the consolidated financial statements and in the consolidated statement of changes in equity respectively.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was adopted by the shareholders of the Company on 19 November 2009. The principal terms of the Share Option Scheme are summarized below:

(i) The purpose of the Share Option Scheme is to provide incentive for selected participants to work with commitment towards enhancing the value of the Company and the Shares for the benefit of the Company and its shareholders as a whole and to retain and attract persons whose contributions are or may be beneficial to the growth and development of the Group.

(ii) Eligible participants of the Share Option Scheme include any employee, non-executive Directors (including independent non-executive Directors), customer or supplier of goods or services to any member of the Group, shareholders of any member of the Group, consultant, adviser, contractor, business partner or service provider.

(iii) 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 scheme of the Group shall not in aggregate exceed 10% of the Shares in issue on 19 November 2009.

(iv) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group, must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.

(v) Unless approved by shareholders in general meeting, the total number of Shares issued and which may fall to be issued upon exercise of all options granted to any eligible participant under the Share Option Scheme and any other share option schemes of the Group in the 12-month period up to and including such further grant must not exceed 1% of the issued share capital of the Company for the time being.

(vi) Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). In addition, any grant to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates in excess of 0.1% of the Shares in issue or with an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval of the Company in a general meeting.

(vii) An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the offer of grant of an option.

(viii) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period (which may not expire later than 10 years from the date of the grant) to be determined and notified by the Directors to each grantee.

(ix) The subscription price per Share under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of (1) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant; (2) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (3) the nominal value of a Share.

(x) The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

During the Year, the movements in the Company's share options granted under the Share Option Scheme are as follows:

		Number of share options								
Grantee	Date of grant	Outstanding as at 1 January 2014	Granted during the Year	Exercised during the Year	Lapsed during the Year	Outstanding as at 31 December 2014	Vesting period	Exercisable period	Exercise price per share *HK$*	Market value per share at date of grant of options *HK$*
Directors	–	–	–	–	–	–	–	–	–	–
Employees	18 May 2012	56,000,000	–	–	–	56,000,000	–	18 May 2012 to 17 May 2017	0.71	0.70
Total		56,000,000	–	–	–	56,000,000				

RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity.

SUMMARY FINANCIAL INFORMATION

A summary of the published results containing information on the Group's assets and liabilities for the last five financial years is set out on pages 2 and 3. The summary does not form part of the consolidated financial statements.

DIRECTORS

The Directors of the Company during the Year and up to the date of the Annual Report were:

Executive Directors:

Mr. Wang Guangyuan *(Appointed on 8 October 2009) (Chairman and chief executive officer)*
Mr. Zhang Hebin *(Appointed on 8 October 2009)*
Ms. Wang Lijuan *(Appointed on 8 October 2009)*

Independent Non-Executive Directors:

Mr. Sih Wai Kin, Daniel *(Appointed on 28 October 2009)*
Mr. Lai Chi Keung, Albert *(Appointed on 28 October 2009)*
Mr. Li Changgao *(Appointed on 8 October 2009)*

Directors' Report

The Company's bye-laws provide that, at each annual general meeting, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. A retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he/she retires. Every Director will therefore retire either by rotation under the Company's bye-laws or voluntarily and will subject himself/herself to the absolute and free choice of the shareholders for re-election at the annual general meetings.

In compliance with Rule 3.10(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Board currently comprises three independent non-executive Directors, representing more than one-third of the Board. The Company has received annual confirmations of independence from Mr. Sih Wai Kin, Daniel, Mr. Lai Chi Keung, Albert and Mr. Li Changgao pursuant to Rule 3.13 of the Listing Rules. As at the date of the Annual Report, the Company still considered them as independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 19 to 23 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors had a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

RELATED PARTIES TRANSACTIONS

None of the "Related Parties Transactions" as disclosed in Note 33 to the consolidated financial statements for the Year constituted discloseable non-exempted connected transaction or non-exempted continuing connected transaction under the Listing Rules.

MANAGEMENT CONTRACT

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Year.

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

As at 31 December 2014, the interests and short positions of the Directors and/or the chief executive of the Company in the shares, 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 (Chapter 571 of the Laws of Hong Kong) (the "SFO") as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Name of Director	Name of Group member/associated corporation	Capacity/Nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of shareholding *(Note 4)*
Mr. Wang Guangyuan	The Company	Interest of a controlled corporation	675,582,720 Shares (L) *(Note 2)*	33.56%
Mr. Zhang Hebin	The Company	Interest of a controlled corporation	132,467,200 Shares (L) *(Note 3)*	6.58%

Notes:

(1) The Letter "L" denotes the Director's long position in the Shares.

(2) These Shares are registered in the name of and beneficially owned by Up Mount International Limited ("Up Mount"), a company incorporated in the British Virgin Islands (the "BVI") and whose entire issued share capital is owned by Mr. Wang Guangyuan.

(3) These Shares are registered in the name of and beneficially owned by Wing Move Group Limited ("Wing Move"), a company incorporated in the BVI and whose entire issued share capital is owned by Mr. Zhang Hebin.

(4) The percentage of shareholding is calculated on the basis of 2,013,018,000 shares in the Company in issue as at 31 December 2014.

Save as disclosed above, none of the Directors or the chief executive of the Company had or were deemed under the SFO to have any interests or short positions in the shares, underlying shares in or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2014.

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

As at 31 December 2014, so far as is known to the Directors, the following parties, other than a Director or chief executive of the Company, were recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company, as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of issued Shares *(Note 5)*
Up Mount *(Note 1)*	Beneficial owner	675,582,720	33.56%
Ms. Zhang Min 張敏 *(Note 2)*	Interest of spouse	675,582,720	33.56%
Wing Move *(Note 3)*	Beneficial owner	132,467,200	6.58%
Ms. Luo Cheng Yan 羅成艷 *(Note 4)*	Interest of spouse	132,467,200	6.58%

Notes:

(1) Up Mount is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Wang Guangyuan, the chairman of the Company and an executive Director.

(2) Ms. Zhang Min is the spouse of Mr. Wang Guangyuan and is therefore deemed to be interested in all the Shares held by Mr. Wang Guangyuan (through Up Mount) by virtue of the SFO.

(3) Wing Move is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Zhang Hebin, an executive Director.

(4) Ms. Luo Cheng Yan is the spouse of Mr. Zhang Hebin, an executive Director, and is therefore deemed to be interested in all the Shares held by Mr. Zhang Hebin (through Wing Move) by virtue of the SFO.

(5) The percentage of shareholding is calculated on the basis of 2,013,018,000 shares in the Company in issue as at 31 December 2014.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the Share Option Scheme disclosed above, at no time during the Year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RETIREMENT BENEFITS SCHEMES

Other than participating in the People's Republic of China state-managed retirement benefits scheme, the Group has not operated any other retirement benefits schemes for the Group's employees. Details of the Group's retirement benefits schemes during the financial year are set out in note 32 to the financial statements.

INTERESTS IN CONTRACTS

No contract of significance in relation to the business of the Group to which any controlling shareholder of the Company or any of its subsidiaries was a party, or in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Year and up to the date of the Annual Report, no Directors were considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers and purchases from the Group's five largest suppliers accounted for around 8.7% and 51.7% of the total sales and purchases of the Group respectively. The Group's largest customer and supplier accounted for around 1.8% and 15.7% of the total sales and purchases of the Group for the Year respectively. For the year ended 31 December 2014, none of the Directors or any of their associates or any shareholders of the Company which, to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and suppliers.

AUDIT COMMITTEE

The Company established its audit committee (the "Audit Committee") pursuant to a resolution of the Directors passed on 28 October 2009. The Audit Committee currently comprises all the three independent non-executive Directors, namely Mr. Sih Wai Kin, Daniel, Mr. Lai Chi Keung, Albert and Mr. Li Changgao.

The Audit Committee has reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the internal controls, as well as reviewed the Group's audited annual results for the Year.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of the Annual Report, based on publicly available information and to the best of the Directors' knowledge, the Company has maintained the prescribed public float under the Listing Rules since the listing of the Shares on the Stock Exchange.

AUDITOR

Deloitte Touche Tohmatsu, the auditor of the Company, will retire at the AGM and, being eligible, offer itself for re-appointment at the AGM. A resolution for re-appointment of auditor of the Company will be proposed at the AGM.

ON BEHALF OF THE BOARD

Wang Guangyuan
Chairman and Executive Director
Hong Kong
26 March 2015

Corporate Governance Report

The Board develops and reviews the Group's policies and practices on corporate governance to keep their effectiveness from time to time in order to meet the rising expectations of shareholders and comply with the increasingly stringent regulatory requirements, and to fulfill its commitment to excel in corporate governance. The Board is committed to maintaining a good standard of corporate governance practices and business ethics in the firm belief that they are essential for maintaining and promoting investors' confidence and maximizing shareholders' returns.

The principles in the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange have been followed by the Company to shape its corporate governance structure. The CG Code sets out two levels of corporate governance practices namely, "code provisions" that a listed company is to comply with or explain its decision if there is any deviation from the code provisions, and "recommended best practices" that a listed company is encouraged to comply with but need not explain if it does not.

