Annual Report 2017

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

CONTENTS

Financial Highlights

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profitability data					
Revenue	**323,559**	271,333	293,689	286,320	175,996
Gross profit (loss)	**70,443**	84,169	94,633	24,043	(90,797)
(Loss) profit and total comprehensive (expense) income for the year attributable to owners of the Company	**(39,553)**	(93,291)	9,581	(658,653)	(496,543)
(Loss) earning per share					
– Basic (RMB cents) *(Note 1)*	**(1.96)**	(4.63)	0.48	(32.7)	(24.7)
– Diluted (RMB cents) *(Note 2)*	**(1.96)**	(4.63)	0.48	(32.7)	(24.7)

	Year ended 31 December				
	2017	2016	2015	2014	2013
Profitability ratios					
Gross profit (loss) margin	**21.8%**	31.0%	32.2%	8.4%	(51.6%)
Net (loss) profit margin	**(12.2%)**	(34.4%)	3.3%	(230.0%)	(282.1%)
Effective tax rate	**N/A**	N/A	N/A	N/A	N/A
Return on equity *(Note 3)*	**(6.6%)**	(14.1%)	1.4%	(64.2%)	(31.0%)
Return on assets *(Note 4)*	**(5.4%)**	(11.9%)	1.2%	(54.3%)	(28.3%)
Operating ratios (as a percentage of revenue)					
Advertising and marketing expenses	**10.6%**	37.2%	4.8%	53.8%	122.1%
Staff costs	**9.1%**	13.8%	9.5%	10.4%	12.5%
Research and development	**0%**	1.5%	0%	2.9%	5.7%

Notes:

1. The calculation of basic (loss) earning 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 earning per share for the year ended 31 December 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 year ended 31 December 2015.

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				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities data					
Non-current assets	**207,412**	205,955	212,443	221,496	721,261
Current assets	**510,628**	531,381	619,790	605,263	876,871
Current liabilities	**66,583**	48,785	52,631	63,319	71,135
Non-current liability	**–**	–	–	–	23,015
Shareholders' equity	**580,697**	620,250	705,516	695,935	1,354,588
Non-controlling interests	**70,760**	68,301	74,086	67,505	149,394

	Year ended/as at 31 December				
	2017	2016	2015	2014	2013
Other key financial ratios and information					
Current ratios *(Note 5)*	**7.7**	10.9	11.8	9.6	12.3
Quick ratios *(Note 6)*	**3.8**	4.7	5.8	4.6	8.7
Gearing ratio *(Note 7)*	**–**	0.01	–	–	–
Net asset value per share *(RMB) (Note 8)*	**0.32**	0.34	0.39	0.38	0.75
Inventory turnover days *(days) (Note 9)*	**478**	739	712	462	391
Trade receivables turnover days *(days) (Note 10)*	**64**	75	113	100	142
Trade payables turnover days *(days) (Note 11)*	**15**	18	32	33	16

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 (resigned on 2 May 2017)
Ms. Wang Lijun (appointed on 2 May 2017)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lai Chi Keung, Albert
Mr. Lam Yiu Por
Mr. Yang Qiang

COMPANY SECRETARY

Mr. Wong Kwok Kuen
(resigned on 2 November 2017)
Ms. Leung Ka Yan (appointed on 2 November 2017)

AUDIT COMMITTEE

Mr. Lam Yiu Por
Mr. Lai Chi Keung, Albert
Mr. Yang Qiang

REMUNERATION COMMITTEE

Mr. Lam Yiu Por
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
(resigned on 2 November 2017)
Ms. Leung Ka Yan (appointed on 2 November 2017)

LEGAL ADVISERS

As to Hong Kong law

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As to PRC law

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AUDITOR

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Certified Public Accountants
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Hong Kong

REGISTERED OFFICE

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2 Church Street
Hamilton HM 11
Bermuda

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1703, 17/F,
COFCO Tower
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Causeway Bay, Hong Kong

HEAD OFFICE IN THE PRC

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The People's Republic of China

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
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Bermuda

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

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

Agriculture Bank of China
Tonghua County Branch
No. 679 Changzheng Road
Kuaidamao Town, Tonghua County
Jilin Province
The People's Republic of China

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 2017: 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,

After several years of adjustment, Mainland China's wine market has gradually become mature with popularised wine consumption. However, the domestic wine manufacturers are still confronted with domestic and foreign challenges. The continuous rise in wine imports has severe impacts on domestic wine manufacturers, especially the erosion of the domestic mid and low-price wine market due to the significant rise in wine imports from some new wine-manufacturing countries such as Chile and Australia which are entitled to enjoy tariff preference. Due to the continuous reduction in price of wine imports, the competition in the domestic wine market is further intensified.

The wide varieties and large number of brands of wine imports in China make it difficult for consumers in identification and selection, and there are even parallel imports and counterfeit products. Based on the above reasons, most of the wine imports have failed to establish brand trust in Mainland China except for some world-famous brands. Confronted with impacts from wine imports and cut-throat competition among domestic brands, the Group invested relatively considerable funds in advertising and marketing in the previous year, in order to establish brand popularity among consumers, and deepen the product recognition among the young generation.

During the year ended 31 December 2017 (the "Year"), the Group's performance achieved notable improvements, partly because the management team could accurately grasp the market situation and properly adjust the operation strategy. The improvement in performance proved that the Group had made a right decision on investing funds in brand building and product promotion in the previous year. We were able to take advantage of the market adjustment to increase product sales, and further enhance the overall operating benefits.

Not only successful marketing and promotion strategies, but also perfect sales channels are required to keep a foothold in the intensified competition. The Group has been devoted to building an all-round sales platform. In addition to the traditional distribution network, the Group has also actively expanded online sales platform and promoted products via websites specialising in wine sales in recent years. Although the Group's products are mainly sold through distributors at present, the online platform plays an important role in sales promotion. Since the wine products are primarily consumed by relatively young middle class, online consumption has become an inevitable trend. We are of the view that the Group shall have its own distribution channels including online sales platforms to effectively consolidate and expand the market share. This was the reason why the Group had planned to acquire certain equity interests in an e-commerce company specialised in wine products. Although the above acquisition had not been materialised due to certain reasons, we still continue to seek appropriate acquisition opportunities. In addition to online sales, the Group is also seeking opportunities to acquire or merge with traditional distribution channels.

The Group's winery engaged in the production of high-end wine products under the Group's own brand is expected to be put into production this year. After nearly two years' calibration, the product quality and overall operation of the winery have become gradually stable. We intend to gradually build the reputation of the winery's products by enabling consumers to experience the product quality and having direct interaction with them. We strongly believe that we can greatly enhance our competitiveness in the domestic market by launching products under our own brand, so as to demonstrate our advantage in differentiating our brand from other domestic brands. We will not be hasty in pushing our winery to achieve a huge sales volume, but will first test the market reaction with small-batch products, and then adjust our product mix and product line, as well as marketing strategies according to consumers' feedback, in order to gradually build the reputation of the winery's products.

We are confronted with the competition from foreign brands and domestic wine manufacturers in China's wine market. Therefore, we shall keep pace with foreign brands in the aspects of product quality, safety and taste. With regard to the situation that domestic brands are scrambling for market share, the Group is not expected to fully gain upper hand in the battle given the current scale of its sales volume; however we are deeply confident that we will gain product quality recognition from consumers who pay high regard to price performance and personalised products.

The Group will continue to strive for developing towards a complete supply chain. Not only do we seek to acquire cost-effective downstream online and offline distribution network, we also explore the feasibility of investment in domestic and overseas wineries. For quality control, we have established a set of comprehensive and strict quality management and control system, especially the management of the crop planting. Since the production base of the Group is located in the agricultural province in Northeast China, we are considering applying the Group's all-round quality control system, modern corporate management mode and outstanding financial management and control technology in other agricultural projects in the province. On the one hand, it can facilitate scale expansion and efficiency enhancement of these agricultural projects, and on the other hand, it can enable the Group to realise its horizontal business extension.

The structural adjustments of the market in the past several years have brought about drastic fluctuations in the Group's operating results. Nevertheless, all the shareholders and business partners of the Group had showed their steadfast support and patience for our business when the Group faced testing challenges, so that the management team could devote themselves to managing business and adjusting operating strategies. Although the Group's operating results improved significantly during the Year, I, as the Chairman of the Board, together with members of the Board and management of the Group, will continue to work hard to enhance the operating efficiency of the Company for our shareholders.

Wang Guangyuan
Chairman
16 March 2018

2017 Key Events

March 2017

Tontine Wines won the title of "the Best Investment Value Chinese Listed Wine Company".

19 March 2017

- Tontine Xuanniya Ice Red Grape Wine won the Gold Award of Asian Wine Competition.

22 March 2017

Chinese Folk Customs

Yalu River Valley – Tonghua Wine Production Region Summit Forum & Press Conference on the Celebration of the Fifth Anniversary of Yalu River Valley held in Chengdu, at which Tontine Wines entered into a 3+1 in-depth cooperation agreement with Wine Direct Supply, Wangjiu and Liquor Easy.

10 June 2017

The activities as the main session of Tonghua celebrated for 2017 "Cultural and Natural Heritage Day" were commenced and Tontine Wines participated this event at its home field.

