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

2016

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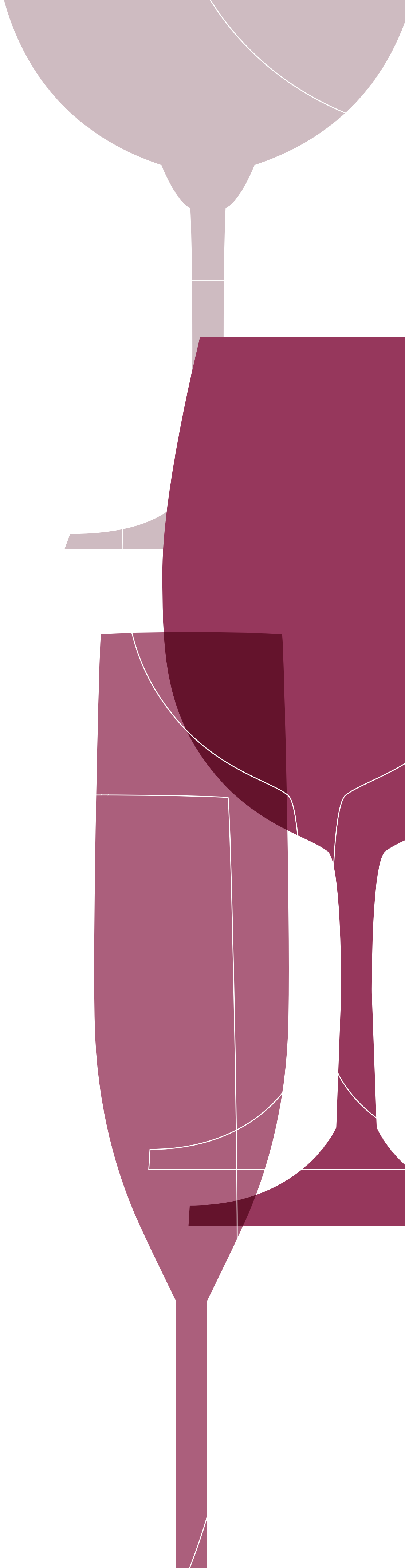

Financial Highlights

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(restated)	(restated)	(restated)	(restated)
Profitability data					
Revenue	**271,333**	293,689	286,320	175,996	658,111
Gross profit (loss)	**84,169**	94,633	24,043	(90,797)	330,784
(Loss) profit and total comprehensive (expense) income for the year attributable to owners of the Company	**(93,291)**	9,581	(658,653)	(496,543)	88,441
(Losses) earnings per share					
– Basic (RMB cents) *(Note 1)*	**(4.63)**	0.48	(32.7)	(24.7)	4.4
– Diluted (RMB cents) *(Note 2)*	**(4.63)**	0.48	(32.7)	(24.7)	4.4

	Year ended 31 December				
	2016	2015	2014	2013	2012
		(restated)	(restated)	(restated)	(restated)
Profitability ratios					
Gross profit (loss) margin	**31.0%**	32.2%	8.4%	(51.6%)	50.3%
Net (loss) profit margin	**(34.4%)**	3.3%	(230.0%)	(282.1%)	13.4%
Effective tax rate	**N/A**	N/A	N/A	N/A	37.3%
Return on equity *(Note 3)*	**(14.1%)**	1.4%	(64.2%)	(31.0%)	4.8%
Return on assets *(Note 4)*	**(11.9%)**	1.2%	(54.3%)	(28.3%)	4.6%
Operating ratios (as a percentage of revenue)					
Advertising and marketing expenses	**37.2%**	4.8%	53.8%	122.1%	15.6%
Staff costs	**13.8%**	9.5%	10.4%	12.5%	5.8%
Research and development	**1.5%**	0%	2.9%	5.7%	0.8%

Notes:

1. The calculation of basic (losses) 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 the years ended 31 December 2012 and 2015 does not assume the exercise of the Company's share options as the exercise price of those share options granted was higher than the average market price per share for the years ended 31 December 2012 and 2015, respectively.

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 attributable to owners of the Company 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

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(restated)	(restated)	(restated)	(restated)
Assets and liabilities data					
Non-current assets	**205,955**	212,443	221,496	721,261	457,891
Current assets	**531,381**	619,790	605,263	876,871	1,448,969
Current liabilities	**48,785**	52,631	63,319	71,135	41,022
Non-current liability	**–**	–	–	23,015	41,707
Shareholders' equity	**620,250**	705,516	695,935	1,354,588	1,851,131
Non-controlling interests	**68,301**	74,086	67,505	149,394	–

	Year ended/as at 31 December				
	2016	2015	2014	2013	2012
		(restated)	(restated)	(restated)	(restated)
Other key financial ratios and information					
Current ratios *(Note 5)*	**10.9**	11.8	9.6	12.3	35.3
Quick ratios *(Note 6)*	**4.7**	5.8	4.6	8.7	29.1
Gearing ratio *(Note 7)*	**0.01**	–	–	–	–
Net asset value per share *(RMB) (Note 8)*	**0.34**	0.39	0.38	0.75	0.91
Inventory turnover days *(days) (Note 9)*	**739**	712	462	391	330
Trade receivables turnover days *(days)* *(Note 10)*	**75**	113	100	142	63
Trade payables turnover days *(days) (Note 11)*	**18**	32	33	16	24

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 is based on the total number of shares in issue 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
(resigned on 18 November 2016)
Mr. Lai Chi Keung, Albert
Mr. Yang Qiang
Mr. Lam Yiu Por (appointed on 18 November 2016)

COMPANY SECRETARY

Mr. Wong Kwok Kuen *CPA*

AUDIT COMMITTEE

Mr. Lam Yiu Por *(Chairman; appointed on 18 November 2016)*
Mr. Sih Wai Kin, Daniel *(Chairman; resigned on 18 November 2016)*
Mr. Lai Chi Keung, Albert
Mr. Yang Qiang

REMUNERATION COMMITTEE

Mr. Lam Yiu Por *(Chairman; appointed on 18 November 2016)*
Mr. Sih Wai Kin, Daniel *(Chairman; resigned on 18 November 2016)*
Mr. Lai Chi Keung, Albert
Mr. Yang Qiang

NOMINATION COMMITTEE

Mr. Lai Chi Keung, Albert *(Chairman)*
Mr. Wang Guangyuan
Mr. Yang Qiang

AUTHORISED REPRESENTATIVES

Mr. Wang Guangyuan
Mr. Wong Kwok Kuen

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Corporate Information

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Jilin Province
PRC

INVESTOR RELATIONS CONSULTANT

CorporateLink 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 2016: 2,013,018,000 shares
Board lot: 2,000 shares

STOCK CODE

389

FINANCIAL YEAR-END DATE

31 December

Chairman's Statement

Dear all shareholders,

During the year under review, despite growth in China's wine industry, the domestic wine manufacturers were confronted with severe challenges due to the change in the consumption pattern and the impact of imported products. The Group's results were inevitably affected by the above negative factors, and reported losses for the year.

In the interim results of 2016, the Group's reported a net profit of RMB16,742,000. However, the sales of the Group's products in the second half of 2016 turned sluggish due to intensified price competition in the market. Moreover, the sales were further dampened by weakened consumer sentiment in the fourth quarter, which was traditionally the peak season for wine sales; and by the urge for thrift Government entertainment. The shifting of consumers' preference to well-known brands in the Group's targeted low to mid-end wine markets also impacted on the Group's sales performance. In tandem with the year-on-year decline in the annual revenue, the Group's gross profit reported a corresponding retreat.

In response to the macro market trend of rising consumer preference for popular brands, the management deemed it necessary to raise its investments in brand building and marketing in a bid to enhance the popularity and recognition of its products and to create a unique and well-received brand-name among the Group's target consumers. The Group began to inject capital in advertising and promotion in the second half of 2016 for designing and execution of brand and product promotion in various channels. Such expenditures had inevitably exerted certain pressure on the Group's results.

A brand well recognized by consumers would serve to enhance customer loyalty and accelerate product penetration in the market. The considerable expenses incurred from the outlay in advertising and promotion are expected to generate extensive attention and recognition for the Group's product brands in a relatively short period of time. These investments would be able to bring about positive and profound outcome on sales promotion and overall product popularity in the market over the coming year.

In addition to market promotion, we also place emphasis on product quality. The Group's products continued to win broad market acceptance and recognition. In November 2016, the Group's "Xuanniya Ice White Grape Wine" won the gold medal again in the "Grape Wine Quality Competition in International Leading Wine Regions". Besides, the Group continues to pour in resources in research and development of new products. The Group won the "Second Prize of the Innovative Achievements of the 23rd National Enterprise Management Modernization" in December. The Group was ranked among "Top 100 Chinese Wine Manufacturers 2016", reflecting the recognition from the market and our industry peers of our efforts in growing our business for more than 10 years.

The Group revamped its distributor network during the year in order to enhance sales efficiency, through elimination of underperformed distributors. The Group will continue to explore opportunities arising from the operation model of e-commerce so as to broaden the Group's sales channel. The management believes that e-commerce can contribute to more diversified distribution channels and broaden sales coverage.

The Group's future business development will continue to focus on low to mid-end products targeted at mass consumer groups. Underpinned by brand recognition, advertising activities and diversified sales channels, we would further explore the market potential of low to mid-end products and raise our share in these market segments.

We expect China's wine industry to succumb to complex and unstable industry consolidation in the near term, while the impact of imported products on the domestic market is likely to accentuate further. Therefore, the Group finds it necessary to expand its business scope and broaden its revenue base. The management is evaluating various measures to achieve business diversification. These include merger and acquisition of high-quality overseas projects related to its business, establishment of a two-way trading company and investment in agriculture-related business. We would adopt a prudent and pragmatic stance to conduct in-depth research and evaluation before committing ourselves in any relevant upstream or downstream investment or business diversification capitalizing on existing connections and management skills. Such an approach can serve to best safeguard our shareholders' interest.

Finally, on behalf of Tontine Wines Group, I would like to express my sincere gratitude to our shareholders, business partners and customers for their continued faith and support over the past years. I would also like to thank all the staff for their dedication and contribution. Against the backdrop of a challenging business environment, the Group will continue to strive for the maximization of shareholders' value.

Wang Guangyuan
Chairman
27 February 2017

2016 Key Events

May
2016

Tonghua City Wine Association was formally established with the inauguration ceremony being held at the headquarters of China Tontine Wines Group Limited. Wang Guangyuan, the Chairman and Chief Executive Officer of China Tontine Wines Group Limited was elected as the Chairman of the Association.

July
2016

"Changbai Mountain Wild Mountain Grape Wine Technology Research and Development – Enterprise and Innovation Platform" was recognized as "Provincial Enterprise and Innovation Platform（省級企業雙創平台）" by Jilin Province Development and Reform Commission.

November
2016

"Xuanniya Ice White Grape Wine" won the gold medal for the second time in a row in the "Grape Wine Quality Competition in International Leading Wine Regions".

December
2016

"Brand Management of 'Chinese Taste' Built by National Wine Enterprise" won the "Second Prize of the Innovative Achievements of the 23rd National Enterprise Management Modernization".

2016

China Tontine Wines Group was ranked among Top 100 Chinese Wine Manufacturers 2016.

Management Discussion and Analysis

INDUSTRY OVERVIEW

According to the National Bureau of Statistics of China, the gross domestic product ("GDP") of China grew by 6.7% year-on-year in 2016. This reflected a continued slowdown of China's economy, leading to a record low in economic growth for 26 years. Domestic investment and consumption both displayed sluggish growth during the Year.

The wine market in China underwent severe adjustment for four years, and the business environment did not exhibit any major signs of improvement. The slowdown of economic growth in China led to declining demand for wine products, thereby affecting the sales revenue of industry players. The wine market continued to confront with supply glut in 2016, with the market competition intensifying further. Moreover, overshadowed by the Chinese Government-imposed restrictions on lavish entertainment and hospitality, high-end alcoholic products including wines succumbed to fall in sales. This posed mounting pressure on corporate profitability, and some enterprises even suffered from losses. Over 80% of red wines consumed in China were brewed domestically, thus spearheading China to become the fifth largest wine manufacturer in the world. In recent years, however, imported products have been deepening their penetration into the China market, thereby accentuating the competition among various grades of wine products in the domestic market, and exerting massive impact on the sales of local products.

The industry adjustment had led to a change in the consumption pattern. For the Year, wine consumption was concentrated on mid to low-end mass-market products, and shifted primarily to daily casual enjoyment.

Well-known local and imported wine brands have infiltrated across the board on all segments of the market, meanwhile the competition in the mass market turned even fiercer. This has forced inefficient players out of the market and leaving the fittest to survive. As a result, the market share of well-known brands kept on rising, whilst the market space left for small enterprises receded gradually. The continued acceleration of market dominance by leading brands has become the norm in the market. Such market pressure also drove wine manufacturers to increase their outlay in marketing and brand building. The above trends led to increased concentration of the wine industry in China.