The Company had complied with the code provisions as set out in the CG Code during the year ended 31 December 2014 (the "year under review"), save for the following:

CODE PROVISION A.2.1

Pursuant to code provision A.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer (the "CEO") should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and CEO and Mr. Wang Guangyuan currently performs these two roles. Mr. Wang is responsible for the overall business strategy and development and management of the Group. The Board considers that Mr. Wang, by serving as the chairman of the Board and the CEO of the Company, is able to lead the Board in major business decision making for the Group and enables the Board's decision to be effectively made, which is beneficial to the management and the development of the Group's business. Therefore, Mr. Wang assumes the dual roles of being the chairman of the Board and the CEO of the Company notwithstanding the aforementioned deviation.

BOARD OF DIRECTORS AND MANAGEMENT FUNCTIONS

The Board is responsible for providing effective and responsible leadership for the Group. The Directors, both individually and collectively, must act in good faith in the best interests of the Group and the shareholders of the Company. The Board is responsible for formulating the Group's overall objectives and strategies, monitoring and evaluating its operating and financial performance and reviewing the corporate governance standard of the Group. It also decides on matters such as annual and interim results, major transactions, appointment or re-appointment of directors, and dividend and accounting policies. The profiles of the Directors as at the date of this report are set out on pages 19 to 20.

Corporate Governance Report

Senior management is delegated with the responsibility for the execution of the business plans and strategies adopted by the Board, assisting the Board in the preparation of the financial statements for approval by the Board, the implementation of adequate procedures as put forward by the Board and/or the committees established by the Board and reporting regularly to and seeking approval from the Board on important matters from time to time.

The Directors acknowledge that, notwithstanding the delegation, it is the responsibility of the Board for preparing the financial statements, which give a true and fair view of the financial results of the Group.

The Board is responsible for performing the corporate governance functions of the Company, which are set out in the written terms of reference. The Board has, among others, reviewed this corporate governance report in discharge of its corporate governance functions and to ensure compliance with the Listing Rules.

The Board has delegated various responsibilities to certain Board committees including the Audit Committee, the Remuneration Committee and the Nomination Committee (collectively, the "Board Committees").

Our Board comprises 3 executive Directors and 3 independent non-executive Directors. For the year under review, the Board met regularly to discuss the overall strategy, the operational and financial performance and the corporate governance of the Group. The attendance record of each of the Directors is tabulated as follows:

Name	**Annual general meeting held on 15 May 2014**	**Number of board meetings attended/held during the year under review**
Number of meeting(s)	1	4
Executive Director		
Mr. Wang Guangyuan *(Chairman and CEO)*	1/1	3/4
Mr. Zhang Hebin	1/1	4/4
Ms. Wang Lijuan	0/1	4/4
Independent Non-executive Director		
Mr. Sih Wai Kin, Daniel	1/1	4/4
Mr. Lai Chi Keung, Albert	1/1	4/4
Mr. Li Changgao	0/1	4/4

Save for the sibling relationship between Mr. Wang Guangyuan and Ms. Wang Lijuan, the Board members have no financial, business, family or other relationships with each other. Each of the independent non-executive Directors has confirmed in writing his independence with regard to the independence criteria set out in Rule 3.13 of the Listing Rules.

Since the listing of its shares on the Main Board of the Stock Exchange on 19 November 2009, the Company has adopted the practice of holding board meetings regularly for at least four times a year at approximately quarterly intervals. Ad-hoc meetings will also be convened if necessary to discuss the overall strategy as well as financial performance of the Group. Notice of board meeting will be sent to all Directors at least 14 days prior to a regular board meeting. Reasonable notice will be given to the Directors for ad-hoc board meetings. Directors may participate either in person or through electronic means of communication.

The Company has adopted the practice to provide relevant materials to all Directors relating to the matters brought before the meetings. All the Directors will be provided with sufficient resources to discharge their duties, and, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expenses. Each of the Directors will have the opportunity and is encouraged to include matters which he/she deems appropriate in the agenda for Board meetings.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 1 November 2009, and is renewable automatically thereafter for successive terms of one year subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than three months' prior written notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for a renewed term of two years commencing from 1 January 2012, which is renewable automatically for successive term(s) of one year each commencing from the date next after the expiry of the then current term of his appointment and is subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than one month's prior written notice.

In accordance with the Company's bye-laws, each year, one-third of the Directors (including executive Directors and independent non-executive Directors) for the time being will retire from office by rotation provided that every Directors shall be subject to retirement by rotation at least once every three years at the general meeting of the Company.

BOARD COMMITTEES

As an integral part of good corporate governance practices, the Board established the Board Committees to oversee particular aspects of the Group's affairs. The Board Committees are governed by the respective written terms of reference approved by the Board.

Audit Committee

The Audit Committee was established on 28 October 2009. During the year under review, the members of the Audit Committee were Mr. Sih Wai Kin, Daniel (Chairman of the Audit Committee), Mr. Lai Chi Keung, Albert and Mr. Li Changgao, all are independent non-executive Directors. The Chairman of the Audit Committee has the appropriate professional qualification as required by the Listing Rules.

The Company has adopted written terms of reference for the Audit Committee in compliance with the CG Code, which clearly define the role, authority and function of the Audit Committee and are available on both the websites of the Stock Exchange and the Company.

The Audit Committee is primarily responsible for the review and supervision of the financial reporting process and assessing the adequacy and effectiveness of the Company's financial controls, internal control and risk management systems. It is also responsible for making recommendations to the Board on the appointment and removal of external auditor. The Audit Committee had reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed the matters concerning the internal controls, as well as reviewed the Group's annual and interim results for the year under review.

The Audit Committee held two meetings during the year under review.

The attendance record of each Audit Committee member during the year under review is set out below.

Directors	No. of meetings attended/held	Attendance rate
Mr. Sih Wai Kin, Daniel *(Chairman)*	2/2	100%
Mr. Lai Chi Keung, Albert	2/2	100%
Mr. Li Changgao	2/2	100%

Remuneration Committee

The Remuneration Committee was established on 28 October 2009. During the year under review, the members of the Remuneration Committee were Mr. Sih Wai Kin, Daniel (Chairman of the Remuneration Committee), Mr. Lai Chi Keung, Albert and Mr. Li Changgao, all are independent non-executive Directors.

The Company has adopted written terms of reference for the Remuneration Committee in compliance with the CG Code, which clearly define the role, authority and function of the Remuneration Committee and are available on both the websites of the Stock Exchange and the Company.

The primary duties of the Remuneration Committee include, but not limited to, making recommendations to the Board on the overall remuneration policy and structure, as well as the remuneration packages, relating to all Directors and senior management of our Group; reviewing their remuneration packages with reference to corporate goals and objectives of the Company so as to attain such levels as is sufficient to attract, retain and incentivise them to make positive contribution to the long-term development of the Company, and ensuring that none of the Directors determine his/her own remuneration. During the year under review, the works performed by the Remuneration Committee mainly comprised assessing the performance of the Directors and senior management of the Group, reviewing the terms or renewed terms of the service agreements governing the appointment and/or continued appointment of Directors and senior management of the Group and recommending to the Board their remuneration packages.

The Remuneration Committee held one meeting during the year under review.

The attendance record of each Remuneration Committee member during the year under review is set out below.

Directors	**No. of Meetings Attended/Held**	**Attendance Rate**
Mr. Sih Wai Kin, Daniel *(Chairman)*	1/1	100%
Mr. Lai Chi Keung, Albert	1/1	100%
Mr. Li Changgao	1/1	100%

Nomination Committee

The Nomination Committee was established on 28 October 2009. During the year under review, the members of the Nomination Committee were Mr. Lai Chi Keung, Albert (Chairman of the Nomination Committee and an independent non-executive Director), Mr. Wang Guangyuan (an executive Director) and Mr. Li Changgao (an independent non-executive Director).

The Company has adopted written terms of reference for the Nomination Committee in compliance with the CG Code, which clearly define the role, authority and function of the Nomination Committee and are available on both the websites of the Stock Exchange and the Company.

The primary functions of the Nomination Committee include, but not limited to, making recommendations to the Board regarding candidates for directorship, either to fill vacancies on or appoint additional directors to the Board, the structure, size and composition of the Board and succession planning for Directors. In considering the nomination of new Directors, the Nomination Committee will take into account the diversity policy of the Company, which includes the consideration of various elements including gender, age, culture, qualification, ability, work experience, leadership and professional ethics of the candidates and against the objective criteria set out by the Board. These elements are recognised and were taken into account of in the composition of the existing diverse Board.

The Nomination Committee held two meetings during the year under review in which the structure, size and composition of the Board, the nomination policy, the re-election of the retiring directors by the shareholders at the last annual general meeting of the Company and the independence of the independent non-executive Directors were reviewed and its recommendations were put forward to the Board for consideration and approval.

The attendance record of each Nomination Committee member during the year under review is set out below.