2017 Key Events

July 2017

Tontine Beibinghong Ice Wine (Icewine Red) produced by Tonghua Tongtian Winery Co., Ltd. won a gold award in the International PAR Organic Wine Award with the highest score of 95.

24 October 2017

The Enterprise Technology Center of 通化通天酒業有限公司 (Tonghua Tongtian Winery Co., Ltd.) passed the evaluation and assessment of the 2016 Provincial Level Enterprise Technology Center.

9 December 2017

The establishment ceremony of Wine Science and Technology Innovation Federation of Jilin Province chaired by Tontine Wines was held at Ji'an.

9 December 2017

Tontine White Ice Wine won a silver award in the First China Tonghua Cup • International Sweet Wine Competition.

2017

Yaluo Wine became a member of China Winery Tourism Alliance (中國酒莊旅遊聯盟).

Management Discussion and Analysis

INDUSTRY REVIEW

According to the National Bureau of Statistics of Mainland China, the gross domestic product of Mainland China grew by 6.9%[1] year on year in 2017, which was the first time for Mainland China's economic growth rate to recover from the downturn and take on the stable tendency with good momentum since 2011. The overall economy continued with stable and healthy development. Affected by climate changes and excess capacity of wine products worldwide, the total output of wine products in the past year decreased to 24.7 billion liters[2], setting a new low over the past 50 years. On the other hand, wine farmers preferred to produce high-price wine products with raw wine for higher profits, leading to the slight decline in the output and export of low-price wine products.

As one of the five largest wine consuming countries in the world, Mainland China consumed approximately 1.73 billion liters[3] in 2017, recording a slight rise as compared with that in 2016. The wine output throughout the country in 2017 was approximately 1 billion liters with a year-on-year decline of approximately 11.96%[4]. Currently China has a grape planting area of 847,000 hectares[5], ranking the second in the world above France and next to Spain. However, Mainland China's wine output only ranks the 7th in the world.

According to the statistical data of Mainland China customs, the gross wine imported into Mainland China amounted to 0.746 billion liters[6] in 2017 with a year-on-year increase of approximately 16.88%, and the import amount recorded a year-on-year increase of 17.96%. Confronted with the increase in the quantity of imported products, domestic wine manufacturers undertook more pressure on sales and price reduction, domestic medium and low-price wine products experienced intensified competition, gradually forming the dominance by one company.

Domestic consumer structure has excited changes in recent years, leading to fundamental changes in the consumption pattern. The middle class with relatively young age, good education, good financial capacity and more open attitudes towards imported wine products has gradually become the main stream in the wine consumption in Mainland China, contributing to an increase in the quantity of imported wine products, especially medium and high-end wine products. With the gradually rational wine consumption, consumers prefer more professional sales service, more brand choices and more affordable products. Therefore, domestic wine enterprises adjust their industrial and product structures, improve the product quality in response to market changes, and strengthen the direct communication with consumers, in order to enhance the marketing effect, as well as develop innovative marketing mode to increase the market coverage.

1. http://www.stats.gov.cn/tjsj/zxfb/201801/t20180118_1574917.html
2. http://www.wine-world.com/culture/zx/20171215141408337
3. http://www.winesinfo.com/html/2017/12/27-75870.html
4. http://cj.sina.com.cn/articles/view/1245286342/4a398fc6001002xg3?cre=tianyi&mod=pcpager_fin&loc=2&r=9&doct=0&rfunc=100&tj=none&tr=9
5. http://money.people.com.cn/n1/2017/1030/c42877-29615488.html
6. http://www.wineonline.cn/14028.html

FINANCIAL REVIEW

During the Year, the overall operation of the Group experienced obvious improvement. With a large investment in advertising and marketing expenses in the previous year, the Group established wide brand recognition in the market, and realised strong growth of the sales volume of wine products in the Year. Since the investment in the product marketing and brand building achieved phased results, the Group made large adjustments in advertising and marketing expenses in the Year, which effectively reduced the marketing expenditure.

For the year ended 31 December 2017, the Group's revenue increased by approximately 19.2% year-on-year to approximately RMB323,559,000. Overall gross profit stood at RMB70,443,000 with the Group's gross profit margin of 21.8%. The loss attributable to the owners of the Company amounted to RMB39,553,000 for the Year with a large decline compared with RMB93,291,000 in the last year. The basic loss per share for the Year was RMB1.96 cents (2016: basic loss per share of RMB4.63 cents).

The following table shows the Group's gross profit, gross profit margin and year-on-year comparison during the Year:

	For the year ended 31 December		
	2017	2016	Year-on-year
Overall gross profit *(RMB'000)*	**70,443**	84,169	–16.3%
Overall gross profit margin	**21.8%**	31.0%	–9.2 percentage points

During the Year, the loss recorded by the Group declined substantially, which was mainly attributable to sales growth, achievements in brand building, a substantial decrease in the advertising and promotion expenses in the second half of the Year, and reduced administrative expenses with the decline in share option granted during the year ended 31 December 2016.

For the year ended 31 December 2017, the total cost of sales of the Group was RMB253,116,000, which included a write off of obsolete and slow moving inventories of RMB27,517,000.

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). With the increase in the output and paper cost, the overall cost of raw materials rose year-on-year by 42.0% to RMB199,564,000 and accounted for approximately 78.8% of the Group's total cost of sales.

The following table sets forth the breakdown of the costs required for production of the Group for the year ended 31 December 2017:

	For the year ended 31 December		
	2017	2016	Change
	(RMB'000)	*(RMB'000)*	*%*
Raw materials	**199,564**	140,497	+42.0%
Production overheads	**13,218**	10,816	+22.2%
Consumption tax and other taxes	**40,334**	35,851	+12.5%
Total cost of sales	**253,116**	187,164	+35.2%

OPERATION REVIEW

The wine industry in Mainland China was confronted with competition caused by increasing quantity and types of imported products in recent years. Among domestic brands, the sales volume of the wine manufacturer with the largest sales volume accounted for half of the total revenue of 15 domestic listing wine enterprises in the past five years, so other enterprises in the industry scrambled for the remaining market share by cutting the price in the low and medium-price market.

During the Year, the Group concentrated resources in the expansion of sales of low and medium-priced wine products in response to the market development. Meanwhile, it reduced the types of products to concentrate marketing and sales resources in several products that could gain market acceptance. As at the end of the Year, the Group had 133 types of wine products.

The Group's product quality has been further recognised in the market and industry. "Tontine Xuanniya Ice Red Grape Wine" produced by Tonghua Tongtian Winery Co., Ltd. won the gold award in the "8th Asian Wine Competition (2017)" held in March 2017, while "Tontine Xuanniya Ice White Grape Wine" won the silver award. In July, "Tontine Beibinghong Ice Wine (Icewine Red)" won the gold award in the International PAR Organic Wine Award with the highest score. "Tontine White Ice Wine" won the silver award in the "First China Tonghua Cup • International Sweet Wine Competition" held in December 2017.

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 12,560 tonnes and 4,019 tonnes of wine products respectively. The overall output of the Group in the Year reached 16,579 tonnes; the product sales volume began to have a sharp recovery in the second half of the Year, and the total sales volume in the Year rose to 16,382 tonnes by approximately 4.8% as compared with that last year, which reflected that the large investment of the Group in advertising and marketing expenses in the previous year achieved phased results. The average selling price per tonne was adjusted upwards by about 13.8% to RMB19,751 as compared to the corresponding period 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. For the year ended 31 December 2017, the Group's products were sold through 113 distributors in 20 provinces, 3 autonomous regions and 4 direct-controlled municipalities of Mainland China.

During the Year, the Group actively expanded the online sales platform to broaden the sales channels and increase the sales volume in the long term with the consumption pattern catering for the young generation. During the Year, the Group gradually improved the ratio of online sales through online e-platform, including Jiuxian.com and other channels. Meanwhile, the Group actively cooperated with leading wine industries and used their domestic chain sales platforms and e-commerce platforms to expand product coverage of the Group. On the other hand, the Group also devoted itself to developing wine retail sharing alliance direct to the consumers, in order to strengthen the direct communication with consumers, and lay foundation for the future launch of vintage wine products.