Management Discussion and Analysis

FINANCIAL REVIEW

The Group's operations had confronted with significant challenges during the Year, in the wake of declining demand for wine products driven by the slowdown in China's economic growth. As a result, the Group's revenue declined. In addition, the Chinese Government's restriction on extravagant entertainment had dragged down the sales of high-end wine products, thereby affecting the performance of the Group. On the other hand, serious impact of imported products on the wine market in China also affected the sales of local products. In response to the market dynamics, the Group raised its outlay in brand building and marketing in a bid to strengthen its overall sustainable competitive edges during the Year. Such investments led to an upsurge in the Group's expenses. During the Year, the Group maintained its focus on the sales of mass market products, and the management strove to strengthen the sales of low to mid-end wine products so as to appeal to the popular consumption demand of the general public.

For the Year, the Group's revenue retreated by approximately 7.6% year-on-year to approximately RMB271,333,000. Overall gross profit stood at RMB84,169,000 with the Group's gross profit margin adjusting to 31.0%. The loss attributable to the owners of the Company amounted to RMB93,291,000 for the Year, against a profit of RMB9,581,000 (restated) in the same period of the previous year. The basic loss per share during the Year was RMB4.63 cents (the earnings per share was RMB0.48 cent in 2015 (restated)).

For the Year, the total cost of sales of the Group slid to RMB187,164,000, down by 6.0% year-on-year, and was in line with the magnitude of the year-on-year change in revenue. A drop in wine output during the Year brought about a corresponding 6.0% year-on-year retreat in raw material costs.

Major raw materials required for producing wine products of the Group are grapes, grape juice, yeast and additives as well as packaging materials (including bottles, bottle caps, label, corks and packaging boxes). During the Year, the cost of raw materials accounted for approximately 75.1% of the Group's total cost of sales, similar to the weighting in the previous year.

The following table sets forth the breakdown of the costs required for the production of the Group during 2016:

	2016	2015 (Restated)	Change
	(RMB'000)	*(RMB'000)*	*%*
Raw materials	**140,497**	149,442	–6.0%
Production overheads	**10,816**	11,488	–5.8%
Consumption tax and other taxes	**35,851**	38,126	–6.0%
Total cost of sales	**187,164**	199,056	–6.0%

The loss for the Year was mainly attributed to decline in the revenue, and upsurge of selling and distribution expenses by 202.9% year-on-year to RMB126,957,000, of which approximately RMB101,044,000 were advertising and promotional expenses, up by 621.7% year-on-year.

Due to the intensified competition of the wine market, the management considered it necessary to step up efforts in brand building and marketing promotion, in order to enhance the competitive edges of the Group against local and imported products in the coming years. These moves were aimed at strengthening the long-term leading industry position of the Group, as well as raising the popularity and penetration of the Group's products. Moreover, the research and development expenditures of the Group amounted to RMB4,100,000 in 2016, and they were mainly used for developing new products and optimizing product portfolio with a view of cultivating the mass consumption market.

During the Year, administrative expenses increased by 47.5% year-on-year to RMB60,612,000. Such increases were mainly due to the one-off non-cash item amounting to approximately RMB8,025,000 incurred by the grant of share options.

OPERATION REVIEW

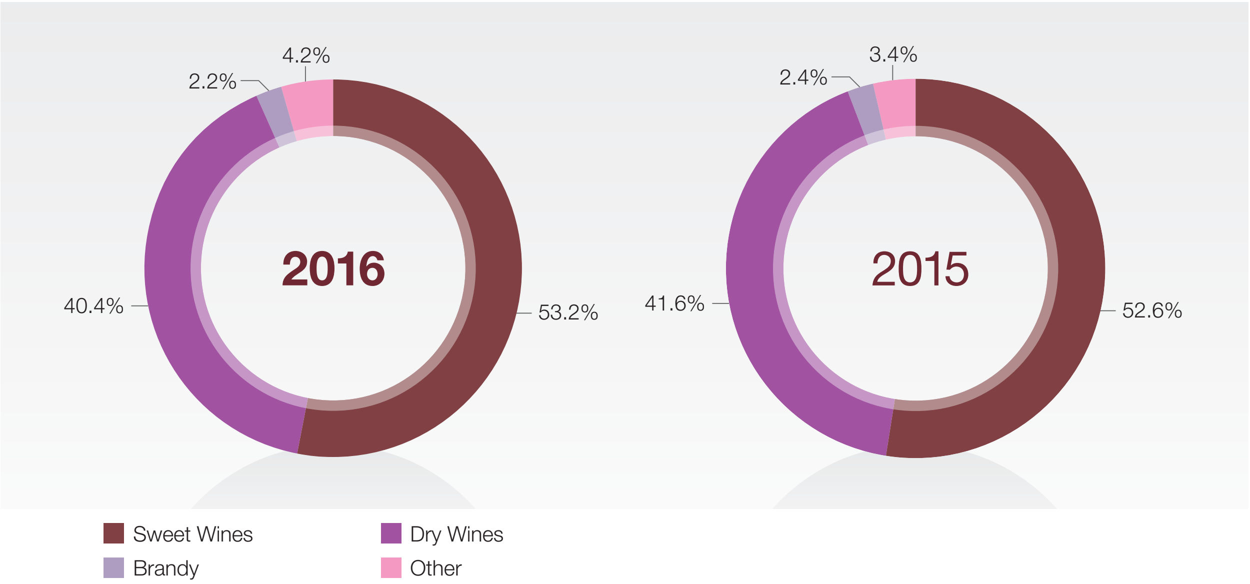
High-end products were major casualties of the slowdown of China's economy and declined demand for wine products. In response to the situation, the Group placed its emphasis on promoting sweet wine products targeted at the daily consumption needs of the general public.

The low-margin sweet wine products accounted for 53.2% of the total revenue of the Group in 2016, while the high-margin dry wine products accounted for 40.4%. These two wine products accounted for 93.6% of the total revenue in 2016, similar to the weighting of the previous year. Due to weakening market demand, brandy only accounted for 2.2% of the total revenue. Other wine products such as white wines and ice wines accounted for 4.2% of the overall revenue.

Management Discussion and Analysis

During the Year, the management adopted the business strategy of replacing obsolete products with newly developed ones. As such, the Group removed those products with lukewarm consumer acceptance from the market, and reallocated resources to those well-received mass-market items. In response to market changes, the Group optimized the product portfolio by reducing the product range of high-end wines and bringing in new sweet wine products geared to popular consumption. This approach enabled the Group to meet the diverse demand from different consumer segments. As at the end of the Year, the Group offered a total of 137 types of products.

The pie charts below show the revenue breakdown of different wine products of the Group in 2015 and 2016:



Output Volume and Sales

During the Year, the Group's production facilities in Tonghua, Jilin Province and Yantai Baiyanghe, Shandong Province produced a total of 15,445 tonnes of wine products. The output retreated from the previous year, mainly due to easing market demand and dampening impact of imported products.

During the Year, the total sales volume of the Group decreased by 7.3% year-on-year to 15,632 tonnes, and the average selling price per tonne stood at RMB17,358, similar to the level of the previous year.

The Group sells the majority of its products to distributors, who distribute such wine products to third-party retailers, including supermarkets, and specialty stores selling tobacco and alcohol, food and beverage outlets such as restaurants and hotel restaurants. These distributors also sell directly to end-consumers and other sub-distributors for further sales distribution.

As at 31 December 2016, the Group's products were sold through 129 distributors in 21 provinces, 3 autonomous regions and 4 direct-controlled municipalities of China. During the Year, the Group was determined to streamline the structure of its selling and distribution network, by conducting rigorous distributors' performance audit and eliminating underperformed distributors.

Regarding online sales, the Group continued to explore this sales channel and study its earnings model. Although the proportion of revenue generated from online sales was not significant during the Year, the Group considered the development of online sales channels could match the changing consumption pattern of consumers. This would also place the Group in an advantageous position to diversify its distribution channels and enlarge its sales coverage.

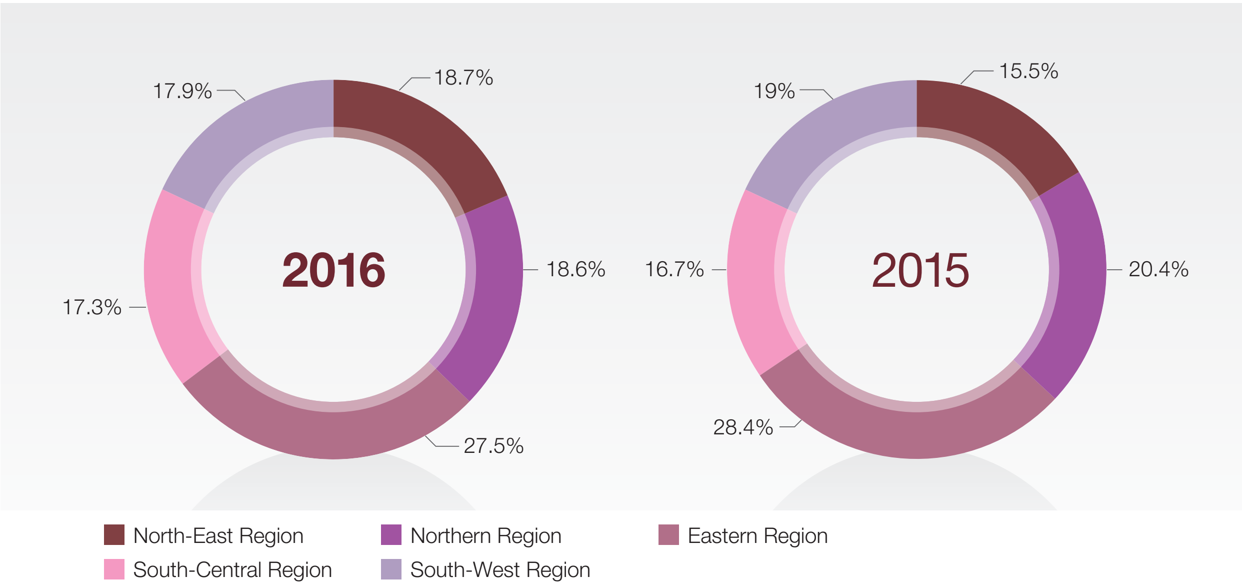
China Tontine Wines Group Limited
2016 Production base and distribution network

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 Qinghai, Sichuan, Yunnan, Guangxi Zhuang Autonomous Region and city of Chongqing.
6. Distribution Network.
7. Production base.

Regional market performance

The pie charts below show the breakdown of revenues from different regional markets of the Group in 2015 and 2016:



In terms of regional revenue, the Eastern region remained the largest market of the Group during the Year, but revenue from the region decreased by 10.7% year-on-year. The region's contribution accounted for 27.5% of the total revenue, representing a slight decline of 0.9 percentage point from that of the previous year. Wine products were generally well received in this region, as it covered those prosperous provinces in China with a relatively high per-capita income level. However, the competition in this region was more severe than others.

Benefiting from its adjacency to the Group's production base in Tonghua, Jilin, the North-East region commands geographical advantages. The revenue of this region increased by 11.9% year-on-year, and it emerged as the only region that achieved growth among five sales regions. Sales from the region accounted for 18.7% of the total revenue, up by 3.2 percentage points year-on-year. The North-East region and the Northern region were both ranked the second largest markets of the Group. The steady performance of the North-East region was mainly attributable to high acceptance and favorable brand recognition of the Group's products in the locality.

The revenue in the Northern region recorded a year-on-year retreat of 16.1%, accounting for 18.6% of the total revenue. The revenue in the South-West region recorded a year-on-year decline of 12.8%, accounting for 17.9% of the total revenue. The revenue in the South-Central region recorded a year-on-year decrease of 4.2%, accounting for 17.3% of the total revenue.

BUSINESS INDICATOR REVIEW

Inventory turnover days:

The inventory turnover days of the Group during the Year stood at 739 days, representing a slight increase as compared to that as at the end of 2015. This was attributable to a slight drop in sale during the Year as compared to that of 2015.

Trade account receivables turnover days:

The trade account receivables turnover days of the Group during the Year stood at 75 days, down by 38 days year-on-year. Trade account receivables decreased from RMB84,702,000 as at the end of the previous year to RMB27,407,000 as at the end of the Year, mainly due to lowering sales in November and December of the Year as compared to that of the previous year. This in turn shortened the trade account receivables turnover days.

OPERATION ANALYSIS BY PRODUCT

Sweet wines

Sweet wines contributed the most to the Group's output and sales during the Year. Its revenue for the Year amounted to RMB144,281,000, representing a year-on-year decrease of 2.5%. Dampened by weakened overall demand for wine products and impact of imported products, its gross profit declined to RMB36,008,000 with the gross profit margin staying at 25%, close to the level of the previous year. Sweet wines accounted for 42.8% of the overall gross profit of the Group in 2016, representing a year-on-year increase of 2.3 percentage points.

During the Year, the Group launched 8 types of new sweet wines in total in order to satisfy the market demands for popular products.

As of the end of the Year, the Group marketed 53 types of sweet wines in total, representing an increase of 7 types from that of the previous year.

Dry wines

The sales revenue from dry wines amounted to RMB109,566,000 during the Year, down by 3.9% year-on-year. This reflected the impact of the Chinese Government's restriction on extravagant entertainment and hospitality. Its gross profit also decreased by 14.0% year-on-year to RMB42,815,000, and its proportion to the overall gross profit of the Group slid to 50.9%. The gross profit margin of this product line retreated to 39.1% due to negative factors mentioned above.