Directors	No. of Meetings Attended/Held	Attendance Rate
Mr. Lai Chi Keung, Albert *(Chairman)*	2/2	100%
Mr. Wang Guangyuan	1/2	50%
Mr. Li Changgao	2/2	100%

CONTINUOUS PROFESSIONAL DEVELOPMENT

During the year under review, the Company organized directors' training session delivered by legal professional (which was attended to by all Directors, including Mr. Wang Guangyuan, Mr. Zhang Hebin, Ms. Wang Lijuan, Mr. Sih Wai Kin, Daniel, Mr. Lai Chi Keung, Albert and Mr. Li Changgao) as well as provided materials (including but not limited to updates on Listing Rules and guidelines on Directors' Duties) for all Directors. The Company also encouraged all Directors to participate from time to time courses which they consider relevant at the costs of the Company so as to develop and refresh their knowledge and skills for better fulfillment of their duties as directors of a listed issuer.

COMPANY SECRETARY

The Company Secretary, Mr. Sum Chi Kan, is one of the chief administrative officers of the Company responsible for, among other duties, organizing directors' and shareholders' meetings of the Company and ensuring all procedures for the convening and conduct of such meetings are in accordance with the Company's constitution and the laws, rules and regulations applicable to the Company. During the year under review, the Company secretary undertook 15 hours of professional training to refresh and develop his knowledge and skills.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining good and effective internal controls of the Group. During the year under review, the Board has conducted a review of the effectiveness of the Group's system of internal control, covering financial, operational, compliance control and risk management functions. The Group's system of internal control includes the setting up of a management structure with limits of authority, and is designed to help the Group achieve its business objectives, protects its assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate all risks of failure in the Group's operational systems and in the achievement of the Group's business objectives. After reviewing the Group's internal control system, the Board considers that the internal control system is effective and adequate for the Group as a whole. The Board further considers that (i) there was no material issue relating to the internal controls, including financial, operational and compliance controls and risk management functions of the Group; and (ii) that there were adequate staff with appropriate and adequate qualifications and experience, resources for accounting and financial reporting function, and adequate training programmes have been provided during the year under review. The control and compliance department of the Company plays a major role in monitoring the internal controls of the Group and reports directly to the Audit Committee. It has full access to review all aspects of the Group's activities and internal controls. All types of audited reports are circulated to the Audit Committee and key management which will follow up any actions and measures taken to improve internal controls on the recommendations by the control and compliance department.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year under review, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate accounting standards which are pertinent to its operations and relevant to the financial statements, made judgments and estimates that are prudent and reasonable, and have prepared the accounts on a going concern basis. The statement of the auditor of the Company, Messrs. Deloitte Touche Tohmatsu, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 44 to 45.

AUDITOR'S REMUNERATION

During the Year, the fees paid/payable to the auditor in respect of audit service provided by the auditor of the Group were as follows:

	RMB'000
Audit Service	1,441

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for directors' securities transactions. The Company has made specific enquiry of all Directors and that all the Directors have confirmed their compliance with the required standards set out in the Model Code regarding directors' securities transactions throughout the Year.

CHANGES IN CONSTITUTIONAL DOCUMENTS

During the year under review, there were no changes in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

Convene a special general meeting (the "SGM")

The following procedures are subject to the Company's bye-laws, the Companies Act 1981 of Bermuda, as amended or supplemented from time to time (the "Companies Act") and applicable legislation and regulation.

1. Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Company's registered office at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the Company's principal office of business in Hong Kong at Unit No. 3612, 36th Floor, West Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong, for the attention of the Company Secretary of the Company (the "Company Secretary"), to require a SGM to be called by the board of directors of the Company (the "Board") for the transaction of any business specified in such requisition.

2. The written requisition must state the purposes of the general meeting, signed by the Shareholder(s) concerned and may consist of several documents in like form, each signed by one or more of those Shareholders.

3. If the requisition is in order, the Company Secretary will ask the Board to convene a SGM by serving sufficient notice in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the requisition is invalid, the Shareholders concerned will be advised of this outcome and accordingly, a SGM will not be convened as requested.

4. The notice period to be given to all the registered Shareholders for consideration of the proposal raised by the Shareholder(s) concerned at a SGM varies according to the nature of the proposal, as follows:

   - at least twenty-one (21) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes a special resolution of the Company, which cannot be amended other than to a mere clerical amendment to correct a patent error; and

   - at least fourteen (14) clear days' and not less than ten (10) clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

Put forward proposals at general meetings

1. Sections 79 and 80 of the Companies Act allow certain Shareholder(s) to requisition the Company to move a resolution at an annual general meeting (the "AGM") of the Company or circulate a statement at any general meeting of the Company. Under section 79 of the Companies Act, at the expense of the requisitionists unless the Company otherwise resolves, it shall be the duty of the Company on the requisition in writing by such number of Shareholders:–

   (a) to give to the Shareholders entitled to receive notice of the next AGM notice of any resolution which may properly be moved and is intended to be moved at that meeting;

   (b) to circulate to the Shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

2. The number of Shareholders necessary to make the above-mentioned requisitions to the Company shall be:–

   (i) either any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or

   (ii) not less than one hundred Shareholders.

3. Notice of any such intended resolution shall be given, and any such statement shall be circulated, to Shareholders entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such Shareholder in any manner permitted for service of notice of the meeting, and notice of any such resolution shall be given to any other Shareholder by giving notice of the general effect of the resolution in any manner permitted for giving him notice of meeting of the Company, provided that the copy shall be served, or notice of the effect of the resolution shall be given, as the case may be, in the same manner and, so far as practicable, at the same time as notice of the meeting and, where it is not practicable for it to be served or given at that time, it shall be served or given as soon as practicable thereafter.

4. Section 80 of the Companies Act sets out the conditions to be met before the Company is bound to give any notice of resolution or to circulate any statement. Pursuant to section 80 of the Companies Act, the Company shall not be bound to give notice of any resolution or to circulate any statement as mentioned in paragraph 3.1 above unless:–

   (a) a copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, is deposited at the registered office of the Company:–

      (i) in the case of a requisition requiring notice of a resolution, not less than six weeks before the meeting; and

      (ii) in the case of any other requisition, not less than one week before the meeting; and

   (b) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expense in giving effect to the procedures in paragraph 1 above (i.e. the giving of notice of resolution and/or circulation of statement).

   Provided that if, after a copy of the requisition requiring notice of a resolution has been deposited at the registered office of the Company, an AGM is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the abovementioned time shall be deemed to have been properly deposited for the purposes thereof.

Proposed a candidate for election as a director at an annual general meeting

The Company has an established procedures for shareholders of the Company to propose a person for election as a Director and the procedures are published at the Company's website at http://www.tontine-wines.com.hk.

The Company welcomes enquiries from its shareholders. The Board or designated senior management of the Company will review shareholders' enquiries on a regular basis. Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary by e-mail (chinatontine@sprg.com.hk) or at the address of the Company's principal office of business in Hong Kong.

INVESTOR RELATIONS AND SHAREHOLDERS' COMMUNICATIONS

The Company endeavours to maintain a high level of transparency in communication with shareholders and investors in general. The various channels via which the Company communicates with its shareholders include interim and annual reports, circulars, notices, financial reports, information posted on the websites of the Stock Exchange and the Company, and general meetings. Shareholders are encouraged to attend the Company's general meetings where the Chairman of the Board and the chairman of each of the Board Committees (as appropriate) is invited to attend to answer questions. Notice of the annual general meeting of the Company and related papers are sent to shareholders of the Company at least 20 clear business days before the meeting and such notice is also made available on the Stock Exchange's website. Separate resolutions are proposed at the general meetings on each substantially separate issue. Poll results of the meeting will be posted on the website of the Stock Exchange on the day of the meeting. The financial and other information relating to the Group are disclosed on the Company's website, http://www.tontine-wines.com.hk.

In order to facilitate the communication with shareholders of the Company, the Group has maintained the Company's website as a channel to provide the latest information and to strengthen communication with its shareholder and the investing public. The Group's corporate correspondence and information will also be published on the website in a timely manner.

The above communication policy is reviewed by the Board from time to time to ensure its effectiveness.