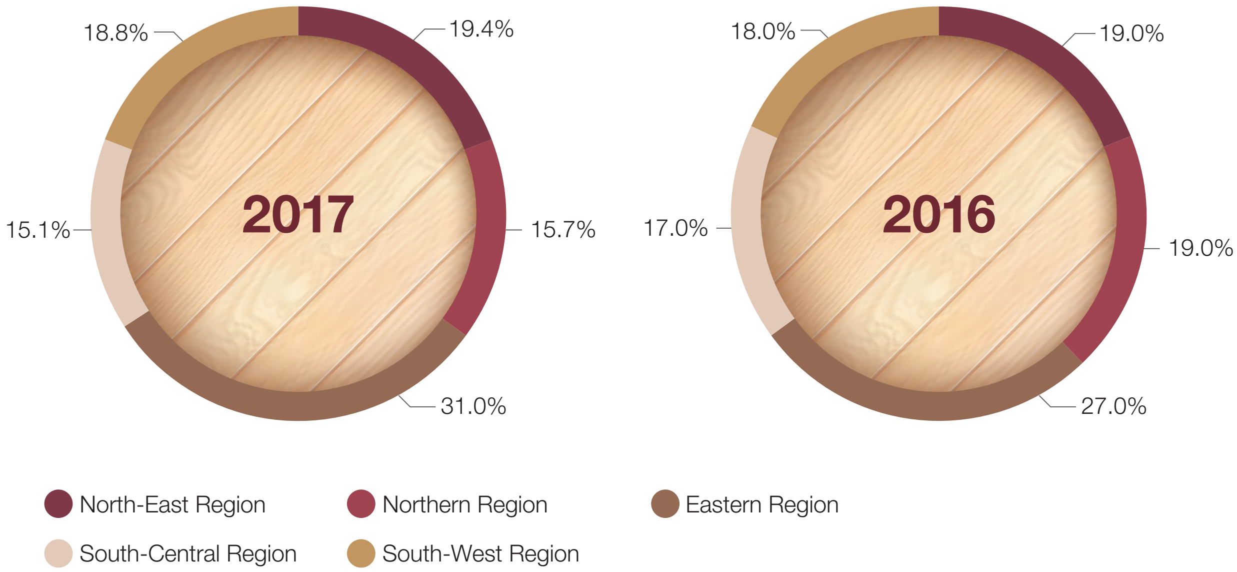
Production base and distribution network in 2017

Notes:

1. **North-East Region** includes the provinces of Heilongjiang, Jilin and Liaoning.
2. **Northern Region** includes the provinces of 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 2017 and 2016:



In terms of regional revenue, the Eastern region remained the largest market of the Group during the Year, with the sales revenue amounting to 31.0% of the total revenue, up by 4 percentage points year-on-year. During the Year, the revenue of this region reached nearly RMB100 million, up by 34.8% year-on-year.

North-East region as the production base of Tonghua, Jilin, was mainly attributable to high acceptance of the Group's brand and commands geographical advantages. The revenue of this region increased 23.5% year-on-year to approximately RMB62,744,000, amounting to 19.4% of the total revenue. Ranked the second largest market of the Group, the local consumption of wine is becoming increasingly popular and allows the market operation to maintain steady development.

The revenue in the Northern region recorded a year-on-year increase of 1.1%, to RMB50,908,000, accounting for 15.7% of the total revenue. The revenue in the South-West region recorded a year-on-year increase of 25.1%, accounting for 18.8% of the total revenue. The revenue in the South-Central region recorded a year-on-year increase of 3.4%, accounting for 15.1% of the total revenue.

BUSINESS INDICATOR REVIEW

Inventory turnover days

The inventory turnover days of the Group during the Year stood at 478 days, representing a decrease of 261 days as compared to that as at the end of 2016. This was attributable to an increase in sales during the Year, resulting in the acceleration of inventory turnover and write off of certain obsolete and slow moving inventories.

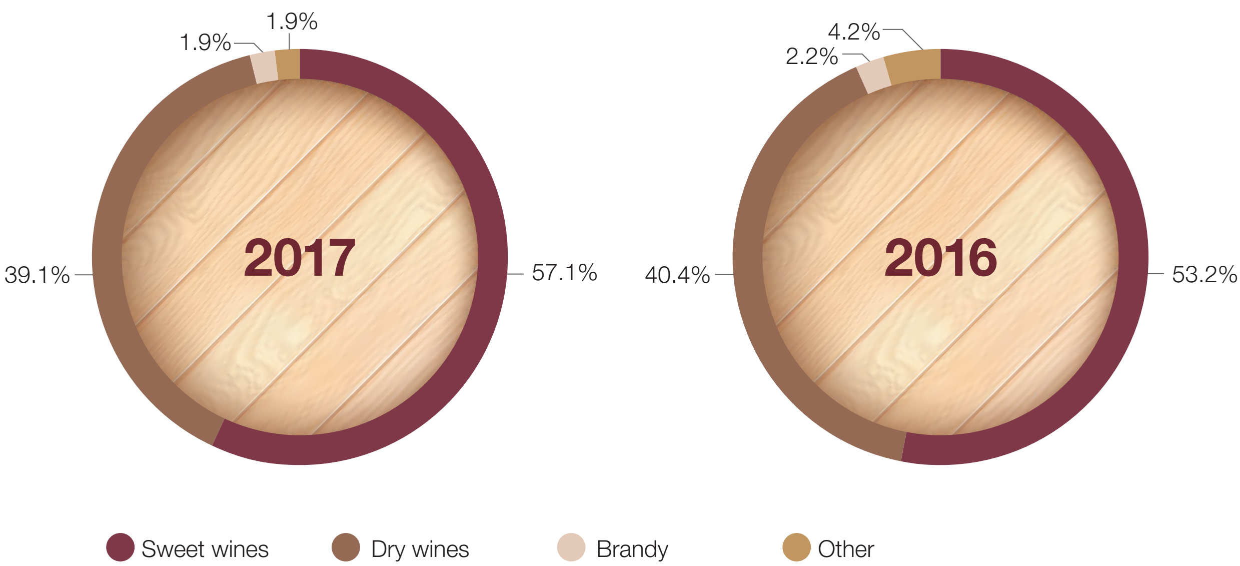
Trade account receivables turnover days

As at 31 December 2017, the trade account receivables turnover days of the Group stood at 64 days, representing a substantial improvement as compared to 75 days of the previous year. Due to the sale growth in the fourth quarter of the Year, trade account receivables increased as compared with the beginning of the Year to RMB85,388,000.

OPERATION ANALYSIS BY PRODUCT

During the Year, the low-margin sweet wine products accounted for 57.1% of the total revenue of the Group in 2017, being the only product that had a year-on-year increase in proportion among different wine products, while other product recorded a year-on-year decrease in proportion of the total revenue of the Group during the Year. The high-margin dry wine products accounted for 39.1%. These two wine products accounted for 96.2% of the total revenue in 2017, representing an increase of 2.6 percentage points as compared to the previous year. During the Year, brandy accounted for 1.9% of the total revenue in 2017. Other wine products such as white wines and ice wines accounted for 1.9% of the total revenue.

The pie charts below show the revenue breakdown of different wine products of the Group in 2017 and 2016:



Sweet wines

Sweet wines still contributed the most to the Group's output and sales for the year ended 31 December 2017. Its revenue for the Year amounted to RMB184,607,000, representing a year-on-year increase of 27.9%. While its gross profit decreased to RMB34,842,000 with the gross profit margin decreasing to 18.9%, representing a decrease of 6.1 percentage points as compared with last year. Sweet wines' gross profit accounted for 49.5% of the overall gross profit of the Group in 2017, representing a year-on-year increase of 6.7 percentage points.

Dry wines

The sales revenue from dry wines amounted to RMB126,448,000 during the Year, up by 15.4% year-on-year. And its gross profit decreased by 21.2% year-on-year to RMB33,722,000 with the gross profit margin decreasing by 12.4 percentage points to 26.7%. Dry wines' gross profit accounted for 47.9% of the overall gross profit of the Group in 2017, representing a year-on-year decrease of 3.1 percentage points.

Brandy

During the Year, the Group's revenue from brandy increased by 3.8% year-on-year to approximately RMB6,239,000. This product line contributed a gross profit of approximately RMB603,000, representing a year-on-year decrease of 13.7%. Its gross profit margin decreased to 9.7%. This product line only accounted for 0.9% of the overall gross profit.

Other products

During the Year, still suffering the impact brought by the movement encouraging thrift and saving initiated by the Chinese Government, the revenue of the other products of the Group, including high-end ice wines and white wines, decreased by 45.4% year-on-year to RMB6,265,000, with the segment's gross profit decreasing by 72.5% year-on-year to RMB1,276,000. Its average gross profit margin was 20.4%. During the Year, the other products accounted for a considerably small proportion of the Group's overall gross profit, which was merely 1.8%.

BUSINESS PROSPECTS

Wine products have become popular in the Chinese market with gradually larger room for marketing and sales. It is expected that 2018 will witness the end of market adjustment. Affected by imported products, the domestic first and second-tier wine markets are relatively saturated, while the second and third-tier markets still have potential for growth. The reduction of grape output from the old world brings about the rise in the price of raw materials and reduction of wine output, imposing price hike pressure of imported wine products. On the other hand, with the domestic consumption upgrading and further understanding of wine products, consumers have greater demands for vintage wine products from high-end wineries, bringing about opportunities for domestic vintage wineries.

Management Discussion and Analysis

The management believes that the local wine market will still be affected by imported wine products in 2018. The wine price will be higher due to the reduction of global output, which will probably lead to a higher proportion of adulterated wine in the imported wine, directly affecting the consumers' confidence in the imported wine and choice, and indirectly bringing positive impacts on the sales of the wine products of the Group and local manufacturers.

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-high end products targeted at middle class and younger generation of the 80s and 90s. The management believes that only household brands with high credibility can support the Group's foothold in China's fiercely competitive wine market. In response to consumers' personalised demands for products, the Group will continue to enhance the target consumer group's recognition and identification of the Group's products through systematic brand building and promotion. In addition, the Group will strengthen the direct communication with consumers to promote its ice wine and wine produced from its winery.