The Group marketed 68 types of dry wines as at the end of the Year. In response to changing market demands, the Group shifted its strategic focus to products appealing to preferences of mass consumers. It had, thus, reduced 24 types of dry wines during the Year with a view of enhancing the efficiency of resource utilization.

Brandy

During the Year, the Group's revenue from brandy decreased by 14.7% year-on-year to approximately RMB6,010,000. This product line contributed a gross profit of approximately RMB699,000, representing a year-on-year drop of 64.4%. Its gross profit margin also eased to 11.6%. Its weighting to the overall gross profit was less than 1.0%.

Other products

Other products of the Group, including high-end ice wines and white wines, were also impacted by the Chinese Government's urge for thrift consumption during the Year. As a result, revenue from this segment of products decreased by 53.4% year-on-year to RMB11,476,000, with the segment's gross profit increasing by 2.0% year-on-year to RMB4,647,000. During the Year, other products only accounted for a small proportion of the Group's overall gross profit of just 5.5%.

BUSINESS PROSPECTS

In the wake of the drastic changes in the global political and economic landscapes in the second half of 2016, as well as the new normal of lower single-digit growth rate in China's economy, domestic consumers have taken a cautious attitude towards consumption. Domestic alcoholic products, especially wines, will continue to see a debubbling process in sales prices, as the price competition in the market is expected to remain intense. Meanwhile, the on-going market consolidation will oust those inefficient wine manufacturers and distributors.

Management Discussion and Analysis

The chase for branded wine products has turned more pronounced among Chinese consumers, especially amid the shifting of consumption from high-end products driven by public/corporate-financed banqueting to mid to low end products targeted at middle class and younger generation of the 80s. This trend will trigger suppliers to increase the outlay in brand building. In addition, the distribution channels of China's wine market are undergoing changes, as distributors focus more on innovative channels such as specialized chain stores and hypermarkets. These venues will erode the market share of traditional sales channels. E-commerce will become an increasingly crucial platform for wine sales.

In response to the macro trend in the market, the Group began to increase its investment in market promotion and brand building from 2016 onwards. The management believes that only household brands with high credibility can support the Group's foothold in China's fiercely competitive wine market. Systematic brand building and promotion can enhance the target consumer group's recognition and identification of the Group's products. This in turn will help maintaining consumers' loyalty in the Group's products, and consolidate the Group's competitive edges and share in the complicated and fast-changing market.

Jilin Tongtian Winery, established by the Group for the development of high-end products, is approaching the final stage of calibration. It is expected to commence initial production in the second half of 2017. The annual capacity of the winery is about 500 tonnes. Leveraging on the principal strengths of the winery, the Group plans to produce its own high and mid-end products with fully integrated operation all the way from grape farming to wine brewing. The winery with proprietary high and mid-end wines would also be advantageous to deepening the Group's brand building efforts.

In order to weather the competition of imported products and cater for the preferences of domestic consumers, the Group is considering establishing a trading company in Hong Kong. This entity is geared to importing overseas wines into domestic market and broaden the Group's source of revenue. In addition, the planned trading company can also promote the sales of China-produced wine products to overseas markets. The management expects the establishment of this trading company can provide a platform for the Group to set its first step in the international market. This would also help to enhance the networking with famous wineries and traders abroad, thus building the foundation for future business expansion.

The Group is also exploring the feasibility of merger and acquisition in different markets, with an aim of optimizing the Group's product portfolio and catering for the tastes and needs of various customers. The Board will adopt a cautious approach in evaluating such investments. The management will carry out detailed research on the prospective project's operations, product quality, target market, development prospects, as well as the synergy brought forth to the existing business of the Group, before making any final decision.

In the face of intensified adjustment of China's wine industry and greater pressure from imported products, the management believes that it is necessary to actively explore diversified business development, so as to establish a broader and more balanced sources of revenue via business connections of the Group in related fields. The Group is currently making initial exploration in investment in agriculture-related industries.

Although China's wine market is forecasted to maintain its growth momentum in 2017, the phenomenon of replacing inefficient players by leading enterprises is becoming more visible amidst the fierce competition. Moreover, the market share of imported wines is expected to rise further. More and more overseas wineries and professional distributors are going to sell directly to the China market. Facing such severe market situation, the management will uphold the strategy of maintaining a strong financial position, and adopt a pragmatic stance in exploring a stable and diversified development trail for the Group. The Group will maintain sufficient cash on hand to capture market opportunities.

FINANCIAL MANAGEMENT AND TREASURY POLICY

The Group's revenues, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). Also, the Group's cash and cash equivalents were mostly denominated in RMB. Accordingly, there has been no significant exposure to foreign exchange fluctuation. In view of the minimal foreign currency exchange risk, the Directors 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 strong cash and bank balances, the Group is in a net cash position and is thus exposed to minimal financial risk on interest rate fluctuation.

LIQUIDITY AND FINANCIAL RESOURCES

Our working capital was healthy and positive and we generally financed our operation with internal cash flows generated from operations for the past years. The Company raised an unsecured and unguaranteed short term bank borrowing during the Year amounting to RMB7,096,000 with interest rate of 2.25% below the Hong Kong Dollar Prime rate and effective interest rate carried at 3% per annum. As at 31 December 2016, the Group's cash and cash equivalents amounted to approximately RMB181,683,000. The Group has sufficient financial resources and a strong cash position for satisfying working capital requirements of business development, operations and capital expenditures.

CAPITAL COMMITMENTS AND CHARGES ON ASSETS

As at 31 December 2016, the Group made capital expenditure commitments including approximately RMB89,692,000 that was authorised but not contracted for and approximately RMB7,686,000 contracted but not provided in the consolidated financial statements. These capital commitments were provided by cash generated from operations. As at 31 December 2016, none of the Group's assets was pledged (2015: nil).

REMUNERATION POLICY, EMPLOYMENT BENEFITS AND SHARE OPTION SCHEME

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 2016, the Group employed a work force of 572 (including Directors) in Hong Kong and in the PRC (2015: 559). The total salaries and related costs (including the Directors' fee) for the Year amounted to approximately RMB37,532,000 (included one off share option expenses of RMB8,025,000 (2015: nil)) (2015: RMB27,857,000).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2016 (2015: Nil).

EXECUTIVE DIRECTORS

Mr. Wang Guangyuan (王光遠), aged 55, 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* (通化通天酒業有限公司) since its establishment in 2001. He is responsible for the overall business strategy, 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 with 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 our Company, and is also a director of Up Mount.

Mr. Zhang Hebin (張和彬), aged 56, 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 59, 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 as 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. Lam Yiu Por（林曉波）, aged 40 was appointed as our independent non-executive Director on 18 November 2016. He is also the chairman of both the audit committee and the remuneration committee of the Board. Mr. Lam graduated from the Hong Kong Polytechnic University with a Bachelor's degree in Accountancy in November 1997. He is also a fellow member of the Association of Chartered Certified Accountants, a certified public accountant of the Hong Kong Institute of Certified Public Accountants, a chartered financial analyst of the Chartered Financial Analyst Institute and an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He has more than 16 years of experience in finance and accounting. He has been the vice-president and the chief financial officer of L'sea Resources International Holdings Limited（利海資源國際控股有限公司）(stock code: 00195) since November 2013. Mr. Lam is also a non-executive director of Zhong Ao Home Group Limited（中奧到家集團有限公司）(stock code: 1538), an independent non-executive director of JNBY Design Limited（江南布衣有限公司）(stock code: 3306) and an independent non-executive director of Denox Environmental & Technology Holdings Limited（迪諾斯環保科技控股有限公司）(stock code: 1452). He had been an independent non-executive director of Yat Sing Holdings Limited（日成控股有限公司）(stock code: 03708) during the period from December 2014 to March 2016 and an independent non-executive director of GR Properties Limited（國銳地產有限公司）(stock code: 00108) during the period from June 2012 to February 2014.

Mr. Lai Chi Keung, Albert（黎志強）, aged 55, 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. Yang Qiang（楊強）, aged 56, was appointed as our independent non-executive Director on 15 January 2016. He is also a member of the audit committee, the remuneration committee and the nomination committee of our Board. Mr. Yang holds a bachelor degree in mechanical engineering from Beijing Institute of Technology（北京理工大學）. He is experienced in the wine industry in the PRC and has been serving as the secretary of the expert committee of the Grape and Fruit Wine of the China National Food Industry Association*（中國食品工業協會葡萄酒、果酒專家委員會）for many years.

* *For identification purposes only*

SENIOR MANAGEMENT

Mr. Wang Xiaoming (王曉鳴), aged 48, 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 55, 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. Ms. Ji retired on 1 January 2017 and our Company appointed Mr. Wang Jun as the chief winemaker.

Directors and Senior Management

Mr. Wang Jun（王軍）, aged 54, has been appointed as the chief winemaker of our Company since 1 January 2017 following the retirement of our ex-chief winemaker, Ms. Ji Chunhua. Prior to joining our Group, from August 1985 to January 2014, he served various positions 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, including director of chief engineer's office, director of research office, head of technical division, director of research institute and general manager. In 2014, Mr. Wang joined Hangzhou Oriental Culture Tourism Group（杭州東方文化園旅業集團）as general manager of one of its subsidiaries, Liaoning Northern Latitude 41 Degrees Wine Company Limited（遼寧北緯41度酒業有限公司）. He has been a member of the China Alcoholic Drinks Association（中國酒業協會）, China Food Industry Association（中國食品工業協會）, Wine Expert Panel of National Wine Quality Inspection Center（國家葡萄酒質檢中心葡萄酒專家組）and a national liquor judge since 1997. Mr. Wang was appointed as an international judge by Union Internationale des Oenologues（國際釀酒師聯盟）in 2008, certified as the first batch of state level senior winemaker（高級釀酒師）and first-class sommelier（一級品酒師）in 2012, and elected as a member of the First National Wine Brewing Standard Technology Committee Grape Wine Sub-branch（首屆全國釀酒標準化技術委員會葡萄酒分會）in 2014. He graduated from Food Science & Engineering of Dalian Institute of Light Industry（大連輕工業學院）(currently known as Dalian Polytechnic University（大連工業大學）) with a college diploma of industrial fermentation in August 1985.

Mr. Yu Dazhou（于大洲）, aged 61, 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 manager 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.

Mr. Sun Yankun（孫延坤）, aged 60, 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 the position of 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 49, 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.

Mr. Ho Ka Chun（何家進）, aged 36, joined our Company in January 2016 and is the Chief Financial Officer of the Group. Mr. Ho holds a bachelor's degree in business administration, majoring in accountancy from the Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). He has over 10 years of experience in financial management, accounting and auditing and had previously worked for an international audit firm before joining our Company.

Ms. Feng Fu Qin（封福琴）, aged 51, 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. Wong Kwok Kuen（王國權）, aged 43, has been appointed as the company secretary of our Company since 6 November 2015. He graduated with a bachelor's degree in accountancy from the Hong Kong Polytechnic University. Mr. Wong is a member of the Association of Chartered Certified Accountants and a member of the HKICPA. He has over 17 years of experience in the fields of finance, auditing and accounting.

Directors' Report

The Board is pleased to present the Directors' Report together with the 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 2016 (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 33 to the consolidated financial statements.

RESULTS AND DIVIDEND

The Group's loss for the year ended 31 December 2016 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 61 to 120.

The Directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2016 (2015: Nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on pages 2 and 3 of the Annual Report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 10 April 2017 to Wednesday, 12 April 2017 (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 Wednesday, 12 April 2017. 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 Friday, 7 April 2017.

PROPERTY, PLANT AND EQUIPMENT

During the Year, an increase of approximately RMB14.4 million in property, plant and equipment was mainly for the expansion and enhancement of the Group's production capability. Details of movements in property, plant and equipment of the Group during the Year are set out in note 17 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 a 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) Unless otherwise determined by the Directors and stated in the offer of the grant of option(s) to an eligible participant, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(xi) 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 were as follows:

		Number of share options									
Grantee	Date of grant	Outstanding as at 1 January 2016	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2016	Vesting period	Exercisable period	Exercise price per share *HK$*	Closing price per share at date of grant of options *HK$*
Directors	9 May 2016	–	16,550,000[1]	–	–	–	16,550,000	–	9 May 2016 to 8 May 2021	0.263	0.255
Employees	18 May 2012	40,000,000	–	–	–	–	40,000,000	–	18 May 2012 to 17 May 2017	0.71	0.70
	9 May 2016	–	99,300,000[1]	–	–	–	99,300,000	–	9 May 2016 to 8 May 2021	0.263	0.255
Total		40,000,000	115,850,000	–	–	–	155,850,000				

Note:

(1) The closing price of the shares of the Company on 6 May 2016 (being the business day immediately preceding 9 May 2016 on which the options were granted) was HK$0.26.

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 *(Chairman and chief executive officer)*
Mr. Zhang Hebin
Ms. Wang Lijuan

Independent Non-Executive Directors:

Mr. Lam Yiu Por (appointed on 18 November 2016)
Mr. Sih Wai Kin, Daniel (resigned on 18 November 2016)
Mr. Lai Chi Keung, Albert
Mr. Yang Qiang

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.