Deloitte.
德勤

TO THE MEMBERS OF CHINA TONTINE WINES GROUP LIMITED
中國通天酒業集團有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Tontine Wines Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 106, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2014 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	NOTES	2014 RMB'000	2013 RMB'000
Revenue	7	286,320	175,996
Cost of sales		(261,378)	(266,143)
Gross profit (loss)		24,942	(90,147)
Other income	9	4,785	15,306
Selling and distribution expenses		(192,331)	(238,726)
Administrative expenses		(76,482)	(53,711)
Impairment of property, plant and equipment	16	(478,407)	(158,668)
Impairment of prepaid lease payments	17	(22,560)	–
Impairment of intangible assets	18	(22,157)	–
Change in fair value of biological assets	19	(1,274)	(3,047)
Loss before tax		(763,484)	(528,993)
Income tax credit	10	22,627	25,137
Loss and total comprehensive expense for the year	11	(740,857)	(503,856)
Loss and total comprehensive expense for the year attributable to:			
Owners of the Company		(658,968)	(503,856)
Non-controlling interests		(81,889)	–
		(740,857)	(503,856)
Loss per share	15		
Basic *(RMB cents)*		(32.7)	(25.0)
Diluted *(RMB cents)*		(32.7)	(25.0)

Consolidated Statement of Financial Position

At 31 December 2014

	NOTES	2014 *RMB'000*	2013 *RMB'000*
Non-current Assets			
Property, plant and equipment	*16*	**139,896**	549,693
Prepaid lease payments	*17*	**59,586**	84,762
Intangible assets	*18*	**–**	25,781
Deposits paid for acquisition of property, plant and equipment		**7,343**	48,389
Biological assets	*19*	**7,470**	5,750
		214,295	714,375
Current Assets			
Inventories	*20*	**315,185**	258,481
Trade receivables	*21*	**97,115**	59,144
Deposits and other receivables	*22*	**12,076**	19,650
Tax recoverable		**5,551**	5,551
Prepaid lease payments	*17*	**2,723**	3,125
Bank balances and cash	*23*	**172,613**	530,920
		605,263	876,871
Current Liabilities			
Trade payables	*24*	**19,317**	13,084
Other payables and accruals	*25*	**34,014**	45,218
Tax liabilities		**9,988**	12,833
		63,319	71,135
Net Current Assets		**541,944**	805,736
Total Assets Less Current Liabilities		**756,239**	1,520,111
Non-current Liabilities			
Deferred tax liabilities	*26*	**–**	23,015
		756,239	1,497,096
Capital and Reserves			
Share capital	*27*	**17,624**	17,624
Reserves		**671,110**	1,330,078
Equity attributable to owners of the Company		**688,734**	1,347,702
Non-controlling interests		**67,505**	149,394
Total Equity		**756,239**	1,497,096

The consolidated financial statements on pages 46 to 106 were approved and authorised for issue by the Board of Directors on 26 March 2015 and are signed on its behalf by:

Wang Guangyuan
Chairman and Executive Director

Zhang Hebin
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000 (Note a)	Statutory reserves RMB'000 (Note b)	Share option reserve RMB'000	Retained profits (Accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2013	17,624	910,541	86,360	130,634	14,978	691,421	1,851,558	–	1,851,558
Loss and total comprehensive expense for the year	–	–	–	–	–	(503,856)	(503,856)	–	(503,856)
Share option lapsed/forfeited	–	–	–	–	(6,719)	6,719	–	–	–
Acquisition of a subsidiary *(note 29)*	–	–	–	–	–	–	–	149,394	149,394
At 31 December 2013	17,624	910,541	86,360	130,634	8,259	194,284	1,347,702	149,394	1,497,096
Loss and total comprehensive expense for the year	–	–	–	–	–	(658,968)	(658,968)	(81,889)	(740,857)
At 31 December 2014	17,624	910,541	86,360	130,634	8,259	(464,684)	688,734	67,505	756,239

Notes:

(a) Special reserve represents the difference between the nominal value of the shares of the Company issued and the aggregate of the nominal value of the issued shares and the share premium of the holding company for which the shares of the Company have been issued in exchange upon a corporate reorganisation to rationalise the Group structure prior to listing of the Company's share on the Stock Exchange.

(b) In accordance with the relevant laws and regulations of the PRC, the PRC subsidiaries are required to provide for PRC statutory reserves, including enterprise expansion fund and general reserve fund, by way of appropriations from its net profit (based on the PRC statutory financial statements of the subsidiaries) but before dividend distributions.

All appropriations to the funds are made at the discretion of the board of directors of the subsidiaries. The board of directors shall decide on the amounts to be appropriated based on the profitability of each subsidiary each year.

The enterprise expansion fund may be used to increase registered capital of the PRC subsidiaries subject to approval from the relevant PRC authorities. The general reserves fund may be used to offset accumulated losses or increase the registered capital of the subsidiaries subject to approval from the relevant PRC authorities

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	NOTE	2014 RMB'000	2013 RMB'000
OPERATING ACTIVITIES			
Loss before tax		(763,484)	(528,993)
Adjustments for:			
Interest income		(4,574)	(11,275)
Depreciation of property, plant and equipment		25,350	21,285
Gain on disposal of property, plant and equipment		(72)	–
Amortisation of prepaid lease payments		1,232	1,118
Amortisation of intangible assets		3,624	–
Share-based payments		–	–
Impairment of property, plant and equipment		478,407	158,668
Impairment of prepaid lease payments		22,560	–
Impairment of intangible assets		22,157	–
Write off of inventories		1,038	138,365
Write off of biological assets		–	111
Change in fair value of biological assets		1,274	3,047
Operating cash flows before movements in working capital		(212,488)	(217,674)
Increase in biological assets		(3,197)	(3,103)
Increase in inventories		(55,753)	(87,869)
(Increase) decrease in trade receivables		(37,971)	36,558
Decrease (increase) in deposits and other receivables		7,574	(11,995)
Increase in trade payables		6,233	1,930
Decrease in other payables and accruals		(16,413)	(7,546)
Cash used in operations		(312,015)	(289,699)
Income tax paid		(3,233)	(5,551)
NET CASH USED IN OPERATING ACTIVITIES		(315,248)	(295,250)
INVESTING ACTIVITIES			
Interest received		4,574	11,275
Proceeds from disposal of property, plant and equipment		133	–
Purchase of property, plant and equipment		(47,766)	(227,763)
Deposit paid for acquisition of property, plant and equipment		–	(36,146)
Government grant received related to the acquisition of prepaid lease payments		–	7,000
Acquisition of a subsidiary (net of cash and cash equivalent balances acquired)	29	–	(33,099)
NET CASH USED IN INVESTING ACTIVITIES		(43,059)	(278,733)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(358,307)	(573,983)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		530,920	1,104,903
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash		172,613	530,920

1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on the Stock Exchange. The directors consider that the Company's ultimate holding company is Up Mount International Limited, a limited company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

The consolidated financial statements are presented in Renminbi, which is also the functional currency of the Company.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 34.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The application of the above new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 1	Disclosure Initiative[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[5]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
[3] Effective for annual periods beginning on or after 1 January 2017
[4] Effective for annual periods beginning on or after 1 July 2014
[5] Effective for annual periods beginning on or after 1 January 2016
[6] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company do not anticipate that the application of HKFRS 15 in the future will have a material effect on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants

The amendments to HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The amendments will impact the relevant standard to apply in accounting for classification and measurement of the biological assets held by the Group in the future. For the grapevines, they will meet the definition of bearer plants and are within the scope of HKAS 16. However, for grapes growing on the grapevines is regarded as produce within the scope of HKAS 41.

The directors of the Company are under the process of the assessment on the impact of the adoption of the amendment to the Group's consolidation financial statement. The Group will adopt the amendment for the reporting period ended 31 December 2016.

Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

Annual Improvements to HKFRSs 2010-2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

Annual Improvements to HKFRSs 2010-2012 Cycle – continued

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Except as mentioned above, the directors of the Company do not anticipate that the application of the HKFRSs issued but not yet effective, will have a material effect on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap. 32).

The consolidated financial statements have been prepared on the historical cost basis, except for the biological assets that are measured at fair value less costs to sell at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee* Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Business combinations – continued

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquire is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquire prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and title has passed, at which time the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production of goods or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are classified as construction in progress and carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Leasing – continued

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses/revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets other than goodwill above).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Intangible assets – continued

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment losses for tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with definite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Biological assets

Biological assets comprise vines in the PRC which are measured on initial recognition and at the end of reporting period at the fair value less costs to sell, with any resultant gain or loss recognised in profit or loss for the period in which it arises. Fair value is based on the present value of expected net cash flows from the vines. Costs to sell are the incremental costs directly attributable to the disposals of an asset, mainly transportation cost and excluding income taxes.

The plantation costs and other related costs including the amortisation charge, utilities cost, direct labour cost, consumables cost incurred for plantation of grapes are capitalised, until such time the vines begin to produce grapes.

Agricultural produce represents the grapes harvested from the vines. Grapes are recognised at the point of harvest and transferred to inventories at their deemed cost which is the fair values less costs to sell. The fair values of grapes are determined based on market prices in the local area.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Retirement benefit costs

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The PRC subsidiaries entitling them to the contributions are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit or loss when employees have rendered services as they become payable in accordance with the rules of the central pension scheme.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the "loss before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are all classified as loans and receivables. The classification depends on the nature and purpose of the financial assets which is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment on financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

For certain financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

The amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified either as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

Financial liabilities (including trade and other payables) are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Derecognition – continued

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees (including directors)

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Share options granted to other participants (including supplier of goods and services, consultant, adviser, contractors, business partner of service provider)

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share option reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience, expectations of the future and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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 is 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.