Jilin Tongtian Winery established by the Group for the development of high-end products has completed the final stage of calibration. It is expected that it will be put into operation in 2018 with small-batch products launched to the market. Leveraging on the strengths of the winery, the Group plans to produce the mid-to-high end products with its own brand characteristics through the fully integrated operation all the way from grape plantation to wine brewing. The winery with proprietary mid-to-high end wines would also be advantageous to deepening the Group's brand building efforts. Tongtian Winery has an annual capacity of 500 tonnes. The Group will flexibly adjust the output according to the market reaction to the proprietary brands produced by the winery.

Since it is suitable to produce ice wine in the Northeast China, the Group began to introduce high-quality wine varieties for the research and development and production of ice wine two years ago, and reserved the grape juice for the fermentation of high-end ice wine. The Group conducted trial production of a small number of ice wine products, which received high recognition from the market.

With the popularisation of grape wine knowledge among domestic consumers, and the commencement of production of the winery, the Group will strengthen the promotion of vintage wine with proprietary brands, especially ice wine for its superiority in variety under environment-friendly cultivation. Such rare product enjoys higher gross profit margin, and expanding its sales will be conducive to the enhancement of the overall operating performance of the Group.

In terms of business expansion, the Group will explore the feasibility of investment in the upstream and downstream business of the Group, for instance, acquiring enterprises with online wine sales platform or traditional distribution channels to extend the business downstream and reduce intermediate marketing expenses, thereby enhancing the overall profitability. Moreover, acquiring overseas winery has gradually become an industry development trend. The Group also will not preclude the seeking of a closer exploration of such type of investment.

Located in the northeast China with abundant agricultural products, the Group has built credibility and extensive business connections in the local area. It will also conduct feasibility study on investment in agricultural projects with economic benefits, in order to extend its business to other agriculture-related fields, which may assist in the furtherance of the principal activities of the Group.

The Group entered into a memorandum of understanding for the possible acquisition of 25.53% equity interests in Beijing Wangjiu Electronic Commerce Co., Ltd.（北京網酒網電子商務股份有限公司）in the second half of 2017 to seek possible expansion of the Group's wine purchase platform. Although the possible transaction did not come to fruition and was terminated in November 2017, the Group will continue to proactively explore opportunities for the cooperation with other e-commerce platforms for wine products, in order to establish an eco-business model of wine to realise direct contact between the Group and target consumers. Please refer to the Company's announcements dated 21 August and 30 November 2017 for details.

The wine market in China will be filled with both opportunities and challenges in 2018. The rise in the price of imported grape provides broad market space for mid and low-price products in China. On the other hand, operators shall adjust the operation mode in response to domestic consumption upgrading and consumers' changing and personalised demands. The management will uphold the strategy of maintaining a strong financial position, and adopt a prudent and pragmatic approach to explore a road map for the stable development of the Group. It will also maintain sufficient cash on hand to flexibly respond to changes in the market and grasp acquisition 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 had raised an unsecured and unguaranteed short term bank borrowing in 2016 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, and such borrowing was fully repaid in 2017. The Group's gearing ratio (being the debts incurred in the ordinary course of business divided by total assets as at the end of the financial year) was zero as at 31 December 2017. As at 31 December 2017, the Group's cash and cash equivalents amounted to approximately RMB153,647,000. 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 2017, the Group made capital expenditure commitments of approximately RMB14,615,000 contracted but not provided in the consolidated financial statements. These capital commitments were provided by cash generated from operations. As at 31 December 2017, none of the Group's assets was pledged (2016: 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 China. A share option scheme has also been adopted with the primary purpose of motivating our employees to optimise 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 2017, the Group employed a work force of 498 (including Directors) in Hong Kong and in China (2016: a work force of 572). The total salaries and related costs (including the Directors' fee) for the Year amounted to approximately RMB29,317,000 (2016: RMB37,532,000 (included one off share option expenses of RMB8,025,000)).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2017 (2016: Nil).

EXECUTIVE DIRECTORS

Mr. Wang Guangyuan（王光遠）, aged 56, 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 8th People's Congress（通化市第八屆人民代表大會）and a member of the Standing Committee of Tonghua County 16th People's Congress（通化縣第十六屆人民代表大會代表常委）, the Chairman of Tonghua County Industry and Commerce Association（通化縣工商業聯合會）and the Vice Chairman of Jilin Chamber of Commerce（吉林商會）. 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 Lijun, an executive Director 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 57, 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.

Directors and Senior Management

Ms. Wang Lijun（王麗君）, aged 50, was appointed as our executive Director on 2 May 2017. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Yiu Por（林曉波）, aged 41 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 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 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 Yat Sing Holdings Limited（日成控股有限公司）(stock code: 03708) and an independent non-executive director of GR Properties Limited（國鋭地產有限公司）(stock code: 00108).

Mr. Lai Chi Keung, Albert（黎志強）, aged 56, 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 57, 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 49, 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.

Mr. Wang Jun (王軍), aged 55, has been appointed as the chief winemaker of our Company since 1 January 2017. 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 62, 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.

Ms. Zhao Dan (趙丹), aged 39, is the deputy general manager of our Company. She joined our Group in September 2001 and was promoted to her current position in December 2014. She is responsible for the financial and accounting management of our Group. Ms. Zhao graduated from Jilin University (吉林大學) with a higher diploma in finance and accounting in July 2000. She obtained her qualification of mid– level accountant in May 2005.

Mr. Zhang Xuexin (張學鑫), aged 37, is a deputy general manager of our Company. He joined our Group in December 2001 and is responsible for project management of the Group. In December 2010, Mr. Zhang was promoted from project manager to his current position. Mr. Zhang graduated from Jilin University (吉林大學) with a higher diploma in economics in July 2002.

Mr. Ho Ka Chun (何家進), aged 37, 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 52, 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

Ms. Leung Ka Yan (梁嘉茵), aged 34, has been appointed as the company secretary of our Company since 2 November 2017. She graduated with a bachelor's degree in business administration, majoring in finance from the Chinese University of Hong Kong. She is an associate member of the HKICPA. She has over 10 years of experience in financial management, accounting and auditing and had previously worked for an international audit firm before joining the Company.

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 2017 (the "Year").

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

The Group's loss for the year ended 31 December 2017 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 74 to 130.

The Directors do not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2017 (2016: 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, 30 April 2018 to Friday, 4 May 2018 (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 Friday, 4 May 2018. 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 Hong Kong by 4:30 p.m. on Friday, 27 April 2018.

PROPERTY, PLANT AND EQUIPMENT

During the Year, an increase of approximately RMB14.9 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 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the Year are set out in note 25 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 2017	Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	Outstanding as at 31 December 2017	Vesting period	Exercisable period	Exercise price per share *HK$*	Closing price per share at date of grant of options *HK$*
A director	9 May 2016	16,550,000	–	–	–	–	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	0.710	0.700
	9 May 2016	99,300,000	–	–	–	(16,550,000)	82,750,000	–	9 May 2016 to 8 May 2021	0.263	0.255
Total		155,850,000	–	–	–	(56,550,000)	99,300,000				

RESERVES

Details of movements in the reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 76.

As at 31 December 2017, the Company's reserves available for distribution amounted to approximately RMB110,815,000 (2016: RMB117,762,000).

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 Lijun (appointed on 2 May 2017)
Ms. Wang Lijuan (resigned on 2 May 2017)

Independent Non-Executive Directors:

Mr. Lam Yiu Por
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. Further, any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Board will hold office until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the existing Board), unless re-elected by the shareholders. 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 is therefore 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. Lam Yiu Por, Mr. Lai Chi Keung, Albert and Mr. Yang Qiang 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 24 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

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

RELATED PARTIES TRANSACTIONS

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

MANAGEMENT CONTRACT

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

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

As at 31 December 2017, 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 2017.

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 2017.

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

As at 31 December 2017, 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	157,726,000(L)	7.84%
Mr. Yan Shaohua 晏紹華	Interest in a controlled corporation *(Note 6)*	157,726,000(L)	7.84%
	Beneficial owner	79,856,000(L)	3.97%
		237,582,000	11.81%

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 by virtue of the 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 2017.

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 government of 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. As at 31 December 2017, there was no forfeited contribution receivable for reduction of future contribution (2016: nil).

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 regard 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 26 and 27 of the Annual Report and in note 26 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 18.2% and 57.4% of the total sales and purchases of the Group respectively. The Group's largest customer and supplier accounted for around 4.7% and 13.9% of the total sales and purchases of the Group for the Year respectively. For the year ended 31 December 2017, 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 Board has established its audit committee (the "Audit Committee") which comprises all the three independent non-executive Directors (namely, Mr. Lam Yiu Por, Mr. Lai Chi Keung, Albert and Mr. Yang Qiang).

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 systems, as well as reviewed the Group's audited annual results for the Year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained the prescribed public float as required under the Listing Rules during the Year and up to the date of the Annual Report.

DIRECTORS' INDEMNITIES

Pursuant to the Company's bye-laws, every Director, secretary and other officers of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses or other liabilities (to the extent allowed by the Companies Act 1981 of Bermuda (as amended)) which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duties in respect of their respective offices or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage to indemnify the Directors and officers of the Group, and such indemnity was in force during the year ended 31 December 2017 and remain effective as at the date of the Annual Report.