The Board comprises three independent non-executive Directors, representing more than one-third of the Board. The independent non-executive Directors play an important role on formulating the Group's objectives and strategies and ensuring that the Board maintains high standard of corporate governance. The Company has received annual confirmations of independence from Mr. Lai Chi Keung, Albert, Mr. Yang Qiang and Mr. Sih Wai Kin, Daniel (resigned on 18 November 2016), as well as from Mr. Lam Yiu Por (appointed on 18 November 2016) pursuant to Rule 3.13 of the Listing Rules. The Company considered all of its independent non-executive Directors were independent during the Year and as at the date of the Annual Report.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 21 to 25 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 32 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 2016, 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 of Shares held *(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 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 2016.

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 2016.

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

As at 31 December 2016, 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 held** *(Note 1)*	**Approximate percentage of issued Shares** *(Note 7)*
Up Mount *(Note 2)*	Beneficial owner	675,582,720(L)	33.56%
Ms. Zhang Min 張敏 *(Note 3)*	Interest of spouse	675,582,720(L)	33.56%
Wing Move *(Note 4)*	Beneficial owner	132,467,200(L)	6.58%
Ms. Luo Cheng Yan 羅成艷 *(Note 5)*	Interest of spouse	132,467,200(L)	6.58%
Clever Growth Limited *(Note 6)*	Beneficial owner	154,558,000(L)	7.68%
Mr. Yan Shaohua	Interest in a controlled corporation *(Note 6)*	154,558,000(L)	7.68%
	Beneficial owner	75,782,000(L)	3.76%
		230,340,000	11.44%

Notes:

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

(2) 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.

(3) 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.

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

(5) 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.

(6) Clever Growth Limited is a company incorporated in the BVI, and is solely and beneficially owned by Mr. Yan Shaohua. Mr. Yan Shaohua is deemed to be interested in all the shares held by Clever Growth Limited under Part XV of SFO.

(7) The percentage of shareholding is calculated on the basis of 2,013,018,000 shares in the Company in issue as at 31 December 2016.

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

The Group operates a Mandatory Provident Fund scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for its qualifying employees in Hong Kong and state–managed retirement benefit schemes operated by the People's Republic of China for the employees of the Company's subsidiaries established in the People's Republic of China. Details of the Group's retirement benefit schemes during the Year are set out in note 31 to the consolidated financial statements.

INTERESTS IN CONTRACTS

No transaction, arrangement or contract of significance in relation to the business of the Group or the provision of services to the Group to which any controlling shareholder of the Company or any of its subsidiaries was a party, or in which a Director or an entity connected with 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.

EMOLUMENT POLICY

The emolument policy for the directors and employees of the Group is decided by the Board based upon the recommendation of the Remuneration Committee, having regarding to the Group's operating results, individual performance (by way of annual review and appraisal), duties and responsibilities within the Group and comparable market statistics.

The Company has adopted a share option scheme as a long-term incentive to directors and eligible individuals for retaining them for their contribution for the continued operation and development of the Group, details of the scheme are set out on pages 27 to 28 of the Annual Report and in note 28 to the consolidated financial statements.

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 11.9% and 63.0% of the total sales and purchases of the Group respectively. The Group's largest customer and supplier accounted for around 2.6% and 24.7% of the total sales and purchases of the Group for the Year respectively. For the year ended 31 December 2016, none of the Directors or any of their close 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 comprises all the three independent non–executive Directors. During the Year, the Audit Committee comprised Mr. Lam Yiu Por (appointed on 18 November 2016), Mr. Lai Chi Keung, Albert, Mr. Yang Qiang and Mr. Sih Wai Kin, Daniel (resigned on 18 November 2016).

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 Group's risk management and internal controls systems, 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.

ENVIRONMENTAL PROTECTION AND LEGAL COMPLIANCE

The Company is committed to protecting the environment where it operates and ensuring that it complies with the environmental protection standards applicable to the Group and its business operation from time to time.

During the Year and to the best of our Directors' knowledge, the Group had obtained the required permits and environmental approvals for its business and production facilities, and had complied with such laws, rules and regulations that have a significant impact on the Group, its business and operations.

Please refer to the *Environmental, Social and Governance Report* contained in the Annual Report for further information on the work done and efforts made by the Company on environmental protection, legal compliance and other aspects for the sustainable growth and development of the business of the Group.

RELATIONSHIPS WITH BUSINESS PARTNERS AND CUSTOMERS

We value our relationships, and have been maintaining good relationships, with our business partners (including farmers, suppliers and distributors), customers and the employees of the Group. We believe that building long-term beneficial relationships with each of them is of paramount importance to establish mutual trust, loyalty and business development, and on which the Company's success and sustainability depend.

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.

DONATIONS

During the Year, the Group supported certain charitable activities of the community. Donations of approximately RMB215,000 were made by the Group.

ON BEHALF OF THE BOARD

Wang Guangyuan
Chairman and Executive Director
Hong Kong
27 February 2017

The board of directors (the "Directors" or the "Board") of the Company (together with its subsidiaries, the "Group") 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, to 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 of Hong Kong Limited (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 2016 (the "Year"), 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, financial performance, compliance controls 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 21 to 22.

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 had, among others, reviewed the Company's policies and practices on corporate governance and their effectiveness, reviewed the Group's compliance with the applicable laws, rules and regulations, reviewed and monitored the training and continuous professional development of directors and senior management of the Group and reviewed this corporate governance report in the 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. During the Year, 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 6 May 2016**	**Number of board meetings attended/held during the Year**
Number of meeting(s)	1	4
Executive Director		
Mr. Wang Guangyuan *(Chairman and CEO)*	1/1	4/4
Mr. Zhang Hebin	1/1	4/4
Ms. Wang Lijuan	0/1	4/4
Independent Non-executive Director		
Mr. Li Changgao (resigned on 15 January 2016)	N/A	0/4
Mr. Sih Wai Kin, Daniel (resigned on 18 November 2016)	1/1	3/4
Mr. Lai Chi Keung, Albert	1/1	4/4
Mr. Lam Yiu Por (appointed on 18 November 2016)	N/A	1/4

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 a specific term of three years, 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 specific term of two years, 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, the members of the Audit Committee were Mr. Lam Yiu Por (Chairman of the Audit Committee; appointed on 18 November 2016), Mr. Lai Chi Keung, Albert, Mr. Yang Qiang and Mr. Sih Wai Kin, Daniel (resigned on 18 November 2016), who were all 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 Group's risk management and internal controls, as well as reviewed the Group's annual and interim results for the Year.

The Audit Committee held three meetings during the Year.

The attendance record of each Audit Committee member during the Year is set out below.

Directors	No. of meetings Attended/Held	Attendance rate
Mr. Lam Yiu Por *(Chairman)* (appointed on 18 November 2016)	1/3	100% (upon appointment)
Mr. Sih Wai Kin, Daniel (resigned on 18 November 2016)	2/3	100% (before resignation)
Mr. Lai Chi Keung, Albert	3/3	100%
Mr. Yang Qiang	3/3	100%

Remuneration Committee

The Remuneration Committee was established on 28 October 2009. During the Year, the members of the Remuneration Committee were Mr. Lam Yiu Por (Chairman of the Remuneration Committee; appointed on 18 November 2016), Mr. Lai Chi Keung, Albert, Mr. Yang Qiang and Mr. Sih Wai Kin, Daniel (resigned on 18 November 2016), who were all 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 the 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, the works performed by the Remuneration Committee mainly comprised assessing the performance of the Directors and senior management of the Group, reviewing the terms of the service agreements governing the appointment of the Directors and senior management of the Group and recommending to the Board their remuneration packages.

Details of the remuneration paid to members and the share option expense incurred of the senior management of the Group (including the Directors) by band for the year ended 31 December 2016 are set out below:

Remuneration band	Number of senior management
Below HK$1,000,000	6
HK$1,000,001 to HK$1,500,000	3
HK$1,500,001 to HK$2,000,000	2
HK$2,000,001 to HK$2,500,000	2
HK$2,500,001 to HK$3,000,000	1

The Remuneration Committee held two meetings during the Year.

The attendance record of each Remuneration Committee member during the Year is set out below.

Directors	No. of Meetings Attended/Held	Attendance Rate
Mr. Lam Yiu Por *(Chairman)* (appointed on 18 November 2016)	N/A	N/A
Mr. Sih Wai Kin, Daniel (resigned on 18 November 2016)	1/2	50% (before resignation)
Mr. Lai Chi Keung, Albert	2/2	100%
Mr. Yang Qiang	2/2	100%

Nomination Committee

The Nomination Committee was established on 28 October 2009. During the Year, 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. Yang Qiang (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 were recognised and were taken into account of in the composition of the existing diverse Board.

The Nomination Committee held two meetings during the Year in which the structure, size, composition and diversity of the Board, the nomination policy, the suitability of the proposed candidate(s) to fill the vacancy(ies) of the Board, 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 is set out below.

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

During the Year, the Company organized Directors' training session delivered by legal professional (which was attended to by all the then Directors, including Mr. Wang Guangyuan, Mr. Zhang Hebin, Ms. Wang Lijuan, Mr. Sih Wai Kin, Daniel, Mr. Lai Chi Keung, Albert and Mr. Yang Qiang), 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 considered 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. Wong Kwok Kuen, 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, the Company Secretary undertook 15 hours of professional training to refresh and develop his knowledge and skills.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board, with the assistance of the Audit Committee, has overall responsibilities for maintaining good and effective risk management and internal controls of the Group. During the Year, the Board conducted a review of the effectiveness and adequacy of the Group's risk management and internal control systems, 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, ensures the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensures 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 risk management and internal control systems, the Board considers that the systems are effective and adequate for the Group as a whole. The Board further considers that (i) there was no material issue relating to the Group's risk management and 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, internal audit and financial reporting functions, and adequate training programmes had been provided during the Year. The control and compliance department of the Company plays a major role in monitoring the risk management and 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, risk management and internal controls. All types of audited reports are circulated to the Audit Committee and key management, which will follow up on any actions and measures taken to improve risk management and 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, the Directors had selected suitable accounting policies and had applied them consistently, adopted appropriate accounting standards which were pertinent to its operations and relevant to the financial statements, made judgments and estimates that were prudent and reasonable, and had 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 55 to 60.

AUDITOR'S REMUNERATION

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

	RMB'000
Audit service	1,589
Non-audit services	
– Interim review of financial results for the six months ended 30 June 2016	464
– Agreed-upon procedure work on preliminary results announcement for the year ended 31 December 2016	18
	2,071

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 securities transactions by Directors and relevant employees of the Group who, because of office or employment, are likely to be in possession of unpublished inside information in relation to the Group's securities. The Directors and such relevant employees are required to strictly follow the Model Code when dealing in the securities of the Company. The Directors and such relevant employees, after specific enquiries by the Company, confirmed their compliance with the required standards set out in the Model Code throughout the Year.

CHANGES IN CONSTITUTIONAL DOCUMENTS

During the Year, 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 Room 1703, 17/F, COFCO Tower, No.262 Gloucester Road, Causeway Bay, 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 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 (info@corporatelink.com.hk) or at the address of the Company's principal place 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) are 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 21 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 is 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.

Environmental, Social and Governance Report

ABOUT THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report (the "ESG Report") issued by our Company and its subsidiaries (the "Group") stated that the Group has fully implemented the concept of sustainable development and performed its corporate social responsibilities. The ESG Report elaborated various work of the Group fulfilling the principle of sustainable development and its performance of social governance in 2016.

SCOPE OF THE REPORT

The ESG Report focused on the environmental and social performance of the core business of the Group in the PRC during 1 January 2016 to 31 December 2016 (the "Year").

REPORTING FRAMEWORK

The ESG Report was prepared based on "Environmental, Social and Governance Reporting Guide" under Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

STAKEHOLDER ENGAGEMENT

The preparation of the ESG Report, which was supported by staff from the Group's different departments, enabled us to have a better understanding of our current environmental and social development. The information we gathered were not only the summary of the environmental and social work carried out by the Group during the Year, but also the basis for us to develop short and long term sustainable development strategies.

INFORMATION AND FEEDBACKS

For detail information about the environmental and corporate governance, please refer to the official website (http://www.tontine-wines.com.hk) and the annual report of our Company. Your opinions will be highly valued by the Group. If you have any advices or suggestions, please email at info@corporatelink.com.hk or write to the principal business place of the Company in Hong Kong.

THE GROUP AND THE ENVIRONMENT

The Group sources the supply of grapes for its production from Ji'An region, which is one of the major production sources in China. Ji'An region is the Demonstration Zone of agricultural standardized green food and the standardized production base of green food material. It is also among the few regions worldwide cultivating the vitis amurensis variety of grapes, with an industrial park classified as the National 4A Grade Tourism District. Over the years of development and enhancement, the production model of the Group has been gradually improved with our plants equipped with the whole set of professional production lines of cleaning, destemming, crushing and pressing.

The Group has established the environment protection management system according to the relevant laws and regulations including the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), the Law of the PRC on Promoting Clean Production (《中華人民共和國清潔生產促進法》) and the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》). The existing environment protection management system will be upgraded continually through regularly monitoring and reviewing the energy conservation and emission reduction activities carried out during the course of business.