Impairment of tangible assets and intangible assets

The Group assesses regularly whether the tangible assets and intangible assets including property, plant and equipment, prepaid lease payments, and intangible assets have any indication of impairment in accordance with its accounting policy. The Group determines the recoverable amounts of the assets based on the value in use and fair value less costs to sell. These calculations require the use of judgement and estimates. On the above basis, the Group is of the view that an impairment on property, plant and equipment of RMB478,407,000 (2013: RMB158,668,000), prepaid lease payment of RMB22,560,000 (2013: nil), and intangible assets of RMB22,157,000 (2013: nil), charged to profit or loss for the year.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Useful lives of intangible assets

In applying the accounting policy on intangible asset with respect to amortisation, management estimates the useful lives of the trademarks of a subsidiary, 煙台白洋河釀酒有限責任公司 Yantai Baiyanghe Winery Co., Ltd. ("Yantai Baiyanghe") according to the industrial experiences over the usage of the trademarks and also by reference to the relevant industrial norm. If the actual useful lives of other intangible assets is less than the original estimate useful lives due to change in commercial and technological environment, such difference will impact the amortisation charge for the remaining lives.

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 board of directors of the Company has set up a valuation team, which is headed up by the Chief Financial Officer of the Company, 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. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation team's findings to the board of directors of the Company every six months to explain the cause of fluctuations in the fair value of the assets and liabilities.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value less costs to sell of the biological assets. Note 19 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities. The change in fair value of biological assets amounting to RMB1,274,000 (2013: RMB3,047,000) was charged to profit or loss for the year. As at 31 December 2014, the carrying amount of biological assets is RMB7,470,000 (2013: RMB5,750,000).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Estimated allowances for inventories

The management estimates the net realisable value of inventories based primarily on the latest market prices and current market conditions. The Group carries out an inventory review at end of the reporting period and makes allowance of RMB1,038,000 (2013: RMB138,365,000) on obsolete and slow moving items to write off or write down inventories to their net realisable values. Where the expectation on the net realisable value is lower than the cost, an impairment may arise. The carrying amount of inventories is RMB313,196,000 (2013: RMB258,481,000).

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss 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 been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of trade receivables is RMB97,115,000 (2013: RMB59,144,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses.

The management of the Group reviews the capital structure periodically. The Group considers the cost of capital and the risks associated with the capital, and will balance its overall capital structure through payment of dividends, issuance of new shares and share buy-backs as well as the raising of new debts, if required.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2014 *RMB'000*	2013 *RMB'000*
Financial assets		
Loans and receivables (including cash and cash equivalent)	**269,728**	590,064
Financial liabilities		
Amortised cost	**28,918**	36,462

b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, bank balances and cash and trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Company manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Certain transactions and monetary assets and liabilities of the Group are denominated in Hong Kong Dollar ("HKD") which is different from the functional currency of the Group entities, i.e. RMB, which expose the Group to currency risk. The Group currently does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its foreign currency risk by monitoring the movement of the foreign currency rate and will consider hedging significant foreign currency exposure should the need arise. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2014 *RMB'000*	2013 *RMB'000*	2014 *RMB'000*	2013 *RMB'000*
HKD	**876**	6,560	**2,186**	1,744

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Market risk – continued

(i) Currency risk – continued

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against HKD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A negative number below indicates an increase in post-tax loss where RMB strengthen 5% against HKD. For a 5% weakening of RMB against HKD, there would be an equal and opposite impact on the loss and the balances below would be positive.

	Decrease/(increase) in loss	
	2014	2013
	RMB'000	*RMB'000*
HKD	**(66)**	(241)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The Group considered interest rate risk on bank balances is insignificant.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Credit risk

As at 31 December 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The management considers the credit risk exposure of the Group is low as the trade receivables are normally settled within credit period of 90 days. The management nonetheless reviews the recoverable amount of each individual debt regularly, if any, to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

The credit risk on liquid funds is limited because the counterparties are the banks with high credit ratings assigned by international credit-rating agencies.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Liquidity risk

The Group's liquidity position is monitored closely by the management of the Group. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Repayable on demand	3 months or less	9 to 12 months	After 12 months	Total undiscounted cash flows and carrying amounts
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2014					
Trade payables	**–**	**19,317**	**–**	**–**	**19,317**
Other payables	**5,058**	**466**	**3,097**	**980**	**9,601**
	5,058	**19,787**	**3,097**	**980**	**28,918**
2013					
Trade payables	–	13,084	–	–	13,084
Other payables	19,128	–	4,250	–	23,378
	19,128	13,084	4,250	–	36,462

c. Fair value measurement of financial instruments

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. REVENUE

Revenue represents the net amounts received and receivable for goods sold less returns and discounts.

8. SEGMENT INFORMATION

The Group determines its reportable and operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. the Executive Directors) of the Company in order to allocate the resources to the segment and to assess its performance. No operating segments identified by chief operating decision maker have been aggregated in arising at the reportable segments of the Group.

The Group is principally engaged in the business of manufacturing and sales of grape wine products. The Group is organised based on the region of goods delivered.

The Group's reportable and operating segments under HKFRS 8 are identified based on different geographical zones of goods delivered in the PRC: North-East Region, Northern Region, Eastern Region, South-Central Region and South-West Region.

- North-East Region includes the Provinces of Heilongjiang, Jilin and Liaoning.
- Northern Region includes the Provinces of Gansu, Hebei, Shaanxi, Shanxi, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, city of Beijing and city of Tianjin.
- Eastern Region includes the Provinces of Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Zhejiang and city of Shanghai.
- South-Central Region includes the Provinces of Guangdong, Hainan, Henan, Hubei and Hunan.
- South-West Region includes the Provinces of Guizhou, Qinghai, Sichuan, Yunnan, Guangxi Zhuang Autonomous Region and city of Chongqing.

The accounting policies of the reportable and operating segments are the same as those described in the summary of significant accounting policies.

No revenue from transactions with a single external customer amounted to 10 per cent or more of the Group's total revenue.

The Group's operations are located in the PRC and all revenues from external customers and non-current assets are attributed to and located in the PRC.

8. SEGMENT INFORMATION – continued

Information about reportable and operating segment revenue, loss assets and liabilities

	North-East Region *RMB'000*	Northern Region *RMB'000*	Eastern Region *RMB'000*	South-Central Region *RMB'000*	South-West Region *RMB'000*	Total *RMB'000*
For the year ended 31 December 2014						
Segment revenue from external customers	**38,056**	**61,772**	**88,169**	**43,459**	**54,864**	**286,320**
Segment loss	**19,325**	**27,001**	**39,188**	**22,588**	**31,573**	**139,675**
For the year ended 31 December 2013						
Segment revenue from external customers	28,730	35,281	52,235	24,683	35,067	175,996
Segment loss	15,253	18,736	35,255	16,572	25,725	111,541
As at 31 December 2014						
Segment assets	**15,153**	**22,947**	**27,397**	**13,840**	**19,653**	**98,990**
Segment liabilities	**1,778**	**2,884**	**4,116**	**2,029**	**2,561**	**13,368**
As at 31 December 2013						
Segment assets	5,611	11,955	17,714	7,778	16,216	59,274
Segment liabilities	1,966	2,415	3,575	1,689	2,399	12,044

8. SEGMENT INFORMATION – continued

Reconciliations of reportable and operating segment revenue, loss, assets and liabilities

Revenue

No reconciliation of reportable and operating segment revenue is provided as the total revenue for reportable and operating segments is the same as Group's revenue.

	2014 *RMB'000*	2013 *RMB'000*
Total segment loss	**(139,675)**	(111,541)
Unallocated amounts:		
Other corporate income	**4,785**	15,306
Other corporate expenses	**(628,594)**	(432,758)
Consolidated loss before tax	**(763,484)**	(528,993)

Reportable and operating segment loss represented the loss incurred by each segment without allocation of amortisation, depreciation, impairment expenses, selling expense, other corporate expenses and other corporate income.

	2014 *RMB'000*	2013 *RMB'000*
Assets		
Total segment assets	**98,990**	59,274
Other unallocated amounts		
Property, plant and equipment	**139,896**	549,693
Prepaid lease payments	**62,309**	87,887
Intangible assets	**–**	25,781
Deposits paid for acquisition of property, plant and equipment	**7,343**	48,389
Biological assets	**7,470**	5,750
Inventories	**315,185**	258,481
Deposits and other receivables	**10,201**	19,520
Tax recoverable	**5,551**	5,551
Bank balances and cash	**172,613**	530,920
Consolidated total assets	**819,558**	1,591,246

8. SEGMENT INFORMATION – continued

Reconciliations of reportable and operating segment revenue, loss, assets and liabilities – continued

Reportable and operating segment assets comprise trade receivables and prepaid other tax receivables.

	2014 *RMB'000*	2013 *RMB'000*
Liabilities		
Total segment liabilities	**13,368**	12,044
Other unallocated amounts		
Trade payables	**19,317**	13,084
Other payables and accruals	**20,646**	33,174
Tax liabilities	**9,988**	12,833
Deferred tax liabilities	**–**	23,015
Consolidated total liabilities	**63,319**	94,150

Reportable and operating segment liabilities comprise certain other payables and accruals.