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.

ON BEHALF OF THE BOARD

Wang Guangyuan
Chairman and Executive Director
Hong Kong
16 March 2018

Corporate Governance Report

The board of directors (the "Directors" or the "Board") of the Company (together with its subsidiaries, the "Group") formulates 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 2017 (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 operations, 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 regarding, among others, internal control and risk management 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 12 April 2017**	**Number of board meetings attended/held during the Year**
Number of meeting(s)	1	6
Executive Director		
Mr. Wang Guangyuan *(Chairman and CEO)*	1/1	6/6
Mr. Zhang Hebin	1/1	6/6
Ms. Wang Lijuan (resigned on 2 May 2017)	0/1	1/6
Ms. Wang Lijun (appointed on 2 May 2017)	N/A	4/6
Independent Non-executive Director		
Mr. Lam Yiu Por	1/1	6/6
Mr. Lai Chi Keung, Albert	1/1	6/6
Mr. Yang Qiang	1/1	5/6

Save for the sibling relationship between Mr. Wang Guangyuan, Ms. Wang Lijuan and Ms. Wang Lijun, the Board members have no financial, business, family or other relationships with each other. Each of the independent non-executive Directors has provided a written annual confirmation of his independence, and the Board is satisfied that his independence met the independence criteria set out in Rule 3.13 of the Listing Rules up to the date of this report.

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 terms 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 Director 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 has been established by the Board with clear written terms of reference 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.

During the Year, the members of the Audit Committee were Mr. Lam Yiu Por (Chairman of the Audit Committee), Mr. Lai Chi Keung, Albert and Mr. Yang Qiang, 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 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, adequacy of resources for performing the Group's accounting, financial reporting and internal audit functions, as well as reviewed the Group's annual and interim results for the Year.

The Audit Committee was satisfied with the findings of its review of the engagement, effectiveness, independence and objectivity of the external auditor engaged by the Company.

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)*	3/3	100%
Mr. Lai Chi Keung, Albert	3/3	100%
Mr. Yang Qiang	3/3	100%

Remuneration Committee

The Remuneration Committee has been established by the Board with clear written terms of reference 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.

During the Year, the members of the Remuneration Committee were Mr. Lam Yiu Por (Chairman of the Remuneration Committee), Mr. Lai Chi Keung, Albert and Mr. Yang Qiang, who were all independent non-executive Directors.

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 Group, 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 2017 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	2
HK$1,500,001 to HK$2,000,000	2

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)*	2/2	100%
Mr. Lai Chi Keung, Albert	2/2	100%
Mr. Yang Qiang	1/2	50%

Nomination Committee

The Nomination Committee has been established by the Board with clear written terms of reference 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.

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 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	1/2	50%

CONTINUOUS PROFESSIONAL DEVELOPMENT

During the Year, the Company organised training session delivered by legal professional, as well as provided materials (including but not limited to updates on Listing Rules and guidelines on disclosure of inside information and directors' duties), for the Directors. The level of participation by each Director is briefly set out below:

Name of Directors	Training matters Attendance of training session organised by the Company during the Year	Distribution of training materials to Directors for self-reading during the Year
Mr. Wang Guangyuan	✓	✓
Mr. Zhang Hebin	✓	✓
Ms. Wang Lijuan *(Note 1)*	–	✓
Ms. Wang Lijun *(Note 2)*	✓	✓
Mr. Lam Yiu Por	✓	✓
Mr. Lai Chi Keung, Albert	✓	✓
Mr. Yang Qiang	–	✓

Notes:

1. Ms. Wang Lijuan resigned on 2 May 2017.

2. Ms. Wang Lijun was appointed on 2 May 2017.

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, Ms. Leung Ka Yan, 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 her 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 an annual 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 for the year ended 31 December 2016 after the end of such financial year. 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 68 to 73.

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	1,642
Non-audit services	
– Interim review of financial results for the six months ended 30 June 2017	461
– Agreed-upon procedure work on preliminary results announcement for the year ended 31 December 2017	17
	2,120

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

This is the environmental, social and governance report (the "ESG Report") issued by China Tontine Wines Group Limited and its subsidiaries (the "Group" or "We"), which contains the sustainable development policy implemented by the Group during the year ended 31 December 2017 (the "Year") and the Group's performance in social governance and corporate civic responsibilities under the practice of the concept of sustainable development.

Scope of the ESG Report

The ESG Report covers the overall environmental and social performance of the core business of the Group in the People's Republic of China ("PRC" or "Mainland China") during the Year.

Reporting Framework

The ESG Report was prepared in accordance with the requirements set out in "Environmental, Social and Governance Reporting Guide" (the "ESG Reporting Guide") under Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The cross reference between content index of the ESG Reporting Guide and the ESG Report is set out on pages 61 to 67 of the ESG Report.

Stakeholder Engagement

The Group has been cooperating with its stakeholders in understanding and focusing on their needs through various channels and through feedbacks to assist us to have a better understanding of the level of the Group's current environmental and social development. The ESG Report was prepared by different departments of the Group. The information we gathered was not only the summary of the environmental and social work carried out by the Group during the Year, but also formed the basis for us to formulate short and long terms sustainable development strategies.

Information and Feedbacks

For detailed information regarding the financial performance and corporate governance of the Group during the Year, please refer to the official website (http://www.tontine-wines.com.hk) and the annual report of the Group.

Your opinions will be highly valued by us. If you have any suggestions or comments, please email at info@corporatelink.com.hk or write to the principal business place of the Group in Hong Kong.

Board Approval

The board of directors of the Company (the "Board") approved the ESG Report on 16 March 2018.

Information on Key Stakeholders

Stakeholders	Possible incidental issues	Communication and response
The Stock Exchange	Compliance with the Listing Rules, publishing of announcements in a timely and accurate manner	Meetings, trainings, seminars, programmes, updating of website and announcements
Governments	Compliance with laws and regulations, social welfare and prevention of tax evasion	Interactions and visits, government inspections, tax returns and other information
Suppliers	Payment schedule, supply stability	On-site research
Investors	Corporate governance system, business strategies and performance, investment return	Organization and participation of conferences, interviews, general meetings, provision of financial reports or business updates for investors, press and analysts
Media	Corporate governance, environmental protection and human rights	Posting of communications on the company website
Customers	Product/service quality, fair and reasonable pricing, value of service, protection for the labour force and work safety	Site visits and after-sale services
Employees	Rights and benefits, employee salaries, training and development, working hours and working environment	Conducting team activities, training, interviews, issue of staff manual and internal memorandum
Community	Community environment, employment and community development and social welfare	Organizing community activities, employees volunteering activities and community welfare, sponsorship and donations

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 Mainland China. Ji'An region is the Demonstration Zone of agricultural standardised green food and the standardised production base of green food material. It is also among the few regions worldwide cultivating the vitis amurensis variety of grapes. 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's industrial parks were classified as the National 4A Grade Tourism District.

Environmental Protection and Legal Compliance

The Group has been in compliance with local laws and regulations related to environmental protection in the PRC, including but not limited to the Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》), the Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), the Cleaner Production Promotion Law of the PRC (《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》). In addition, the Group engages third party qualified institutions for the environment assessment to carry out regular assessment on the environment protection of the Group, and attend filing with the local authority of environment protection for record. 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.

The Group strictly complied with a series of local and national regulations in respect of environment protection when conducting its business activities and production process. During the Year, the Group obtained all the necessary local and national-level licenses, as well as a series of approval and authorization on discharge, including but not limited to the national industrial product production permit, the waste discharge license, the water intake permit, the hygiene permit, and all the legal liabilities and requirements related to corporate business and normal operation.

During the Year, the Group had complied with all the regulations related to environment protection and there was no confirmed violations related to environment protection that had significant impacts on the Group.

Pollutant Discharge

Greenhouse Gas Emission

The greenhouse gas directly emitted by the Group is mainly from the burning fossil fuel in the production process and the use of commercial vehicles, and the greenhouse gas indirectly emitted is mainly produced by the use of outsourced electricity. For the sake of afforestation, the Group had planted 150 trees in the production base in Tonghua City during the Year to reduce the greenhouse gas emission.

The fossil fuel is mainly burnt by the boiler in the production base in Tonghua City. The boiler is used in winter to maintain the indoor temperature required for the grape treatment and brewing, in addition to the heating and distillation in the production. At present, the Group adopts such coal with higher combustion value to reduce the emission of carbon dioxide ("CO_2"). The production base in Baiyanghe replaces coal with electricity in response to the environment protection requirements of the Yantai Municipal Government.

The exhaust gas is the flue gas produced during the operation of the boiler, the main pollutants of which are dust, sulphur 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 Mainland 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 waste recycling process disclosed below.

Waste Recycling and Forwarding

During the process of grapes treatment and wine production, only a small amount 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 any mislaid of waste disposal, 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 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 Group delivers a small amount of hazardous waste 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-wastes and ink boxes are disposed by computer companies. Due to high utilisation of the aforesaid garbage in PRC, the Group provides the wastes to enterprises in need of them for free, so as to minimise the waste emission.