Pollutants Management

Waste Sorting

During the process of grapes treatment and wine production, a high volume of innocuous wastes will be generated, mainly including the grape stem which is generated after destemming and crushing, the seeds and skins of grapes which are generated after pressing as well as the solid portion which are generated during change of tanks and ageing. To mitigate the environment issues caused by the waste disposal mistake, the Group forwards the grape stem and solid portion to the farmers in the neighbourhood for use as fuel. Other innocuous wastes are collected by the municipal waste treatment facilities for centralised treatment.

In accordance with the relevant PRC requirements, the Group delivers the hazardous wastes to the designated garbage recycler for subsequent treatment to ensure that no secondary contamination occurs. The Group collects wastes and delivers them to the enterprises with recycling capability for treatment, for example, the slag is disposed by the brick plants, e-waste and ink boxes are disposed by computer companies. Due to the high utilisation of the aforesaid garbage in PRC, the Group provides the required wastes to enterprises at nil consideration, so as to minimise the waste emission.

Wastewater Treatment

The Group's wastewater comes mainly from domestic wastewater and production wastewater, including water used for canteen, glass bottles washing and cleaning. After collection, the wastewater will be clarified by the Group through a sewage treatment system, the quality of water discharged from which is designed to meet relevant standards. Such water is not drinkable, and will be used for garden plants irrigation, so as to reduce the discharge of wastewater.

Gas Emission

The exhaust gas of the Group is the flue gas produced during the operation of the boiler, the main pollutants of which are dust, sulfur dioxide and nitrogen oxides. After being filtered by equipment for desulfurization, denitrification and dust removal, the flue gas will be emitted through a high chimney, to ensure that the exhaust gas can meet emission standards. As the factories of the Group are located in the northeast and northern regions of China, there is a need for heating in winter. In order to reduce the emission of greenhouse gases emitted directly from the burning fuel, the Group implements different boiler operation modes by season, namely independent operation of gas production equipment in summer and combined operation of heating system and gas production equipment in winter. The dust and slag ash from chimney and dust removal equipment will be recycled by the brick factory according to the section of Waste Sorting.

Energy Saving and Emission Reduction

With an aim to reduce the amount of water used, the Group purchases glass bottles with high sanitary standards. Besides, the wastewater is used for garden plants irrigation after treatment to achieve water-saving benefits, as mentioned in the section of Wastewater Treatment.

Upon the completion of production, red wine is packaged using paper products, glass products or wooden boxes. In response to environmental protection, the Group has used recyclable materials for packaging, such as paper box made of recycled paper, reducing the use of new paper box.

The Group requires that all landscape lighting must be closed at 10 p.m. every night in the plant area except on holidays. Except for the necessary facilities, duty officers will close the power supply of office building, and employees need to turn off the power supply of office equipment before leaving work, so as to save electricity.

Environmental Conservation

The wine corks of the Group are made of natural oaks. Soft oaks consist of two layers of bark. The inner bark is viable and provides the basis for the growth of new bark each year. Therefore, the planters will only pick their withered outer bark during the process of picking the oaks, so as not to affect the continual growth of trees and to reduce the white pollution.

In compliance with the sustainable development principle and taking into account of the climate conditions of relevant areas, the vineyards of the Group perform a fallow period of over four months each year to maintain soil fertility, so as to continually provide abundant nutrition for the grapes.

Environmental Protection and Legal Compliance

In general, the Group is committed to protecting the environment where it operates and ensuring that it complies with the environmental protection standards set by the nation from time to time.

During the Year, the Group had obtained all the required permits and environmental approvals for its business and production facilities, including but not limited to the hygiene permit（衛生許可證）, the national industrial product production permit（全國工業產品生產許可證）, the water intake permit（取水許可證）and the waste discharge license（廢物排放許可證）, and had complied with such laws, rules and regulations that have a significant impact on the Group, its business and operations.

EMPLOYMENT AND LABOUR PRACTICES

The Group is committed to complying with the PRC Labor Contract Law（《中華人民共和國勞動合同法》）, the PRC Labor Law（《中華人民共和國勞動法》）, the PRC Social Insurance Law（《中華人民共和國社會保險法》）, the Administrative Provisions for the Labor Management of Foreign-invested Enterprises（《外商投資企業勞動管理規定》）and other applicable labor laws and rules and puts in place a Work Attendance Checking System（《考勤制度》）and the Awards and Penalties Rules（《獎罰制度》）, with a view to ensuring our employees to be provided with related statutory benefits.

The Group adheres to a diversity policy in employing its staff and implements an effective recruitment system through which the Group formulates its personnel work plan according to department needs so as to identify and attract talents for all levels of the Group from time to time. All candidates will be treated fairly in job interviews only if they meet with relevant job requirements, without any implementation of discriminatory policies against gender, age, race, religion belief or physical disability. In considering whether a candidate meets with relevant job requirements in a job interview, we mainly consider his/her specialty knowledge, attitude, work experience etc. According to the Provisions on the Prohibition of Using Child Labor（《禁止使用童工規定》）, all newly employed staff will be carefully checked for their identities prior to starting employment in a way to ensure the Group would not use any child labor. In addition, the Group would never force any employee to work by means of violence, threats, or illegal restriction of personal freedom. After probation, those candidates who are qualified would be employed as formal staff. At the end of each year, the Group will conduct work performance assessment for all the employees, with a view to motivating them to continuously improve work methods and effectiveness. We also establish a reasonable and fair competition mechanism to improve the staff's sense in work planning and responsibility and make payment adjustments and provide promotion opportunity according to personal abilities so that we can promote and retain potential talents.

The Group implements standard working hours for its employees, which is no more than eight hours per day and no more than forty hours per week. In addition to statutory holidays, employees are also entitled to other holidays including home leave, marriage and compassionate leave, maternity leave and paid annual leave. According to state regulations, the Group also contributes various social insurance premiums maintaining social policies for its employees, including unemployment, medical care, maternity, work injury, pension, housing provident fund etc. Prior to joining or leaving the Group, employees need to take health examinations at the cost of the Group. In order to help the employees strike a balance between work and health, the Group also held tasting events and celebration parties for its employees and organized sports teams to participate in events held by governments, such as basketball matches and sports games, helping them maintain their physical and psychological health.

Health and Safety

In order to enhance the Group's occupational safety, improve its working conditions, safeguard its employee's vital interests and ensure their life and property security, the Group has formulated its own Production Safety Regulations in line with the Prevention and Control of Occupational Diseases Law of the PRC（《中華人民共和國職業病防治法》）, the PRC Production Safety Law（《中華人民共和國安全生產法》）, the Provisions on the Administration of Labor Protective Articles（《勞動防護用品管理規定》）and the Provisions on Labor Protection for Female Staff and Workers（《女職工勞動保護規定》）. The Group has been committed to a principle of "Safety and Prevention as Priorities" which requires that our productions should be subject to safety, with an aim to ensuring a safe and civilized production. Under such principle, the Group maintains a clean production site and ensures that all items are properly kept to create a safe environment for our production. Interdepartmental meetings held from time to time also carry on certain reviews during the Group's daily operation, such as reminding employees to keep the office clean and always bear in mind the goal of safe production.

In respect of positions that may cause occupational hazards, the Group has set up a sound responsibility system for occupational diseases prevention to improve its management on occupational diseases prevention. In order to minimize occupational hazards, the Group provides annual health examination as well as health and safety trainings for its employees, and keeps a record of their examination results for the purpose of popularizing and improving the knowledge on occupational health of employees as a whole. The Group requires that frontline and technical staff should be health certificate holders. The Group has adopted certain measures to prevent accidents, such as equipping our employees with protective gears, monitoring and maintaining various production sites from time to time, and enhancing its safety management and relevant technology and education safety. During the Year, the Group has offered trainings on the Prevention and Control of Occupational Diseases Law of the PRC to certain employees, held occupational health workshops, as well as publicized and implemented relevant national laws and regulations, so as to achieve good results on the Group's occupational health and inspection work.

Development and Training

Personnel trainings are the top priority in the management of the Group. Therefore, the Group formulates a comprehensive training program every year to enhance the quality of the staff as a whole and to improve their professional ethics through the provision of education and training on professional ethics and relevant rules and regulations. The training program for the Year included orientation training and education on corporate management system for new employees for the purpose of deepening their understandings on company culture, corporate philosophy and various rules and regulations.

In addition, according to the needs of different positions, the Group provides its staff with targeted trainings, such as business technology, occupational safety and health related trainings, including wine knowledge training, production technology training, production safety training and fire safety training. The trainings on professional knowledge are aiming to improve the professional skills and basic knowledge of employees and help them understand the requirements of their positions. The Group also provides "Job Description" for employees in different positions, so as to ensure that they clearly understand their duties. During the Year, there were case studies and seminars related to existing projects being included in the training as an innovative training program, with an aim to improving the participation of trainees and the effectiveness of training.

During the Year, the Group enhanced communication with its employees by various means such as holding seminars, providing them with opportunities to exchange opinions, so as to deepen the understanding between employer and employees, superiors and subordinates as well as employees and employees and strengthen the staff sense of belonging.

PRODUCTS AND SERVICES

The Group has been dedicated to researching, developing and launching new products with a view to further diversifying its products. Our wines were classified into three levels: low-end, medium and luxury to satisfy the different demands of customers. In terms of the selling mode, the Group has continuously optimized its traditional distribution channel, and on the other hand has proactively developed and expanded its e-commerce platform to sell products online these years. In order to make the most of its e-commence function to diversify its distribution channels and expand the coverage of its products, the Group was exploring to establish an e-commence cooperation platform with large-scale wine companies and researching and developing its own online platform.

Supply Chain Management

The Group always aims to provide high-quality products to its customers. In order to manage the potential risks arising from our suppliers, before entering into contracts with them, the Group will investigate the stability, quality and other aspects of the goods they supply and prepare a writing record for future reference. The Group will reassess its suppliers at least one month prior to the expiry of the contracts to determine whether to renew the original contracts.

Strict Production Process

The Group owns a set of production line and a professional winemaking management team which can provide comprehensive quality instruction and control. The Group has obtained the Food Production License and QS Certificate. From the first process of wine manufacturing, the grapes that we use are collected by hands and selected according to a high-standard requirement. With the professional instruction of winemakers and our advanced equipment, the grapes are gone through a number of general processes such as washing, stem removing, squashing, canning, temperature-controlled fermentation, base wine ageing, base wine adjustment, laboratory test, sterilization, bottling, packing, finished products, storage, transportation and so on and finally become wine in which we are fully confident.

Emphasis on Quality

The Group attaches great importance to product quality with strict quality management system in place and has been awarded ISO9001 Quality Management System Certification. The mountain grapes cultivated and the mountain grape wine produced in the Group's organic grape production base and processing plant respectively in Tonghua City has obtained GB/T19630.1-2011 Organic Products (Part I: Production) Certification and GB/T19630.2-2011 Organic Products (part II: Processing) Certification, and also obtained GB/T19630.3-2011 Organic Products (part III: Identification and Sales) Certification and GB/T19630.4-2011 Organic Products (part IV: Management System) Certification. At the same time, certain wines of the Group have been awarded certifications by China Green Food Development Center(中國綠色食品發展中心), including Mountain Grape Wine, Dry Wine(干紅山葡萄酒), Ice Wine, Hong Full Juice Mountain Grape Wine(紅全汁山葡萄酒)and Original and Wild Mountain Grape Wine(野生原汁山葡萄酒), which are in line with the Green Food-Class A Standards and have been recognised as Green Food-Class A Products. The Group's great effort on quality control was evident by above achievements.

To ensure the stability of the Group's production supply, the departments of sales, production and supply will hold meetings to formulate production plan before production. For the grapes cultivated in vineyard, before procurement period of each year, inspectors from a subsidiary of the Group in Tonghua City will firstly check the grape maturity, and then complete the glucose checklist to confirm whether they are suitable for brewing. When the grapes are transported to workshops, inspectors will perform quality test on the grapes firstly, and then they will carry out sugar content detection occasionally to ensure the grapes' quality. Similarly, the grape juice outsourced by the Group will be carried out testing inspection by technical department, and then delivered to manufacturing site after passing the inspection.

Production will not be started unless the samples taken by the Group's inspectors from the raw materials purchased and delivered to the workshop have passed the physical and chemical indicators test in laboratory. Unqualified raw materials will be taken out and returned to manufacturers. Throughout the whole production process, inspectors will occasionally sample and test the product in progress or finished product in warehouse, and record the inspection results to ensure the quality of the wines produced.

Emphasis on Safety

In accordance with the requirements of the Food Safety Law of the PRC(《中華人民共和國食品安全法》), the Group has formulated Health Management Regulations for employees, which requires the production sites to keep clean from time to time to ensure the food safety. Raw materials shall be processed in line with the health requirements and containers of raw materials shall be cleaned regularly to prevent from being polluted. The Group has set stringent requirements for workers to enter production sites. Before entering the production sites, workers are required to conduct hand disinfection and the footbath; after entering the production sites, workers are required to wear neat work clothes, pants and hats, and uniforms shall be cleaned regularly. Production equipments, tools and containers shall also be thoroughly cleaned and disinfected both before and after use.