9. OTHER INCOME

	2014 *RMB'000*	2013 *RMB'000*
Interest income from bank deposits	**4,574**	11,275
Net foreign exchange gain	**139**	–
Gain on disposal of property, plant and equipment	**72**	–
Income from disposal of scrapped goods	**–**	4,000
Rental income	**–**	31
	4,785	15,306

10. INCOME TAX CREDIT

	2014 *RMB'000*	2013 *RMB'000*
The credit comprises:		
Current tax charge		
PRC Enterprise Income Tax ("EIT") in current year	**388**	–
Deferred tax credit *(Note 26)*	**(23,015)**	(25,137)
	(22,627)	(25,137)

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

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

Provision for the PRC EIT was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws applicable to the subsidiaries operated in the PRC.

The income tax credit for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2014 *RMB'000*	2013 *RMB'000*
Loss before tax	**(763,484)**	(528,993)
Tax credit at income tax rate of 25%	**(190,871)**	(132,248)
Tax effect of income not taxable for tax purpose	**(1)**	(2)
Tax effect of expenses not deductible for tax purpose	**157,853**	5,944
Tax effect of tax loss not recognised	**33,407**	126,306
Deferred tax on undistributed earnings of PRC subsidiaries	**(23,015)**	(25,137)
Income tax credit for the year	**(22,627)**	(25,137)

11. LOSS AND TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR

	2014 *RMB'000*	2013 *RMB'000*
Loss and total comprehensive expense for the year has been arrived at after charging:		
Auditor's remuneration	**1,441**	1,429
Cost of inventories recognised as an expense	**220,846**	239,560
Depreciation of property, plant and equipment	**25,350**	21,285
Amortisation of intangible assets	**3,624**	–
Amortisation of prepaid lease payments	**3,018**	2,904
Less: amounts included in biological assets	**(1,786)**	(1,786)
	1,232	1,118
Research and development costs recognised as an expense (included in administrative expenses)	**8,300**	10,100
Net foreign exchange loss	**–**	1,270
Staff costs, including directors' remuneration		
– salaries and other benefits costs	**18,954**	14,993
– share-based payments	**–**	–
– sales commission	**6,797**	4,717
– retirement benefits scheme contribution	**4,132**	2,293
	29,883	22,003
Write off of inventories (included in cost of sales)	**1,038**	138,365
Write off of biological assets (included in cost of sales)	**–**	111
Advertising and promotion expenses (included in selling and distribution expenses)	**153,959**	214,968

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of the emoluments paid or payable to the six (2013: six) directors of the Company was as follows:

	Salaries	Retirement benefits scheme contributions	Share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2014				
Mr. Wang Guangyuan ("Mr. Wang")	**1,536**	**42**	**–**	**1,578**
Mr. Zhang Hebin	**554**	**32**	**–**	**586**
Ms. Wang Lijuan	**530**	**21**	**–**	**551**
Mr. Li Changgao	**144**	**–**	**–**	**144**
Mr. Lai Chi Keung, Albert	**144**	**–**	**–**	**144**
Mr. Sih Wai Kin, Daniel	**144**	**–**	**–**	**144**
	3,052	**95**	**–**	**3,147**
For the year ended 31 December 2013				
Mr. Wang	1,490	37	–	1,527
Mr. Zhang Hebin	535	28	–	563
Ms. Wang Lijuan	516	20	–	536
Mr. Li Changgao	141	–	–	141
Mr. Lai Chi Keung, Albert	141	–	–	141
Mr. Sih Wai Kin, Daniel	141	–	–	141
	2,964	85	–	3,049

Mr. Wang is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as Chief Executive.

None of the directors waived any emoluments for both years. No incentives were paid by the Group to the Directors as inducement to join, or upon joining the Group, or as compensation for loss of office.

13. EMPLOYEES' EMOLUMENTS

For the year ended 31 December 2014, of the five individuals with the highest emoluments in the Group, two (2013: two) were directors of the Company whose emoluments were disclosed in note 12 above. The emoluments of the remaining three (2013: three) highest paid individuals were as follows:

	2014	2013
	RMB'000	*RMB'000*
Salaries and other benefits	2,970	3,143
Performance related incentive payments	–	–
Retirement benefits scheme contribution	–	–
	2,970	3,143

Their emoluments were within the following bands:

	2014	2013
	No. of employees	*No. of employees*
Below HK$1,000,000	1	–
HK$1,000,001 to HK$1,500,000	1	3
HK$1,500,001 to HK$2,000,000	1	–
	3	3

No incentive was paid by the Group to the above individuals as inducements to join, or upon joining the Group.

14. DIVIDENDS

No dividend was paid or proposed during 2014 and 2013, nor has any dividend been proposed since the end of the reporting period.

15. LOSS PER SHARE

The calculations of the basic and diluted loss per share attributable to the owners of the Company are based on the following data:

	2014	2013
	RMB'000	*RMB'000*
Loss for the year attributable to owners of the Company and loss for the purposes of basic and diluted loss per share	**(658,968)**	503,856

	2014 & 2013
	Number of shares
Number of shares	
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	2,013,018,000

For the year ended 31 December 2014 and 2013, the computation of diluted loss per share does not assume the exercise of the Company's share options since their exercise would result in a decrease in loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures *RMB'000*	Leasehold improvements *RMB'000*	Plant and machinery *RMB'000*	Fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
COST							
At 1 January 2013	183,200	2,024	146,825	11,338	3,154	–	346,541
Additions	181,000	4,493	61,247	–	–	–	246,740
Acquired on acquisition of a subsidiary *(note 29)*	69,338	–	125,918	163	274	–	195,693
At 31 December 2013	433,538	6,517	333,990	11,501	3,428	–	788,974
Additions	18,587	3,419	57,153	4,760	302	9,800	94,021
Disposal	–	–	(187)	–	(222)	–	(409)
At 31 December 2014	452,125	9,936	390,956	16,261	3,508	9,800	882,586
DEPRECIATION AND IMPAIRMENT							
At 1 January 2013	14,139	1,981	41,002	809	1,397	–	59,328
Provided for the year	7,625	1,492	10,279	1,370	519	–	21,285
Impairment loss recognised in profit or loss	56,877	–	101,791	–	–	–	158,668
At 31 December 2013	78,641	3,473	153,072	2,179	1,916	–	239,281
Provided for the year	9,532	4,326	9,037	1,830	625	–	25,350
Impairment loss recognised in profit or loss	274,499	1,881	202,027	–	–	–	478,407
Disposal	–	–	(162)	–	(186)	–	(348)
At 31 December 2014	362,672	9,680	363,974	4,009	2,355	–	742,690
CARRYING VALUES							
At 31 December 2014	89,453	256	26,982	12,252	1,153	9,800	139,896
At 31 December 2013	354,897	3,044	180,918	9,322	1,512	–	549,693

16. PROPERTY, PLANT AND EQUIPMENT – continued

The above items of property, plant and equipment except for construction in progress are depreciated on a straight-line basis over their estimated useful lives and after taking into account of their estimated residual values at the following rates per annum:

Buildings and structures	4%, or over the terms of lease, whichever is shorter
Leasehold improvements	50%
Plant and machinery	5% – 10%
Fixtures and office equipment	20%
Motor vehicles	20%

The buildings are situated on land in the PRC and are held under long lease.

During the year ended 31 December 2014, the directors conducted a review on carrying amount of the Group's property, plant and equipment and determined that a number of those assets were impaired. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rates adopted in measuring the amounts of value in use ranged from 24% to 26%. The carrying amounts of these assets are less than their recoverable amounts. Accordingly, impairment losses of RMB478,407,000 (2013: RMB158,668,000) have been recognised to profit or loss in current year.

17. PREPAID LEASE PAYMENTS

	RMB'000
COST	
At 1 January 2013	85,775
Acquired on acquisition of a subsidiary *(note 29)*	14,284
Government grant	(7,000)
At 31 December 2013 and 2014	93,059
AMORTISATION AND IMPAIRMENT	
At 1 January 2013	2,269
Provided for the year	2,903
At 31 December 2013	5,172
Provided for the year	3,018
Impairment loss recognised in profit or loss	22,560
At 31 December 2014	30,750
CARRYING VALUES	
At 31 December 2014	62,309
At 31 December 2013	87,887

	2014 **RMB'000**	2013 *RMB'000*
Analysed for reporting purposes as:		
Non-current asset	**59,586**	84,762
Current asset	**2,723**	3,125
	62,309	87,887

During the year ended 31 December 2014, the directors of the Group conducted a review on recoverable amount of the prepaid lease payments. The recoverable amounts have been determined by fair value less costs to sell. The fair value at 31 December 2014 has been determined by the directors of the Group, arrived by reference to market evidence of transaction prices of similar prepaid lease payments in the similar locations and conditions. Accordingly, impairment loss of RMB22,560,000 (2013: nil) has been recognised to profit or loss in current year.