Since the innocuous wastes and hazardous wastes of the Group had been recycled and forwarded, the Group didn't record the total quantity of the innocuous and hazardous wastes.

Resource Usage

In compliance with the internal energy-saving measures of the Group, energy-saving lights are adopted currently. The Group requires that all landscape lighting must be closed at 10 p.m. every night except on holidays. The control system of the landscape lighting is located in the main office building of the production base in Tonghua City, which is closed by the guard on duty. Except for the necessary facilities, duty officers will turn off the power supply of office building, while employees need to turn off the power supply of office equipment before leaving work, so as to save electricity.

In terms of water consumption, the Group uses underground water, and its wastewater mainly comes from domestic wastewater and production wastewater, including water used for canteen, equipment cleaning, glass bottles washing and cleaning. With an aim to save water, the Group uses glass bottles with high sanitary standards. After collection, the wastewater will be purified by the Group through a sewage treatment system, the quality of water discharged from which is designed to meet relevant standards of Tonghua Municipal Government. Such water is not drinkable, and will be used for garden plants irrigation, so as to save water.

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 wine corks of the Group are made of natural oaks. Soft oaks consist of two layers of bark. The inner bark can be vitalized and provides the basis for the growth of new bark each year. Therefore, the cork used by the Group will only pick withered outer bark during the process of picking the oaks, so as not to affect the continual growth of trees.

In addition, following the principle of sustainable development, the vineyards of the Group perform a fallow period of over four months in the cold winter each year to maintain soil fertility, so as to continually provide abundant nutrition for the grapes.

Data of coal fuel emission

Data of boiler emission	Data *Ton*
Nitrogen oxides	46
Sulfur dioxide	49
Dust	28

Data of greenhouse gas emission

		Data *CO2* measured in ton
Scope 1 *(note 1)*	Boiler	7,537
	Newly planted trees	(3)
Scope 2 *(note 2)*	Electricity used	1,599
Total		9,133*

* Greenhouse gas emissions caused by product per ton is 0.55 tons.

Notes:

1. The greenhouse gas emission refers to the direct emission from fuel burning in the fixed emission sources. The figures stated only include the coal consumption, presented in the carbon dioxide equivalent (CO2e). The calculation method is quoted from the "Standards and Guidance for Corporate Greenhouse Gas Emission Quantization and Report（企業溫室氣體排放量化和報告規範及指南）" promulgated by Market Supervision Administration of Shenzhen Municipality（深圳市市場監督管理局）.

2. The greenhouse gas emission refers to the indirect emission of energy. The figures stated only include the electricity purchased from the power companies, presented in CO2e. The calculation method is quoted from the "CO2e per electricity unit sold" of HK Electric, the China Regional Grid Baseline Emission Factors in 2015(《2015中國區域電網基準線排放因子》) promulgated by the National Development and Reform Commission, as well as the "Building Simplified Life Cycle CO2 Emissions Assessment Tool" promulgated by the Multidisciplinary Digital Publishing Institute.

Data of energy consumptions

	Data *KW.h*
Electricity used	1,517,511*

* The electricity consumed by product per ton is 91.53 kW.h.

Date of packaging material used for finished products

Type	Data *Ton*
Carton	1,066
bottle	12,172
Cork	89
Total	13,327

SOCIETY

Human Resource Overview

The Group is committed to protecting the legal interests of all its employees and in strict compliance with a series of labour laws, such as the Regulation on the Implementation of the Employment Contract Law of the PRC (《中華人民共和國勞動合同法》), the Labor Law of the PRC (《中華人民共和國勞動法》) and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》).

During the Year, the Group focused on talent cultivation, strengthened the development of human resource, and selected talents according to the needs of long-term development and the policy of "morality first". We have introduced a system with a series of human resource policies, including but not limited to procedures concerning wages of employees, talent evaluation and selection and human resource management. The Group has established a diversified position system and career path for management, professional, technical and supporting specialists according to the latest market standards, in order to maintain the impetus of employees. Our human resource development plan includes following strategies:

- Promoting the selection of senior management of the Group
- Attracting talents with great potential
- Cultivating reserve personnel
- Enhancing talent exchange
- Regularly evaluating the work performance of employees
- Maintaining fair and reasonable competition mechanism

Employees of the Group have different religious belief and background. There is no any discrimination against gender, age, race, religious belief or physical disability during our recruitment process.

The Group complies with the Provisions on the Prohibition of Using Child Labor (《禁止使用童工規定》) of the PRC. A strict background check is adopted during the recruitment process to avoid employing child labour inadvertently. In addition, we would never force any employee to work by means of violence, threats, or illegal restriction of personal freedom during the business process.

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, with strict compliance to rules of the country. The Group also contributes various social insurance premiums for all 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 organized by the Group, in order to guarantee the personal health of employees and a safe production environment. Concerned with physical and mental health of employees, we actively encourage employees to participate in sports activities to improve their physical quality and enhance the vigor 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.

The Group had 498 employees in total as at 31 December 2017. The structure is as follows:

Age group	Male employees	Female employees	Total
18 – 25	–	2	2
26 – 35	55	30	85
36 – 45	64	124	188
46 – 55	84	109	193
56 – 65	20	6	26
Over 65	4	–	4
Total number	227	271	498*

* All the employees have long-term labor contracts with the Group

Health and Safety

The Group complies with the Law of the PRC on the Prevention and Treatment of Infectious Diseases (《中華人民共和國傳染病防治法》), the Law of the PRC on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), the Provisions on the Supervision and Administration of Labor Protection Articles (《勞動防護用品監督管理規定》) and the Regulations Concerning the Labor Protection of Female Staff and Workers (《女職工勞動保護規定》). In order to enhance occupational safety, improve working conditions, safeguard employee's personal interests and ensure protection of life and property, the Group has formulated its internal production safety regulations. The Group has been committed to the principle of "Safety First, Prevention is a Priority" which requires that our productions should meet the safety requirements, with an aim to implementing safe production, sophisticated management and maintaining a clean and hygienic production site. Inter-departmental meetings will be held from time to time to review the safety and efficiency of work routines, remind employees of each department to keep the office clean and tidy, and always bear in mind the safe production during work.

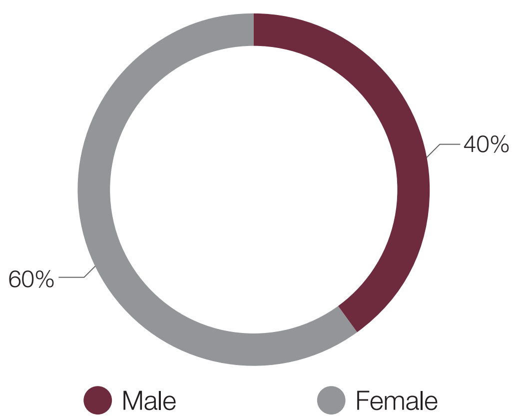
Interviewees shall provide relevant qualification certificates when recruited for special positions. The Group requires that employees whose positions are exposed to occupational hazards should accept a complete set of responsibility system for occupational diseases prevention, and support the management measures for the prevention of occupational diseases. All the employees of the Group shall take annual health examination as well as health and safety trainings, and a record of their examination results shall be kept to demonstrate the importance we place on the knowledge on occupational health of employees as a whole. The Group requires that the production and technical workers should be health certificate holders before commencement of work. The Group has taken several measures to prevent accidents such as using gloves and safety equipment in machinery maintenance, monitoring the management of plants and facilities, and offering safety management and education for employees. During the Year, the Group had arranged training on the management system and corporate culture, safe production, fire safety, and safety education and knowledge, held occupational health workshops, and publicized and implemented relevant national laws and regulations, so as to ensure the Group's occupational health and inspection work are well-performed.

Development and Training

The Group pays great attention to personnel trainings. Therefore, the Group formulates a comprehensive training program every year to enhance the professional knowledge and ethics of the staff, and help them produce high-quality wine products through the provision of education and training on professional ethics and relevant rules and regulations. According to the needs of different positions, the training plan of the Group in the Year covered wine knowledge, group management system, corporate culture, safe production, fire safety and production technology. The trainings on professional knowledge have effectively enhanced the employees' detailed understanding of the production process, the Group's management culture and safety measures. In order to guarantee product quality, the Group strengthens the training on the professional knowledge and technology for the personnel in the key production positions, so that employees can possess sufficient knowledge and corresponding supporting capability.

During the Year, the Group held symposiums in order to create closer relationship between the enterprise and employees, superiors and subordinates, and among employees themselves, offer opportunities for employees to voice their opinions, and enhance the sense of belonging of employees through communication. The average hours of training of each male employee and female employee are 7.3 hours and 8.4 hours, respectively.

Trained employees by the gender



Labor Standards

The Group is committed to protecting the human rights of employees in compliance with all the relevant laws and regulations. It is forbidden to employ forced labor and child labor, and candidates are required to provide certificate of identity, professional certificate and the severance certificate issued by former employer for identity verification during the recruitment.

If the Group is found to employ child labor or forced labor in violation of regulations, the Group will immediately terminate the labor contract, investigate into the reasons and liabilities, and impose due punishments on faulty employees. During the Year, the Group had no incidents of forced labor or child labor related-employment.