Emphasis on Reputation

The Group has been committed to building a relationship of mutual trust with our customers. In order to safeguard our customers' information, the Group's employees are required to enter into a confidentiality agreements which requires employees to keep and handle the confidential information of customers with due care and not to disclose any information to third parties. At the same time, the Group regulates the access system so that outsiders and vehicles must be registered to ensure that the assets of customers and the Company are not easily leaked.

In order to establish a long-term partnership with our customers, the Group has developed a process for finished goods inventory management with an aim to sell products in the best condition through such a prudent storage method. Products shall be stored by categories and managed on a quantitative basis. Products should be inspected and maintained on a daily or regular basis according to their varieties, characteristics and storage conditions, including recording the temperature, humidity and other factors in the warehouse and making careful inspection to prevent products from getting deteriorated, moldy, expired or damaged. As a responsible company, the Group will conduct double check prior to the delivery to ensure that products sold are qualified.

The Group has also developed a return process. If quality problems are identified in raw materials when distributing raw materials and packaging materials, such materials will be returned to suppliers as the Group refuses to use the unqualified materials. Meanwhile, just in case, the Group will accept products returned by customers due to quality problems so as to provide quality services to customers.

Emphasis on Management

To improve the management of the Group, we conduct comprehensive review regularly on the corporate's environmental sanitation and disciplines as well as other aspects. If any non-compliance are identified out in the process of review, relevant issues will be reported to the corresponding department' manager for handling timely. Besides, the Group maintains frequent communication with its staff and clarifies the matter in question on a face-to-face basis. All working procedures in the Group shall be performed with law and rule being abided by and any violation to rules shall have reason and solution to resort to. All of above measures are aimed at improving the quality of service.

Since the Group emphasizes the sale of the products, it carefully chooses distributors by evaluating their marketing approaches and creditworthiness and only cooperates with those appropriate ones after prudent consideration. By managing and monitoring the performance of our distributors, the Group ensures that the customer was provided with quality services when purchasing our products.

The Group complies with the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and other laws and regulations. We follow the policies and regulation imposed on advertising and labeling by implementing checking and reviewing procedures and conducting crosschecking of electronic files with cooperation partner. Any unexpected incident could be settled timely and jointly with the cooperation partner.

Commitment to Anti-corruption

The Group strictly adheres to the Criminal Law of the People's Republic of China (《中華人民共和國刑法》). Our staff is completely prohibited from taking advantage of position in committing bribery, blackmail, fraud, extortion against and illegally accepting property from others. We also severely punish money laundering activities conducted through public account or private account or otherwise. With determination, we expected that the embezzlement can be ruled out from our Company.

CHARITY CAMPAIGNS

During the Year, the Group was luckily invited to attend the intangible cultural heritage exposition held in Tonghua City, namely, the "Vintage Autumn for Tourism and Wine, 2016 Tonghua China (2016中國•通化金秋葡萄採釀旅遊季暨葡萄酒展博)". Being an exhibitor, the Group promoted the wine culture and knowledge to the citizens in Tonghua city and lead the public to know more about their local leading wine enterprise.

During the Year, the Group had made charity donation of approximately RMB215,000 in total. These amounts were donated to assist dropout students, solitary elders and less privileged.

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)

Opinion

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 61 to 120, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters – continued

Key audit matter	How our audit addressed the key audit matter
Revenue recognised from sales of wine products	
We identified revenue recognised from sales of wine products as a key audit matter as revenue recognised is quantitatively significant to the consolidated statement of profit or loss and other comprehensive income and material revenue transactions may occur close to the end of the reporting period. Revenue from sales of wine products is recognised when the wine products are delivered and title has passed. The accounting policy for revenue recognition is disclosed in note 3 to the consolidated financial statements. The Group recognised revenue of RMB271,333,000 from sales of wine products for the year ended 31 December 2016, which is disclosed in the consolidated statement of profit or loss and other comprehensive income and note 7 to the consolidated financial statements.	Our procedures in relation to revenue recognised from sales of wine products included: • Obtaining an understanding of the revenue business process regarding sales of wine products; • Understanding and testing the key controls over the recognition of sales of wine products; • Checking the terms set out in the sales and purchase agreements; and assessing whether the significant risks and rewards of ownership of the wine products of the revenue recognised have been transferred to the customers by reviewing the relevant documents, including the delivery notices and acknowledgement to receipts, on a sample basis; and • Testing the recognition of material sales transactions close to the end of the reporting period to assess whether those sales transactions were recorded in appropriate accounting period in accordance with the Group's revenue recognition policy.

Key Audit Matters – continued

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories We identified the valuation of inventories as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the significant degree of judgment by the management associated with determining the net realisable value ("NRV"). As disclosed in note 3 to the consolidated financial statements, NRV represents the latest selling prices for inventories less all estimated costs of completion and costs necessary to make the sale. As disclosed in note 4 to the consolidated financial statements, the management's estimation of the NRV is primarily based on the latest selling prices and current market conditions. The Group carries out the inventory review at the end of the reporting period and makes allowance of RMB1,684,000 on obsolete and slow moving items to write off or write down inventories to their NRVs during the year ended 31 December 2016 and the carrying amount of inventories is RMB299,860,000 as at 31 December 2016.	Our procedures in relation to assessing the appropriateness of the valuation of the inventories included: • Obtaining an understanding of how the management estimated the NRVs of inventories and evaluating the historical accuracy of the allowance estimation by management; • Discussing with management and assessing the basis of the management's estimation of subsequent selling price, costs to completion and costs necessary to make the sale; • Assessing management's process for researching the current market conditions in wine industry to identify any potential adverse impact on the selling price and sales of the Group's inventories; and • Assessing the sufficiency of allowance where the estimated NRV is lower than the cost.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

Other Information – continued

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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 contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements – continued

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements – continued

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Sze Ching Yiu.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 February 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000 (restated)
Revenue	7	**271,333**	293,689
Cost of sales		**(187,164)**	(199,056)
Gross profit		**84,169**	94,633
Other income, gains and losses	9	**586**	847
Selling and distribution expenses		**(126,957)**	(41,910)
Administrative expenses		**(60,612)**	(41,089)
Finance costs	10	**(21)**	–
Change in fair value of biological assets	19	**3,759**	3,681
(Loss) profit before tax		**(99,076)**	16,162
Taxation	11	**–**	–
(Loss) profit and total comprehensive (expense) income for the year	12	**(99,076)**	16,162
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(93,291)**	9,581
Non-controlling interests		**(5,785)**	6,581
		(99,076)	16,162
(Losses) earnings per share			
Basic *(RMB cents)*	16	**(4.63)**	0.48
Diluted *(RMB cents)*		**(4.63)**	0.48

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	31.12.2016 RMB'000	31.12.2015 RMB'000 (restated)	1.1.2015 RMB'000 (restated)
Non-current Assets				
Property, plant and equipment	17	**149,130**	145,381	151,841
Prepaid lease payments	18	**54,138**	56,862	59,586
Deposits paid for acquisition of property, plant and equipment		**–**	7,343	7,343
Biological assets	19	**2,687**	2,857	2,726
		205,955	212,443	221,496
Current Assets				
Inventories	20	**299,860**	312,719	315,185
Trade receivables	21	**27,407**	84,702	97,115
Deposits and other receivables	22	**14,157**	12,153	12,076
Tax recoverable		**5,551**	5,551	5,551
Prepaid lease payments	18	**2,723**	2,723	2,723
Bank balances and cash	23	**181,683**	201,942	172,613
		531,381	619,790	605,263
Current Liabilities				
Trade payables	24	**5,857**	9,307	19,317
Other payables and accruals	25	**25,871**	33,363	34,014
Bank borrowing	26	**7,096**	–	–
Tax liabilities		**9,961**	9,961	9,988
		48,785	52,631	63,319
Net Current Assets		**482,596**	567,159	541,944
Total Assets less Current Liabilities		**688,551**	779,602	763,440
Capital and Reserves				
Share capital	27	**17,624**	17,624	17,624
Reserves		**602,626**	687,892	678,311
Equity attributable to owners of the Company		**620,250**	705,516	695,935
Non-controlling interests		**68,301**	74,086	67,505
Total Equity		**688,551**	779,602	763,440

The consolidated financial statements on pages 61 to 120 were approved and authorised for issue by the Board of Directors on 27 February 2017 and are signed on its behalf by:

Wang Guangyuan
EXECUTIVE DIRECTOR

Zhang Hebin
EXECUTIVE DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	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 options reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2015 (audited)	17,624	910,541	86,360	130,634	8,259	(464,684)	688,734	67,505	756,239
Adjustment *(note 2)*	–	–	–	–	–	7,201	7,201	–	7,201
At 1 January 2015 (restated)	17,624	910,541	86,360	130,634	8,259	(457,483)	695,935	67,505	763,440
Profit and total comprehensive income for the year	–	–	–	–	–	9,581	9,581	6,581	16,162
Share options lapsed *(note 28)*	–	–	–	–	(2,360)	2,360	–	–	–
At 31 December 2015 (restated)	17,624	910,541	86,360	130,634	5,899	(445,542)	705,516	74,086	779,602
Loss and total comprehensive expense for the year	–	–	–	–	–	(93,291)	(93,291)	(5,785)	(99,076)
Recognition of equity-settled share-based payments *(note 28)*	–	–	–	–	8,025	–	8,025	–	8,025
At 31 December 2016	17,624	910,541	86,360	130,634	13,924	(538,833)	620,250	68,301	688,551

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 of Hong Kong Limited (the "Stock Exchange").

(b) In accordance with the relevant laws and regulations of the People's Republic of China ("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 reserve 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 2016

	2016 *RMB'000*	2015 *RMB'000* (restated)
OPERATING ACTIVITIES		
(Loss) profit before tax	**(99,076)**	16,162
Adjustments for:		
Interest income	**(760)**	(793)
Finance costs	**21**	–
Depreciation of property, plant and equipment	**10,597**	11,746
Loss on disposal of property, plant and equipment	**19**	–
Amortisation of prepaid lease payments	**938**	938
Write off of inventories	**1,684**	1,743
Expense recognised in respect of equity-settled share-based payments	**8,025**	–
Change in fair value of biological assets	**(3,759)**	(3,681)
Operating cash flows before movements in working capital	**(82,311)**	26,115
Increase in biological assets	**(1,236)**	(1,200)
Increase in bearer plants included in property, plant and equipment	**(27)**	(30)
Decrease in inventories	**16,340**	5,473
Decrease in trade receivables	**57,295**	12,413
Increase in deposits and other receivables	**(2,004)**	(77)
Decrease in trade payables	**(3,450)**	(10,010)
(Decrease) increase in other payables and accruals	**(8,276)**	4,558
Cash (used in) generated from operations	**(23,669)**	37,242
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(23,669)**	37,242
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(11,768)**	(8,679)
Refund received from deposits paid for acquisition of property, plant and equipment	**7,343**	–
Interest received	**760**	793
NET CASH USED IN INVESTING ACTIVITIES	**(3,665)**	(7,886)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 *RMB'000*	2015 *RMB'000* (restated)
FINANCING ACTIVITIES		
Proceeds from bank borrowing	**7,096**	–
Interest paid	**(21)**	–
NET CASH FROM FINANCING ACTIVITIES	**7,075**	–
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(20,259)**	29,356
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**201,942**	172,613
Effect of foreign exchange rate changes	**–**	(27)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**181,683**	201,942

1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (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 "BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" of 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 33.

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

Except as described below, the application of the amendments to 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

Amendments to HKFRSs that are mandatorily effective for the current year – continued

Amendments to HKAS 16 and HKAS 41 *Agriculture: Bearer Plants*

The Group has applied the amendments to HKAS 16 and HKAS 41 *Agriculture: Bearer Plants* for the first time in the current year. The Amendments to HKAS 16 *Property, Plant and Equipment* and HKAS 41 *Agriculture* 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.

Summary of the effects of the above change in Amendments to HKAS 16 and HKAS 41

The effects of the change in Amendments to HKAS 16 and HKAS 41 described above on the results for the current and preceding years by line items presented in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2016 *RMB'000*	2015 *RMB'000*
Increase in cost of sales	(1,401)	(1,151)
Increase in change in fair value of biological assets	3,599	3,882
Net decrease in loss/increase in profit for the year attributable to owners of the Company	2,198	2,731

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

Amendments to HKFRSs that are mandatorily effective for the current year – continued

Summary of the effects of the above change in Amendments to HKAS 16 and HKAS 41 – continued

The effects of the change in Amendments to HKAS 16 and HKAS 41 described above on the consolidated statement of financial position of the Group as at the end of the immediately preceding financial year, i.e. 31 December 2015, are as follow:

	As at 31 December 2015 (originally stated)	Adjustments	As at 31 December 2015 (restated)
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	130,686	14,695	145,381
Biological assets	7,620	(4,763)	2,857
Total effect on net assets	138,306	9,932	148,238
Accumulated losses and total effect on equity	(455,474)	9,932	(445,542)

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

Amendments to HKFRSs that are mandatorily effective for the current year – continued

Summary of the effects of the above change in Amendments to HKAS 16 and HKAS 41 – continued

The effects of the change in Amendments to HKAS 16 and HKAS 41 described above on the consolidated statement of financial position of the Group as at the beginning of the comparative period, i.e. 1 January 2015, are as follows:

	As at 1 January 2015 (originally stated)	Adjustments	As at 1 January 2015 (restated)
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	139,896	11,945	151,841
Biological assets	7,470	(4,744)	2,726
Total effect on net assets	147,366	7,201	154,567
Accumulated losses and total effect on equity	(464,684)	7,201	(457,483)

	Impact on basic (losses) earnings per share		Impact on diluted (losses) earnings per share	
	2016	2015	**2016**	2015
	RMB cents	*RMB cents*	***RMB cents***	*RMB cents*
Figures before adjustments	**(4.74)**	0.34	**(4.74)**	0.34
Adjustment arising from change in accounting policy in relation to application of Amendments to HKAS 16 and HKAS 41	**0.11**	0.14	**0.11**	0.14
Figures after adjustments	**(4.63)**	0.48	**(4.63)**	0.48

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017

HKFRS 15 *Revenue from Contracts with Customers*

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.