18. INTANGIBLE ASSETS

	Trademarks
	RMB'000
Acquisition cost at 23 December 2013 and carrying amount at 31 December 2013	25,781
Amortisation for the year	(3,624)
Impairment loss recognized profit or loss	(22,157)
Carrying amount at 31 December 2014	–

The trademarks were purchased as part of a business combination of Yantai Baiyanghe during the year ended 31 December 2013 and are amortised on a straight-line basis over 5 to 9 years.

During the year ended 31 December 2014, the directors of the Group conducted a review on recoverable amount of the intangibles assets. The recoverable amounts of the trademarks have been determined on the basis of the value in use. Accordingly, impairment loss of RMB22,157,000 (2013: Nil) has been recognised to profit or loss in current year.

19. BIOLOGICAL ASSETS

The Group is primarily engaged in the manufacturing and sale of grape wine products. The biological assets represent grapevines located in PRC which can produce grapes and grape juice is then produced from grapes after further processing. Movements of biological assets, representing grape vines before harvest, are summarised as follows:

	Immature grapevines *RMB'000*	Infant grapes *RMB'000*	Total *RMB'000*
At 1 January 2013	5,165	–	5,165
Increase due to cultivation	4,889	–	4,889
Transfer to infant grapes	(1,146)	1,146	–
Transfer to inventories	–	(1,146)	(1,146)
Change in fair value of biological assets	(3,047)	–	(3,047)
Write-off	(111)	–	(111)
At 31 December 2013	5,750	–	5,750
Increase due to cultivation	4,983	–	4,983
Transfer to infant grapes	(1,989)	1,989	–
Transfer to inventories	–	(1,989)	(1,989)
Change in fair value of biological assets	(1,274)	–	(1,274)
At 31 December 2014	7,470	–	7,470

Cultivation costs incurred as addition to the immature grapevines. During the year ended 31 December 2014 and 2013, infant grapes were transferred from immature grapevines as its fair value.

All grapes are harvested annually from August to November of each calendar year. Infant grapes of RMB1,989,000 (2013: RMB1,146,000) are transferred to inventories of the Group for production. The Group has remeasured the fair value of the harvest at the spot of transferring to inventories during the year. After the harvests, plantation works commenced again on the grapevines.

The Group has engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the fair values of the grapevines as at 31 December 2013 and 2014.

19. BIOLOGICAL ASSETS – continued

The fair value of grapevines is calculated using a discounted cash flow technique by discounting the future cash flows of grapevine into their present values. 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 is observable.

Biological assets	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Relationship of unobservable inputs to fair value	Range
Grapevines	3	Income approach The key inputs are: (1) Growth rate of average production quantity per grape tree; (2) Production quantity per grape tree; (3) Market price per kilogram ("kg") of grapes; and (4) discount rate	(1) Growth rate of average production quantity per grape tree taking into account of life cycle of grapevine. (2) Production quantity per grape tree. (3) Market price of grapes. (4) Discount rate, taking into account of nature of winery industry and grapes production prevailing market condition.	(1) The higher the growth rate of average production quantity, the higher the fair value. (2) The higher the production quantity per grape tree, the higher the fair value. (3) The higher the market price, the higher the fair value. (4) The higher the discount rates, the lower the fair value.	(1) 3% (2013: 3%) per annum for all types of grapes. (2) 0.43kg to 8.69kg, various from different types of grapes and different time periods. (3) RMB3.15 per kg to RMB49.76 per kg (2013: RMB2.65 per kg to RMB38.00 per kg), various from different types of grapes. (4) 19% (2013: 19%)

20. INVENTORIES

	2014 *RMB'000*	2013 *RMB'000*
Raw materials and consumables	**53,313**	63,438
Work in progress	**242,198**	172,617
Finished goods	**19,674**	22,426
	315,185	258,481

21. TRADE RECEIVABLES

The Group allows a credit period of 90 days to its trade customers except for new customers which payment is made when goods are delivered. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2014 *RMB'000*	2013 *RMB'000*
0 – 30 days	**50,340**	35,926
31 – 60 days	**27,631**	13,299
61 – 90 days	**19,144**	9,919
	97,115	59,144

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer.

No trade receivable balance is past due at the end of the reporting period.

22. DEPOSITS AND OTHER RECEIVABLES

	2014 *RMB'000*	2013 *RMB'000*
Prepaid other taxes	**1,875**	131
Prepaid advertising costs	**–**	14,682
Other deposits and prepayments	**10,201**	4,837
	12,076	19,650

23. BANK BALANCES AND CASH

Bank balances carry interest at average market rates of 1.34% (2013: 1.25%) per annum.

24. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2014	2013
	RMB'000	*RMB'000*
0 – 30 days	**5,347**	2,594
31 – 60 days	**4,399**	4,337
61 – 90 days	**9,571**	6,153
	19,317	13,084

The average credit period on purchase of raw materials ranges from two to three months.

The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

25. OTHER PAYABLES AND ACCRUALS

	2014	2013
	RMB'000	*RMB'000*
Payables for the construction of building and structures, acquisition of property, plant and equipment	**5,209**	16,753
Accrued expenses	**14,244**	14,283
Other tax payable	**10,169**	7,557
Other creditors	**4,392**	6,625
	34,014	45,218

26. DEFERRED TAX LIABILITIES

	Undistributed profits of PRC subsidiaries	Acquisition of a subsidiary	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2013	41,707	–	41,707
Acquisition of a subsidiary *(note 29)*	–	6,445	6,445
Credit to profit or loss	(25,137)	–	(25,137)
At 31 December 2013	16,570	6,445	23,015
Credit to profit or loss	(16,570)	(6,445)	(23,015)
At 31 December 2014	–	–	–

According to a joint circular of the Ministry of Finance and State Administration of Taxation – Cai Shui 2008 No. 1 dividend distributed out of the profit generated since 1 January 2008 shall be subject to PRC Enterprise Income Tax which is withheld by the PRC subsidiaries.

In prior years, deferred tax liabilities were recognised for the undistributed profits of PRC subsidiaries. During the years ended 2014 and 2013, the PRC subsidiaries incurred net losses, the deferred tax liabilities recognised previously for the undistributed profits of PRC subsidiaries were reversed and credited to profit and loss accordingly.

In addition, the deferred tax liability recognised during the year ended 31 December 2013 for the acquisition of the Yantai Baiyanghe was reversed and credited to profit or loss in current year. The reversal was mainly attributed to the amortisation of intangible assets and impairment loss recognised on the intangible assets in current year.

At the end of reporting period, the Group has unused tax loss of RMB638,852,000 (2013: RMB505,224,000) available for offset future profits. No deferred tax asset has been recognised due to unpredictability of future profit streams. Pursuant to the relevant laws and regulations in the PRC, at the end of reporting period, the unrecognised tax loss of RMB505,224,000 will expire in 2018 and the remaining balance will expire in 2019.

27. SHARE CAPITAL OF THE COMPANY

	Number of ordinary shares '000 at HK$0.01 per share	Amount
		HK$'000
Authorised:		
At 1 January 2013, 31 December 2013 and 31 December 2014	10,000,000	100,000
Issued:		
At 1 January 2013, 31 December 2013 and 31 December 2014	2,013,018	20,131
Shown in the consolidated financial statements At 31 December 2013 and 2014	RMB equivalent	17,624

None of the Company's subsidiaries sold or redeemed any of the Company's listed securities during the years ended 31 December 2014 and 2013.

28. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company:

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 28 November 2009 for the primary purpose of providing incentives to eligible participants including directors, employees, supplier of goods and services, consultant, adviser, contractor, business partner or service partner which will expire on 27 November 2019. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

28. SHARE-BASED PAYMENT TRANSACTIONS – continued

Equity-settled share option scheme of the Company: – continued

At 31 December 2014, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 56,000,000 (2013: 56,000,000), representing 2.78% (2013: 2.78%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the directors of the Company but in any event not exceeding 10 years. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

During the year ended 31 December 2013, 7,500,000 share options to directors and 8,000,000 share option to employees excluding the executive directors ("other employees"), were lapsed. Details of specific categories of outstanding options as at 31 December 2014 and 2013 are as follows:

Date of grant	Number of options	Vesting period	Exercisable period	Exercise Price
22 November 2010	15,500,000	22 November 2010 to 21 May 2011	22 May 2011 to 21 November 2013	HK$1.98
18 May 2012	56,000,000	N/A	18 May 2012 to 17 May 2017	HK$0.71

28. SHARE-BASED PAYMENT TRANSACTIONS – continued

Equity-settled share option scheme of the Company: – continued

The following table discloses movements of the Company's share options granted under the Scheme during the years:

Category of participant	Outstanding at 1.1.2013	Granted during the year	Lapsed/ forfeited during the year	Excised during the year	Outstanding at 31.12.2013	Granted during the year	Lapsed/ forfeited during the year	Excised during the year	Outstanding at 31.12.2014	Date of grant	Exercisable period of share options	Exercise price of share option
Directors	7,500,000	–	(7,500,000)	–	–	–	–	–	–	22 November 2011	22 May 2011 to 21 November 2013	HK$1.98
Other employees	8,000,000	–	(8,000,000)	–	–	–	–	–	–	22 November 2010	22 May 2011 to 21 November 2013	HK$1.98
Other employees	56,000,000	–	–	–	56,000,000	–	–	–	56,000,000	18 May 2012	18 May 2012 to 17 May 2017	HK$0.71
	71,500,000	–	15,500,000	–	56,000,000	–	–	–	56,000,000			
Exercisable at the end of the year					56,000,000				56,000,000			

The outstanding share options as at 31 December 2014 and 2013 were granted on 18 May 2012. The estimate fair value of the options granted on the date is HK$0.18 per option.