OPERATION PRACTICE

Product and Service

The Group is committed to researching, developing and launching diversified new products. In order to satisfy different needs of customers, the Group has launched grape wines of different prices and levels. In terms of the sales mode, the Group continues to depend on the traditional distribution channel, while proactively develops and expands the online consumption platform. Since 2016, it has begun to sell grape wine products online to give full play to the market function of the e-commerce model, develop diversified distribution channels, and expand the sales scope.

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 carry out specific risk analysis. In addition to the quality of goods, the Group also focuses on whether there are reports on the environmental and social performance of our suppliers. If any relevant reports are found, the Group will inquire relevant suppliers, submit the review proposals to the supplier, and consider whether there is any need for replacement for new suppliers. It will also dispatch management staff to carry out strict investigation in the production base of the supplier, and randomly inspect documents of the supplier such as written records, in order to guarantee each supplier can satisfy the conditions stipulated by the Group prior to the signing of contracts. The management staff of the Group will make a detailed evaluation on the products and risks of its suppliers once more at least one month prior to the expiry of the contracts to determine whether to renew the cooperative relationship.

Strict Production Process

The Group owns a full set of professional production line and a professional winemaking management team to provide comprehensive quality instruction and control on each bottle of wine produced. The Group has obtained Food Production License and QS Certificate. From the first process of wine manufacturing, the grapes that we use are hand-picked 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.

During the Year, there were no return of products of the Group that had been sold or delivered due to safety and health problems, or receipt of any complaints on products and services.

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 in Ji'an 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, including Mountain Grape Wine, Dry Wine, Ice Wine, Hong Full Juice Mountain Grape Wine and Original and Wild Mountain Grape Wine, 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 efforts on quality control was evident by the 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 mass production. For the grapes cultivated in vineyard, before procurement period of each year, inspectors from the Group will first check the grape maturity, and then complete the glucose checklist to confirm whether they are suitable for brewing. When the squeezed grapes are transported to workshops, inspectors will perform quality test on the grapes first, and then they will carry out sugar content detection occasionally to ensure the quality of grape juice. Meanwhile, winemakers will adjust the brewing formula according to the sugar content of grape juice to guarantee the consistent quality of all the finished products. In addition, 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 commence 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 suppliers. 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 meet the standards.

Emphasis on Safety

The Group has formulated a management system in various aspects such as personnel, equipment, raw materials, packaging materials, purchase inspection, product technical standards, detection standards and production environment control, and required the personnel of relevant departments to strictly comply with and implement relevant guidelines.

The production process of the Group complies with the Regulation on the Implementation of the Food Safety Law of the PRC (《中華人民共和國食品安全實施條例》). It is required that the production sites should keep clean at all time to ensure food safety. Raw materials shall be processed in line with the health requirements and containers of raw materials shall be cleaned regularly to prevent contamination. 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 pass the footbath pool; after entering the production sites, workers are required to wear neat work clothes, pants and hats, and uniforms shall be cleaned regularly. Production equipment, 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 long-term relationship of mutual trust with our customers. Therefore, all the Group's employees have been required to enter into a confidentiality agreement, covenanting that they will keep and handle the confidential information of customers with due care without disclosing any information to third parties. At the same time, in order to further safeguard our customers' information, the Group requires that outsiders and vehicles must be registered to reduce the leak risk of the assets of customers and the Group.

As a responsible enterprise and partner, the Group strictly complies with the process of the existing Finished Goods Inventory Management (《成品庫管理》) with an aim to sell products in the best condition through a prudent storage method. Products shall be stored by categories and managed on a quantitative basis. In addition, products should be inspected and maintained on a daily or regular basis according to their varieties, characteristics and storage conditions, including recording temperature, humidity and other indicators in the warehouse to prevent products from getting deteriorated, moldy, expired or damaged. The Group will conduct final check prior to delivery to ensure that products sold pass the quality management test.

The Group has also developed a complete return process. If quality problems are identified in raw materials or packaging materials, such materials will be immediately returned to suppliers as the Group refuses to use substandard materials. Meanwhile, the Group will accept products returned by customers due to quality problems so as to provide quality services to customers.

Environmental, Social and Governance Report

Emphasis on Management

To improve the management of the Group, we regularly conduct comprehensive review on corporate environmental sanitation and disciplines. If any non-compliance is identified in the process of review, the relevant issues will be reported to the corresponding department's manager for handling timely. Besides, the Group maintains frequent communication with its staff. All working procedures in the Group shall be performed with law and rule being abided by, any violation being investigated into with basis and solution to resort to, in order to improve the service quality.

In terms of sales of products, the Group carefully chooses distributors by evaluating their marketing approaches and creditworthiness, and only cooperates with the most appropriate ones after prudent consideration. By managing and monitoring the performance of our distributors, the Group ensures that customers are provided with quality services.

Pursuant to the Advertising Law of the PRC (《中華人民共和國廣告法》) and other laws and regulations, the Group carries out strict review procedures on the policies and regulation about advertising and labeling and conducts cross-checking of electronic files with cooperation partners, in order to ensure that the public can have a good and correct understanding of the product information.

Anti-corruption

The Group strictly adheres to the Criminal Law of the PRC (《中華人民共和國刑法》), the Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》) and the Prevention of Bribery Ordinance (《防止賄賂條例》) of Hong Kong. Our staff is prohibited from participating in any illegal behaviors by taking advantage of their positions, including but not limited to bribery, fraud, and illegally obtaining or accepting properties from others.

The Group also severely cracks down on any money laundering activities conducted through public account or private account, in order to prevent any corruption or bribery within the Group. If any corruption is found, employees may report to the relevant managers of the Group or the local competent authority via phone, email, letters and other means.

During the Year, there were no lawsuits or allegations of corruption involving the Group or its employees.

Charity Campaigns

During the Year, the Group was honoured to be invited to attend the cultural and natural heritage exposition held in Tonghua City. As an exhibitor, the Group promoted the grape wine culture and related knowledge to the citizens in Tonghua City, enabling the public to have an understanding of the local major grape wine enterprises. The Group hopes that it can participate in more charity campaigns to make contributions to the sustainable development of the harmonious society.

THE STOCK EXCHANGE'S ESG REPORTING GUIDE

Key Performance Indicators (KPI)	ESG Report	Disclosure Section	Notes
A. Environmental			
A1: Emissions			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.		Environmental protection and legal compliance	
A1.1	The types of emissions and respective emission data	Data of coal fuel emission	
A1.2	Greenhouse gas emissions in total	Data of greenhouse gas emission	
A1.3	Total hazardous waste produced	N/A	There were no chemical or medical hazardous wastes produced during our production process.
A1.4	Total non-hazardous waste produced	Insignificant	A few innocuous wastes produced during our production process were collected by the municipal waste treatment facilities for centralised treatment or forward to the farmers in the neighbourhood for use as fuel.
A1.5	Description of measures to mitigate emissions and results achieved	Greenhouse gas emission	
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Waste recycling and forwarding	

Key Performance Indicators (KPI)	ESG Report	Disclosure Section	Notes
A. Environmental			
A2: Use of Resources			
General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.		The Group and the environment	
A2.1	Direct and/or indirect total energy consumption by type	Data of total energy use	
A2.2	Water consumption in total and intensity	N/A	The Group has obtained the State's permit(s) for water intake and sewage discharge which stipulate the amount of water that can be extracted for usage.
A2.3	Description of energy use efficiency initiatives and results achieved	Resource usage	
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Resource usage	
A2.5	Total packaging material used for finished products	Data of packaging materials used by finished products	
A3: The Environment and Natural Resources			
General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		The Group and the environment	
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	The Group and the environment	

Key Performance Indicators (KPI)	ESG Report	Disclosure Section	Notes
B.Social			
B1: Employment			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		Human resource overview	
B1.1	Total workforce by gender, employment type, age group and geographical region	Human resource overview	
B1.2	Employee turnover rate by gender, age group and geographical region	Human resource overview	

Key Performance Indicators (KPI)	ESG Report	Disclosure Section	Notes
B.Social			
B2: Health and Safety			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to provision of a safe working environment and protecting employees from occupational hazards.		Health and safety	
B2.1	Number and rate of work-related fatalities	N/A	During the Year, there were no work-related fatalities or injury occurred regarding employees of the Group.
B2.2	Lost days due to work injury	N/A	
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Health and safety	
B3: Development and Training			
General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		Development and training	
B3.1	Percentage of employees trained by gender and employee category	Development and training	
B3.2	Average training hours completed per employee by gender and employee category	Development and training	

Key Performance Indicators (KPI)	ESG Report	Disclosure Section	Notes
B.Social			
B4: Labor Standards			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.		Labor standards	
B4.1	Description of measures to review employment practices to avoid child and forced labor	Labor standards	
B4.2	Description of steps taken to eliminate such practices when discovered	Labor standards	
B5: Supply Chain Management			
General Disclosure Policies on managing environmental and social risks of the supply chain.		Supply chain management	
B5.1	Number of suppliers by geographical region	N/A	All suppliers are from mainland China.
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supply chain management	