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

New and amendments to HKFRSs in issue but not yet effective – continued

HKFRS 15 ***Revenue from Contracts with Customers – continued***

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.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent consideration, as well as licensing application guidance.

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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

New and amendments to HKFRSs in issue but not yet effective – continued

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified assets is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presents as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

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

New and amendments to HKFRSs in issue but not yet effective – continued

HKFRS 16 ***Leases – continued***

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB1,595,000 as disclosed in note 29. A preliminary assessment indicated that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new arrangements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

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 the HKFRSs 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 ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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 *Share-based payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of assets*.

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 significant accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

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.

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.

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.

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 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.

Impairment losses of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment losses of tangible assets – continued

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.

Biological assets

Biological assets comprise grapes growing on bearer plants 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 grapes. Costs to sell are the incremental costs directly attributable to the disposals of an asset, mainly transportation cost and excluding income taxes.

The related costs including picking cost and fertilizers and pesticide cost incurred for harvest of grapes are capitalised, until such time the grapes are harvested.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

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 "profit before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

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.

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 latest selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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 and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of 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 30 days to 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Financial liabilities and equity instruments – continued

Financial liabilities

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

Derecognition – continued

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.

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 (accumulated losses).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, 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.

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.

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

Fair value measurements and valuation processes of biological assets – continued

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 RMB3,759,000 (2015: RMB3,681,000) was charged to profit or loss for the year. As at 31 December 2016, the carrying amount of biological assets is RMB2,687,000 (2015: RMB2,857,000).

Estimated allowances for inventories

The management estimates the net realisable value of inventories based primarily on the latest selling prices and current market conditions. The Group carries out an inventory review at end of the reporting period and makes allowance of RMB1,684,000 (2015: RMB1,743,000) on obsolete and slow moving items to write off or write down inventories to their net realisable values during the year ended 31 December 2016. Where the expectation on the net realisable value is lower than the cost, an impairment may arise. The carrying amount of inventories is RMB299,860,000 (2015: RMB312,719,000).

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 RMB27,407,000 (2015: RMB84,702,000).

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 balances. The Group's overall strategy remains unchanged from prior years.

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

	2016	2015
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**209,090**	286,644
Financial liabilities		
Amortised cost	**15,149**	12,104

b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, bank balances and cash, trade and other payables and bank borrowing. 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**	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
HKD	**3**	149	**8,841**	2,629

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 10% increase and decrease in RMB against HKD. 10% 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 10% change in foreign currency rate. A negative number below indicates a decrease in loss or an increase in post-tax profit where RMB strengthen 10% against HKD. For a 10% weakening of RMB against HKD, there would be an equal and opposite impact on the profit or loss and the balances below would be positive.

	2016 ***RMB'000***	2015 *RMB'000*
HKD	**(884)**	(248)

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 2016, 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 30 days to 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.

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.

6. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Liquidity risk – continued

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.

	Weighted average effective interest rate	Repayable on demand	3 months or less	3 to 12 months	Total undiscounted cash flows and carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2016					
Non-derivative financial liabilities					
Trade payables	N/A	–	5,857	–	5,857
Other payables	N/A	1,412	–	784	2,196
Bank borrowing	3	7,096	–	–	7,096
		8,508	5,857	784	15,149
2015					
Non-derivative financial liabilities					
Trade payables	N/A	–	9,307	–	9,307
Other payables	N/A	2,797	–	–	2,797
		2,797	9,307	–	12,104

c. Fair value measurements of financial instruments

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

7. REVENUE

Revenue represents the net amounts received and receivable for wine products 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 wine products. The Group is organised based on the region of wine products delivered.

The Group's reportable and operating segments under HKFRS 8 *Operating Segments* are identified based on different geographical zones of wine products delivered in People's Republic of China ("PRC") : North-East Region, Northern Region, Eastern Region, South-Central Region and South-West Region.

- North-East Region includes the provinces of Jilin, Heilongjiang and Liaoning.
- Northern Region includes provinces of Gansu, Hebei, Shaanxi, Shanxi, Inner Mongolia Autonomous Region, Ningxia Hui Autonomous Region, city of Beijing and city of Tianjin.
- Eastern Region includes provinces of Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Zhejiang, and city of Shanghai.
- South-Central Region includes provinces of Guangdong, Hainan, Henan, Hubei and Hunan.
- South-West Region includes provinces of 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 revenue 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) profit, 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 2016						
Segment revenue from external customers	**50,800**	**50,355**	**74,545**	**46,918**	**48,715**	**271,333**
Segment loss	**(5,246)**	**(5,505)**	**(12,557)**	**(7,307)**	**(10,696)**	**(41,311)**
For the year ended 31 December 2015						
Segment revenue from external customers	45,401	60,027	83,444	48,950	55,867	293,689
Segment profit	4,151	14,151	19,265	10,934	7,924	56,425
As at 31 December 2016						
Segment assets	**3,052**	**6,930**	**8,397**	**5,751**	**5,762**	**29,892**
Segment liabilities	**1,206**	**1,195**	**1,769**	**1,113**	**1,156**	**6,439**
As at 31 December 2015						
Segment assets	9,948	18,948	26,387	12,818	16,601	84,702
Segment liabilities	2,007	2,653	3,688	2,164	2,469	12,981

8. SEGMENT INFORMATION – continued

Reconciliations of reportable and operating segment revenue, (loss) profit, 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.

	2016 *RMB'000*	2015 *RMB'000* (restated)
Total segment (loss) profit	**(41,311)**	56,425
Unallocated amounts:		
Other corporate income	**760**	847
Other corporate expenses	**(58,525)**	(41,110)
Consolidated (loss) profit before tax	**(99,076)**	16,162

Reportable and operating segment (loss) profit represented the (loss) profit incurred by each segment without allocation of amortisation, depreciation, impairment losses, change in fair value of biological assets, finance costs, other corporate expenses and other corporate income.

	2016 *RMB'000*	2015 *RMB'000* (restated)
Assets		
Total segment assets	**29,892**	84,702
Other unallocated amounts		
Property, plant and equipment	**149,130**	145,381
Prepaid lease payments	**56,861**	59,585
Deposits paid for acquisition of property, plant and equipment	**–**	7,343
Biological assets	**2,687**	2,857
Inventories	**299,860**	312,719
Deposits and other receivables	**11,672**	12,153
Tax recoverable	**5,551**	5,551
Bank balances and cash	**181,683**	201,942
Consolidated total assets	**737,336**	832,233

8. SEGMENT INFORMATION – continued

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

Reportable and operating segment assets represent trade receivables and prepaid other taxes.

	2016	2015
	RMB'000	*RMB'000*
Liabilities		
Total segment liabilities	6,439	12,981
Other unallocated amounts		
Trade payables	5,857	9,307
Other payables and accruals	19,432	20,382
Bank borrowing	7,096	–
Tax liabilities	9,961	9,961
Consolidated total liabilities	48,785	52,631

Reportable and operating segment liabilities comprise certain other tax payables and other creditors.

Revenue from major products

The following is an analysis of the Group's revenue from its major products.

	2016	2015
	RMB'000	*RMB'000*
Sweet wines	144,281	148,028
Dry wines	109,566	113,995
Brandy	6,010	7,047
Others	11,476	24,619
	271,333	293,689

9. OTHER INCOME, GAINS AND LOSSES

	2016	2015
	RMB'000	*RMB'000*
Bank interest income	760	793
Net foreign exchange (loss) gain	(155)	54
Loss on disposal of property, plant and equipment	(19)	–
	586	847

10. FINANCE COSTS

	2016	2015
	RMB'000	*RMB'000*
Interest on bank borrowing	21	–

11. TAXATION

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

	2016	2015
	RMB'000	*RMB'000*
		(restated)
(Loss) profit before tax	**(99,076)**	16,162
Tax (credit) charge at income tax rate of 25% (2015: 25%)	**(24,769)**	4,041
Tax effect of income not taxable for tax purpose	**–**	(37)
Tax effect of expenses not deductible for tax purpose	**12,518**	5,764
Tax effect of tax loss not recognised	**12,606**	875
Utilisation of tax losses previously not recognised	**(355)**	(10,643)
Taxation for the year	**–**	–

12. (LOSS) PROFIT AND TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR

	2016 *RMB'000*	2015 *RMB'000* (restated)
(Loss) profit and total comprehensive (expense) income for the year has been arrived at after (crediting) charging:		
Auditor's remuneration	**1,589**	1,592
Cost of inventories recognised as an expense	**151,553**	157,988
Depreciation of property, plant and equipment	**10,597**	11,746
Amortisation of prepaid lease payments	**2,724**	2,724
Less: amounts included in property, plant and equipment	**(1,786)**	(1,786)
	938	938
Research and development costs recognised as an expense (included in administrative expenses)	**4,100**	–
Staff costs, including directors' remuneration		
– salaries and other benefits costs	**19,307**	16,740
– sales commission	**5,938**	6,815
– retirement benefits schemes contributions	**4,262**	4,302
– share-based payments (included in administrative expenses)	**8,025**	–
	37,532	27,857
Write off of inventories (included in cost of sales)	**1,684**	1,743
Advertising and promotion expenses (included in selling and distribution expenses)	**101,044**	14,001

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is 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 2016				
Executive directors				
Mr. Wang Guangyuan ("Mr. Wang")	1,704	41	–	1,745
Mr. Zhang Hebin	610	31	1,428	2,069
Ms. Wang Lijuan	586	21	–	607
	2,900	93	1,428	4,421
Independent non-executive directors				
Mr. Li Changgao (resigned on 15 January 2016)	–	–	–	–
Mr. Yang Qiang (joined on 15 January 2016)	120	–	–	120
Mr. Lai Chi Keung, Albert	161	–	–	161
Mr. Sih Wai Kin, Daniel (resigned on 18 November 2016)	147	–	–	147
Mr. Lam Yiu Por (joined on 18 November 2016)	13	–	–	13
	441	–	–	441
	3,341	93	1,428	4,862

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – continued

	Salaries	Retirement benefits scheme contributions	Share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2015				
Executive directors				
Mr. Wang	1,570	42	–	1,612
Mr. Zhang Hebin	565	32	–	597
Ms. Wang Lijuan	541	21	–	562
	2,676	95	–	2,771
Independent non-executive directors				
Mr. Li Changgao	147	–	–	147
Mr. Lai Chi Keung, Albert	147	–	–	147
Mr. Sih Wai Kin, Daniel	147	–	–	147
	441	–	–	441
	3,117	95	–	3,212

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

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.

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

14. FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2016 and 2015, of the five individuals with the highest emoluments in the Group, two were directors of the Company whose emoluments were disclosed in note 13 above. The emoluments of the remaining three highest paid individuals were as follows:

	2016	2015
	RMB'000	*RMB'000*
Salaries, allowance and benefits in kind	**2,656**	1,818
Performance related bonuses	**–**	–
Retirement benefits	**161**	44
Equity-settled share option expense	**3,299**	–
	6,116	1,862

Their emoluments were within the following bands:

	2016	2015
	No. of employees	*No. of employees*
Below HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**1**	–
	3	3

15. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

16. (LOSSES) EARNINGS PER SHARE

The calculation of the basic and diluted (losses) earnings per share attributable to the owners of the Company is based on the following data:

	2016	2015
	RMB'000	*RMB'000*
		(restated)
(Losses) earnings for the year attributable to owners of the Company and (losses) earnings for the purposes of calculating the basic and diluted (losses) earnings per share	**(93,291)**	9,581

	2016 & 2015
	Number of shares
Number of shares	
Weighted average number of ordinary shares for the purpose of basic and diluted (losses) earnings per share	2,013,018,000

For the year ended 31 December 2015, the computation of diluted earnings per share does not assume the exercise of the Company's share options as the exercise prices of the options were higher than the average market price per share from the date of grant to year end date.