The fair values were calculated using the Binomial model. The inputs into the model were as follows:

Date of grant	18 May 2012
Share price as at grant date	HK$0.70
Exercise price	HK$0.71
Expected volatility	51%
Risk-free rate	0.46%
Expected dividend yield	4.0%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Expected volatility was determined by the historical volatility of the Company's share price.

29. ACQUISITION OF A SUBSIDIARY

On 23 December 2013, the Group acquired 60% of the enlarged registered capital of Yantai Baiyanghe for an aggregate consideration of RMB224,091,000. This acquisition has been accounted for using the purchase method. Yantai Baiyanghe is engaged in the production and sale of alcoholic beverages. It was acquired so as to continue the expansion of the Group's operations. Acquisition-related costs approximately amounting to RMB1,200,000 have been excluded from the consideration transferred and have been recognised as an expense in 2013.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	195,693
Prepaid lease payments	14,284
Intangible assets	25,781
Inventories	52,457
Trade receivables	17,630
Bank balances and cash	96,374
Trade payables	(3,226)
Other payables and accruals	(15,830)
Tax liabilities	(3,233)
Deferred tax liabilities	(6,445)
	373,485

The fair value and gross contractual amounts of trade receivables at the date of acquisition was RMB17,630,000.

The non-controlling interests 40% in Yantai Baiyanghe recognised at the acquisition date was measured by reference to its proportionate share of net assets acquired.

29. ACQUISITION OF A SUBSIDIARY – continued

The purchase consideration was satisfied by the followings:

	RMB'000
Deposits paid in previous years for a potential acquisition	94,618
Cash consideration paid in the year ended 31 December 2013	129,473
Consideration	224,091
Add: non-controlling interests	149,394
Net assets acquired	373,485

Net cash outflow on acquisition of Yantai Baiyanghe:

	RMB'000
Cash consideration paid during the year ended 31 December 2013	(129,473)
Less: cash and cash equivalent balances acquired	96,374
	(33,099)

In the opinion of the directors of the Company, since the acquisition was completed on 23 December 2013, there were no significant operations for Yantai Baiyanghe from the date the Group obtained control to the end of reporting period. Accordingly, there were only insignificant post-acquisition financial results and cash flows contributed by Yantai Baiyanghe.

Had the acquisition been completed on 1 January 2013, total group revenue for the year would have been RMB265,007,000, and loss for the year would have been RMB505,870,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2013, nor is it intended to be a projection of future results. In determining the 'pro-forma' revenue and loss of the Group had Yantai Baiyanghe been acquired at the beginning of the current year, the directors have calculated depreciation of property, plant and equipment, amortisation of prepaid lease payments and amortisation of intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

30. OPERATING LEASES

The Group as lessee

	2014 *RMB'000*	2013 *RMB'000*
Minimum lease payments paid under operating leases during the year:		
Premises for office and retail shops	**4,773**	4,708
Plant and machinery	**–**	900
	4,773	5,608

At 31 December 2014, the Group had commitments for minimum lease payment under non-cancellable operating leases which fall due as follows:

	2014 *RMB'000*	2013 *RMB'000*
Plant and machinery		
Within one year	**–**	600
Rented premises for office and warehouse		
Within one year	**793**	1,092
In the second to fifth year inclusive	**–**	774
	793	1,866

Operating lease payments represent rentals payable by the Group for certain of its office premises, warehouse and plant and machinery. Leases are negotiated for an average term of 2 to 3 years.

31. CAPITAL COMMITMENTS

Save as disclosed elsewhere in the consolidated financial statements, the significant capital commitments are as follows:

	2014 *RMB'000*	2013 *RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment, development of wine estate and wine cellar contracted for but not provided in the consolidated financial statements	**26,729**	54,618
Capital expenditure in respect of acquisition of property, plant and equipment, development of wine estate and wine cellar authorised but not contracted for	**75,055**	78,222

32. RETIREMENT BENEFITS PLANS

The employees of the Company's subsidiaries established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. These subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specific contributions.

The Group made contributions to the retirement benefits schemes of RMB4,132,000 (2013: RMB2,293,000).

33. RELATED PARTIES TRANSACTIONS

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2014 *RMB'000*	2013 *RMB'000*
Short-term benefits	**6,022**	6,107
Post-employment benefits	**54**	85
	6,076	6,192

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Group's subsidiaries at the end of the reporting period are set out below:

(a) General information of subsidiaries

Name of subsidiaries	Place of incorporation/ establishment	Place of operation	Issued and fully paid share/ registered capital	Attributable equity interest held by the Company 2013	Principal activity
Fullest Power Investments Limited ("Fullest Power") *(note 3)*	The British Virgin Islands	Hong Kong	Ordinary shares US$100,000	100%	Investment holding
Rich Treasure Link Limited	Hong Kong	Hong Kong	Ordinary shares HK$10,000	100%	Investment holding and provision of administrative services
Topping Future Limited	Hong Kong	Hong Kong	Ordinary shares HK$10,000	100%	Investment holding
通化通天酒業有限公司 Tonghua Tongtian Winery Co., Ltd. *(note 1)*	PRC	PRC	Registered capital RMB87,110,000	100%	Manufacturing and sale of winery and beverage products and processing of grape juice
通化通天葡萄酒莊園有限公司 Tonghua Tontine Wine Estate Co., Ltd *(note 1)*	PRC	PRC	Registered capital HK$40,000,000	100%	Manufacturing and sale of winery and beverage products and processing of grape juice
通化通天綠色農業產業發展有限公司 Tonghua Tontine Green Agriculture Development Co., Ltd. *(note 1)*	PRC	PRC	Registered capital HK$28,000,000	100%	Grapes plantation
通化通天商貿有限公司 Tonghua Tontine Trading Co., Ltd. *(note 1)*	PRC	PRC	Registered capital HK$40,000,000	100%	Wholesales and retail of winery and beverage products
烟台白洋河酿酒有限责任公司 Yantai Baiyanghe Winery Co., Ltd *(note 2)*	PRC	PRC	Registered capital RMB4,949,960	60%	Manufacturing and sale of winery and beverage products and processing of grape juice

Note:

1. Companies are wholly-foreign owned enterprises established in the PRC.
2. Company is a sino-foreign equity joint venture established in the PRC.
3. Except for Fullest Power, all subsidiaries are indirectly held by the Company.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

(b) Details of non-wholly owned subsidiary that has material non-controlling interests

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership and voting rights held by non-controlling interest	Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	**2014**	2013	**2014**	2013
			RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Yantai Baiyanghe	PRC	40%	**81,889**	–	**67,505**	149,394

Summarised financial information of Yantai Baiyanghe is set out below:

	2014	2013
	RMB'000	*RMB'000*
Non-current assets	**37,095**	235,453
Current assets	**145,833**	166,766
Current liabilities	**(14,165)**	(22,289)
Non-current liabilities	**–**	(6,445)
Equity attributable to owners of the Company	**101,258**	224,091
Equity attributable to non-controlling interests	**67,505**	149,394

In the opinion of the directors of the Company, as the control over Yantai Baiyanghe was obtained on 23 December 2013, the post-acquisition financial results and cash flows contributed by Yantai Baiyanghe in 2013 was insignificant to the Group.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2014 *RMB'000*	2013 *RMB'000*
Non-current assets		
Investment in a subsidiary	–	1,166
Current assets		
Prepayments	82	82
Amounts due from subsidiaries	261,151	760,744
Bank balances	361	6,094
	261,594	766,920
Current liabilities		
Other payables and accruals	(1,594)	(1,510)
Net current assets	260,000	765,410
Total Assets Less Current Liabilities	260,000	766,576
Capital and Reserves		
Share capital	17,624	17,624
Reserves	242,376	748,952
Total Equity	260,000	766,576

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – continued

Movement in reserves

	Share premium *RMB'000*	Share option reserve *RMB'000*	Retained profits (Accumulated losses) *RMB'000*	Total *RMB'000*
At 1 January 2013	910,541	14,978	22,217	947,736
Loss and total comprehensive expense for the year	–	–	(198,784)	(198,784)
Share option lapsed	–	(6,719)	6,719	–
At 31 December 2013	910,541	8,259	(169,848)	748,952
Loss and total comprehensive expense for the year	–	–	(506,576)	(506,576)
At 31 December 2014	910,541	8,259	(676,424)	242,376