For the year ended 31 December 2016, the computation of diluted losses per share does not assume the exercise of the Company's share options since their exercise would result in a decrease in losses per share.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures	Leasehold improvements	Plant and machinery	Fixtures and office equipment	Motor vehicles	Bearer plants	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST								
At 1 January 2015 (restated)	452,125	9,936	390,956	16,261	3,508	13,922	9,800	896,508
Additions	–	419	966	–	–	3,901	–	5,286
Transfer	–	–	9,800	–	–	–	(9,800)	–
Disposal	–	–	(1,424)	–	–	–	–	(1,424)
At 31 December 2015 (restated)	452,125	10,355	400,298	16,261	3,508	17,823	–	900,370
Additions	–	–	–	–	786	3,905	9,674	14,365
Transfer	–	–	6,440	–	–	–	(6,440)	–
Disposal	–	–	–	–	(390)	–	–	(390)
At 31 December 2016	452,125	10,355	406,738	16,261	3,904	21,728	3,234	914,345
DEPRECIATION AND IMPAIRMENT								
At 1 January 2015 (restated)	362,672	9,680	363,974	4,009	2,355	1,977	–	744,667
Provided for the year (restated)	3,577	220	4,021	2,267	510	1,151	–	11,746
Disposal	–	–	(1,424)	–	–	–	–	(1,424)
At 31 December 2015 (restated)	366,249	9,900	366,571	6,276	2,865	3,128	–	754,989
Provided for the year	3,382	216	3,006	2,265	327	1,401	–	10,597
Disposal	–	–	–	–	(371)	–	–	(371)
At 31 December 2016	369,631	10,116	369,577	8,541	2,821	4,529	–	765,215
CARRYING VALUES								
At 31 December 2016	82,494	239	37,161	7,720	1,083	17,199	3,234	149,130
At 31 December 2015 (restated)	85,876	455	33,727	9,985	643	14,695	–	145,381

17. 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%
Bearer plants	Over the term of leased land

The buildings are situated on land in the PRC.

18. PREPAID LEASE PAYMENTS

	RMB'000
At 1 January 2015, 31 December 2015 and 2016	93,059
AMORTISATION AND IMPAIRMENT	
At 1 January 2015	30,750
Provided for the year	2,724
At 31 December 2015	33,474
Provided for the year	2,724
At 31 December 2016	36,198
CARRYING VALUES	
At 31 December 2016	56,861
At 31 December 2015	59,585

18. PREPAID LEASE PAYMENTS – continued

	2016 *RMB'000*	2015 *RMB'000*
Analysed for reporting purposes as:		
Non-current asset	**54,138**	56,862
Current asset	**2,723**	2,723
	56,861	59,585

19. BIOLOGICAL ASSETS

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

	RMB'000
At 1 January 2015 (restated)	2,726
Increase due to cultivation	1,200
Transfer to inventories	(4,750)
Change in fair value of biological assets	3,681
At 31 December 2015 (restated)	2,857
Increase due to cultivation	1,236
Transfer to inventories	(5,165)
Change in fair value of biological assets	3,759
At 31 December 2016	2,687

Cultivation costs incurred as addition to the grapes.

All grapes are harvested annually from August to November of each year. The output of grapes was 740 tonnes (2015: 638 tonnes) during the year ended 31 December 2016. Grapes of RMB5,165,000 (2015: RMB4,750,000) 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.

19. BIOLOGICAL ASSETS – continued

As at the years ended 31 December 2016 and 2015, the Group has engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the fair values of the grapes.

The fair value of grapes is calculated using a discounted cash flow technique by discounting the future cash flows of grapes 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
Grapes	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 rate, the lower the fair value.	(1) 3% (2015: 3%) per annum for all types of grapes. (2) 1.48 kg to 7.14 kg (2015: 1.03 kg to 7.73 kg), various from different types of grapes at different time periods. (3) RMB2.70 per kg to RMB16.70 per kg (2015: RMB3.00 per kg to RMB16.70 per kg), various from different types of grapes. (4) 20% (2015: 20%)

20. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials and consumables	**38,092**	45,967
Work in progress	**246,168**	250,391
Finished goods	**15,600**	16,361
	299,860	312,719

21. TRADE RECEIVABLES

The Group allows a credit period of 30 to 90 days to its trade customers except for the new customers which payment is made when wine products 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.

	2016 RMB'000	2015 RMB'000
0 – 30 days	**18,274**	42,484
31 – 60 days	**9,133**	22,001
61 – 90 days	**–**	20,217
	27,407	84,702

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

	2016 RMB'000	2015 RMB'000
Prepaid other taxes	12,290	9,805
Other deposits and prepayments	1,867	2,348
	14,157	12,153

23. BANK BALANCES AND CASH

Bank balances carry interest at average market rates ranging from 0.01% to 0.32% (2015: 0.01% to 0.35%) 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:

	2016 RMB'000	2015 RMB'000
0 – 30 days	288	3,706
31 – 60 days	5,569	4,221
61 – 90 days	–	1,380
	5,857	9,307

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 timeframe.

25. OTHER PAYABLES AND ACCRUALS

	2016 *RMB'000*	2015 *RMB'000*
Payables for the construction of plant and acquisition of machinery	**784**	–
Accrued expenses	**17,501**	17,305
Other tax payables	**6,174**	13,261
Other creditors	**1,412**	2,797
	25,871	33,363

26. BANK BORROWING

	2016 *RMB'000*	2015 *RMB'000*
Unsecured and unguaranteed bank borrowing repayable on demand	**7,096**	–

The amount due is based on scheduled repayment dates set out in the relevant loan agreement. The bank borrowing is denominated in HKD. The contract interest rate on the bank borrowing is 2.25% per annum below the Hong Kong Dollar Prime rate and the effective interest rate is 3% per annum as at 31 December 2016.

27. SHARE CAPITAL OF THE COMPANY

	Number of ordinary shares '000 at HK$0.01 per share	Amount
		HK$'000
Authorised:		
At 1 January 2015, 31 December 2015 and 31 December 2016	10,000,000	100,000
Issued and fully paid:		
At 1 January 2015, 31 December 2015 and 31 December 2016	2,013,018	20,131
Shown in the consolidated financial statements At 31 December 2015 and 2016	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 2016 and 2015.

28. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company:

The Company's share option scheme (the "Scheme"), was adopted by the shareholders of the Company on 19 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. 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 2016, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 155,850,000 (2015: 40,000,000), representing 7.74% (2015: 1.99%) 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 options 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.

On 9 May 2016, the Company granted share options to one of its directors and eligible employees to subscribe for a total of 115,850,000 shares of HK$0.01 each in the Company with exercise price of HK$0.263 per share under the Scheme.

Details of specific categories of outstanding options as at 31 December 2016 and 2015 are as follows:

Date of grant	Number of options	Exercisable period	Exercise price
18 May 2012	40,000,000 (2015: 40,000,000)	18 May 2012 to 17 May 2017	HK$0.71
9 May 2016	115,850,000 (2015: N/A)	9 May 2016 to 8 May 2021	HK$0.263

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 ended 31 December 2016 and 2015:

Category of participant	Date of grant	Outstanding at 1.1.2015	Granted during the year	Lapsed/ forfeited during the year	Exercised during the year	Outstanding at 31.12.2015	Granted during the year	Lapsed/ forfeited during the year	Exercised during the year	Outstanding at 31.12.2016
A director	9 May 2016	–	–	–	–	–	16,550,000	–	–	16,550,000
Employees	18 May 2012	56,000,000	–	(16,000,000)	–	40,000,000	–	–	–	40,000,000
	9 May 2016	–	–	–	–	–	99,300,000	–	–	99,300,000
		56,000,000	–	(16,000,000)	–	40,000,000	99,300,000	–	–	139,300,000
Total		56,000,000	–	(16,000,000)	–	40,000,000	115,850,000	–	–	155,850,000
Exercisable at the end of the year						40,000,000				155,850,000

For share options granted on 18 May 2012 and 9 May 2016, the closing price of the share of the Company was HK$0.255 and HK$0.70 respectively on the date of grant. Binomial Option Pricing Model had been used to estimate the fair value of the Company's options. The inputs into the model are as follows:

Date of grant	18 May 2012	9 May 2016
Share price as at grant date	HK$0.70	HK$0.255
Exercise price	HK$0.71	HK$0.263
Expected volatility	51%	48.12%
Risk-free rate	0.46%	0.96%
Expected dividend yield	4.0%	0.0%

The variables and assumptions used in computing the fair value of the share options are based on the Company's best estimate. The value of the Company's option varies with different variables of certain subjective assumptions.

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

The Company recognised the total expense of RMB8,025,000 for the year ended 31 December 2016 (2015: nil) in relation to share options granted by the Company.

29. OPERATING LEASES

The Group as lessee

	2016 *RMB'000*	2015 *RMB'000*
Minimum lease payments paid under operating leases during the year:		
Premises for office	**822**	1,197

At the year ended 31 December 2016, the Group had commitments for minimum lease payment under non-cancellable operating leases which fall due as follows:

	2016 *RMB'000*	2015 *RMB'000*
Rented premises for office		
Within one year	**870**	817
In the second to fifth year inclusive	**725**	1,497
	1,595	2,314

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

30. CAPITAL COMMITMENTS

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

	2016	2015
	RMB'000	*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	**7,686**	22,744
Capital expenditure in respect of acquisition of property, plant and equipment, development of wine estate and wine cellar authorised but not contracted for	**89,692**	74,089

31. RETIREMENT BENEFITS PLANS

The Group operates a Mandatory Provident Fund scheme for all qualifying employees in Hong Kong. The Group contributes certain percentage of relevant payroll costs to the Mandatory Provident Fund scheme, which contribution is matched by employees.

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 RMB4,262,000 (2015: RMB4,302,000).

32. RELATED PARTIES TRANSACTIONS

Compensation of key management personnel

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

	2016 *RMB'000*	2015 *RMB'000*
Short-term benefits	**6,401**	5,393
Post-employment benefits	**420**	199
Share-based payments	**8,025**	–
	14,846	5,592

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

33. 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	Issued and fully paid share/ registered capital	Attributable equity interest held by the Company 2016 & 2015	Principal activity
Fullest Power Investments Limited ("Fullest Power") *(note 1)*	BVI	Ordinary shares US$100,000	100%	Investment holding
Rich Treasure Link Limited	Hong Kong	Ordinary shares HK$10,000	100%	Investment holding and provision of administrative services
Topping Future Limited	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 2)*	PRC	Registered capital RMB87,110,000	100%	Manufacturing and sale of wine products and processing of grape juice
集安雅羅酒莊有限公司 Ji An Yaluo Wine Estate Co., Ltd. *(note 2)*	PRC	Registered capital HK$40,000,000	100%	Manufacturing and sale of wine 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 2)*	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 2)*	PRC	Registered capital HK$40,000,000	100%	Wholesales and retail of wine products
煙台白洋河釀酒有限責任公司 Yantai Baiyanghe Winery CO., Ltd ("Yantai Baiyanghe") *(note 3)*	PRC	Registered capital RMB4,949,960	60%	Manufacturing and sale of wine products and processing of grape juice

Note:

1. Except for Fullest Power, all subsidiaries are indirectly held by the Company.

2. These companies are wholly-foreign owned enterprises established in the PRC.

3. The Company is a sino-foreign owned enterprise established in the PRC.

33. 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) profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2016 & 2015	**2016**	2015	**2016**	2015
			RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Yantai Baiyanghe	PRC	40%	**(5,785)**	6,581	**68,301**	74,086

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY – continued

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

Summarised financial information of Yantai Baiyanghe is set out below.

	2016	2015
	RMB'000	*RMB'000*
Non-current assets	**40,144**	34,619
Current assets	**137,734**	162,720
Current liabilities	**(7,126)**	(12,123)
Equity attributable to owners of the Company	**102,451**	111,130
Non-controlling interests	**68,301**	74,086
Revenue	**77,812**	95,463
Expenses	**(92,276)**	(79,011)
(Loss) profit for the year	**(14,464)**	16,452
(Loss) profit attributable to:		
Owners of the Company	**(8,679)**	9,871
Non-controlling interests	**(5,785)**	6,581
	(14,464)	16,452
Net cash (outflow) inflow from operating activities	**(2,056)**	22,289
Net cash (outflow) inflow from investing activities	**(6,537)**	335
Net cash (outflow) inflow	**(8,593)**	22,624

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 RMB'000	2015 RMB'000
Non-current Assets		
Investment in a subsidiary	–	–
Property, plant and equipment	238	393
	238	393
Current Assets		
Other receivables	271	747
Amounts due from subsidiaries	157,129	250,322
Bank balances	4	4
	157,404	251,073
Current Liabilities		
Other payables and accruals	(1,236)	(2,152)
Bank borrowing	(7,096)	–
	(8,332)	(2,152)
Net Current Assets	149,072	248,921
Total Assets less Current Liabilities	149,310	249,314
Capital and Reserves		
Share capital	17,624	17,624
Reserves	131,686	231,690
Total Equity	149,310	249,314

The Company's statement of financial position was approved and authorised for issue by the board of directors on 27 February 2017 and are signed on its behalf by:

Wang Guangyuan
EXECUTIVE DIRECTOR

Zhang Hebin
EXECUTIVE DIRECTOR

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY – continued

Movement in the Company's reserves

	Share premium *RMB'000*	Share options reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2015	910,541	8,259	(676,424)	242,376
Loss and total comprehensive expense for the year	–	–	(10,686)	(10,686)
Share options lapsed	–	(2,360)	2,360	–
At 31 December 2015	910,541	5,899	(684,750)	231,690
Loss and total comprehensive expense for the year	–	–	(108,029)	(108,029)
Recognition of equity-settled share-based payments	–	8,025	–	8,025
At 31 December 2016	910,541	13,924	(792,779)	131,686