Key Performance Indicators (KPI)	ESG Report	Disclosure Section	Notes
B.Social			
B6: Product Responsibility			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.		Operation practice	
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	N/A	During the Year, there were no products sold or shipped subject to recalls for safety and health reasons or products and service related complaints received
B6.2	Number of products and service related complaints received and how they are dealt with	N/A	
B6.3	Description of practices relating to observing and protecting intellectual property rights	N/A	
B6.4	Description of quality assurance process and recall procedures	Operation practice	
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Operation practice	

Key Performance Indicators (KPI)	ESG Report	Disclosure Section	Notes
B.Social			
B7: Anti-corruption			
General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		Anti-corruption	
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and outcomes of the cases.	N/A	During the Year, there were no legal cases regarding corrupt practices or charges brought against the Group or its employees.
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Anti-corruption	
B8: Community Investment			
General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		N/A	The Group values the importance of contributing to the society and will spare no effort to provide assistance. Although the Group has not specified a set of policies for community engagement, we will review and consider the need to formulate such policies in the future, and make contributions for the sustainable development of the society.
B8.1	Focus areas of contribution	Charity campaigns	
B8.2	Resources contributed to the focus area	N/A	

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 74 to 130, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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 RMB323,559,000 from sales of wine products for the year ended 31 December 2017, which is disclosed in the consolidated statement of profit or loss and other comprehensive income and note 5 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 judgments by the management associated with determining the net realisable value ("NRV"). As disclosed in note 3 to the consolidated financial statements, NRV represents the estimated 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 RMB27,517,000 on obsolete and slow moving items to write off or write down inventories to their NRVs during the year ended 31 December 2017 and the carrying amount of inventories is RMB257,744,000 as at 31 December 2017.	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 the management; • Discussing with the 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 the 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 the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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
16 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Revenue	5	323,559	271,333
Cost of sales		(253,116)	(187,164)
Gross profit		70,443	84,169
Other income, gains and losses	7	581	586
Selling and distribution expenses		(65,469)	(126,957)
Administrative expenses		(47,177)	(60,612)
Finance costs	8	(66)	(21)
Change in fair value of biological assets	17	4,594	3,759
Loss before tax		(37,094)	(99,076)
Taxation	9	–	–
Loss and total comprehensive expense for the year	10	(37,094)	(99,076)
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		(39,553)	(93,291)
Non-controlling interests		2,459	(5,785)
		(37,094)	(99,076)
Loss per share			
Basic *(RMB cents)*	14	(1.96)	(4.63)
Diluted *(RMB cents)*		(1.96)	(4.63)

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	31.12.2017 RMB'000	31.12.2016 RMB'000
Non-current Assets			
Property, plant and equipment	15	**153,095**	149,130
Prepaid lease payments	16	**51,414**	54,138
Biological assets	17	**2,903**	2,687
		207,412	205,955
Current Assets			
Inventories	18	**257,744**	299,860
Trade receivables	19	**85,388**	27,407
Deposits and prepayments	20	**5,575**	14,157
Tax recoverable		**5,551**	5,551
Prepaid lease payments	16	**2,723**	2,723
Bank balances and cash	21	**153,647**	181,683
		510,628	531,381
Current Liabilities			
Trade payables	22	**11,847**	5,857
Other payables and accruals	23	**44,775**	25,871
Bank borrowing	24	**–**	7,096
Tax liabilities		**9,961**	9,961
		66,583	48,785
Net Current Assets		**444,045**	482,596
Total Assets less Current Liabilities		**651,457**	688,551
Capital and Reserves			
Share capital	25	**17,624**	17,624
Reserves		**563,073**	602,626
Equity attributable to owners of the Company		**580,697**	620,250
Non-controlling interests		**70,760**	68,301
Total Equity		**651,457**	688,551

The consolidated financial statements on pages 74 to 130 were approved and authorised for issue by the Board of Directors on 16 March 2018 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 2017

	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 2016	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 26)*	–	–	–	–	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
(Loss) profit and total comprehensive (expense) income for the year	–	–	–	–	–	(39,553)	(39,553)	2,459	(37,094)
Share option lapsed *(note 26)*	–	–	–	–	(6,998)	6,998	–	–	–
At 31 December 2017	17,624	910,541	86,360	130,634	6,926	(571,388)	580,697	70,760	651,457

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 2017

	2017 *RMB'000*	2016 *RMB'000*
OPERATING ACTIVITIES		
Loss before tax	**(37,094)**	(99,076)
Adjustments for:		
Interest income	**(501)**	(760)
Finance costs	**66**	21
Depreciation of property, plant and equipment	**10,666**	10,597
(Gain) loss on disposal of property, plant and equipment	**(34)**	19
Amortisation of prepaid lease payments	**938**	938
Write off of inventories	**27,517**	1,684
Expense recognised in respect of equity-settled share-based payments	**–**	8,025
Change in fair value of biological assets	**(4,594)**	(3,759)
Operating cash flows before movements in working capital	**(3,036)**	(82,311)
Increase in biological assets	**(1,278)**	(1,236)
Decrease in inventories	**20,255**	16,340
(Increase) decrease in trade receivables	**(57,981)**	57,295
Decrease (increase) in deposits and prepayments	**8,582**	(2,004)
Increase (decrease) in trade payables	**5,990**	(3,450)
Increase (decrease) in other payables and accruals	**19,427**	(8,276)
Cash used in operations	**(8,041)**	(23,642)
NET CASH USED IN OPERATING ACTIVITIES	**(8,041)**	(23,642)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(13,661)**	(11,795)
Interest received	**501**	760
Proceeds from disposal of property, plant and equipment	**327**	–
Refund received from deposits paid for acquisition of property, plant and equipment	**–**	7,343
NET CASH USED IN INVESTING ACTIVITIES	**(12,833)**	(3,692)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 *RMB'000*	2016 *RMB'000*
FINANCING ACTIVITIES		
Repayment of bank borrowing	**(7,925)**	–
Interest paid	**(66)**	(21)
Proceeds from bank borrowing	**829**	7,096
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(7,162)**	7,075
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(28,036)**	(20,259)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**181,683**	201,942
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**153,647**	181,683

1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on the Stock Exchange. The directors consider that the Company's ultimate holding company is Up Mount International Limited, a limited company incorporated in the British Virgin Islands (the "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 ("RMB"), which is also the functional currency of the Company.

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

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

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 HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of Annual Improvements to HKFRSs 2014-2016 Cycle

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.

Amendments to HKAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 32. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 32, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[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 9	Prepayment Features with Negative Compensation[2]
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 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

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 2021

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

New and revised HKFRSs in issue but not yet effective – continued

HKFRS 9 *Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 *Financial Instruments: Recognition and Measurement*. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

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

New and revised HKFRSs in issue but not yet effective – continued

HKFRS 9 *Financial Instruments – continued*

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables and bank balances. Such impairment recognised under expected credit loss model would increase the opening accumulated losses at 1 January 2018.

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 REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

New and revised 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 anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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

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.

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 in 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 is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Leasing – continued

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant 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 payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Impairment losses of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite 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 relevant 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 asset individually, 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 (or a cash-generating unit) 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 (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) 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 (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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 fertilisers 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 recognised 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

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

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 "loss before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of incomes or expenses that are taxable or deductible in other years and 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 deferred tax 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.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

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

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

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

Current and deferred tax are recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is calculated using the weighted average method. Net realisable value represents the estimated selling prices 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.

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 payables, 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.

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 have expired. 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 without taking into consideration all non-market vesting conditions 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 vest based on assessment of all relevant non-market vesting conditions. 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.

Estimated allowances for inventories

The management estimates the net realisable value of inventories based primarily on the estimated selling prices and current market conditions. Where the expectation on the net realisable value is lower than the cost, an impairment may arise. The Group carries out an inventory review at end of the reporting period and writes off of RMB27,517,000 (2016: RMB1,684,000) on obsolete and slow moving items to their net realisable values during the year ended 31 December 2017. As at 31 December 2017, the carrying amount of inventories is RMB257,744,000 (2016: RMB299,860,000).

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. As at 31 December 2017, the carrying amount of trade receivables is RMB85,388,000 (2016: RMB27,407,000).

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

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, the 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.

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 17 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 RMB4,594,000 (2016: RMB3,759,000) was credited to profit or loss for the year. As at 31 December 2017, the carrying amount of biological assets is RMB2,903,000 (2016: RMB2,687,000).

5. REVENUE

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

6. 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 the 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 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.

6. SEGMENT INFORMATION – continued

Information about reportable and operating segment revenue, profit (loss), assets and liabilities

	North-East Region *RMB'000*	Northern Region *RMB'000*	Eastern Region *RMB'000*	South-Central Region *RMB'000*	South-West Region *RMB'000*	Total *RMB'000*
For the year ended 31 December 2017						
Segment revenue from external customers	**62,744**	**50,908**	**100,447**	**48,498**	**60,962**	**323,559**
Segment profit	**6,732**	**4,933**	**9,975**	**4,067**	**6,784**	**32,491**
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)
As at 31 December 2017						
Segment assets	**20,720**	**11,726**	**23,764**	**9,493**	**19,685**	**85,388**
Segment liabilities	**4,955**	**4,020**	**7,931**	**3,831**	**4,814**	**25,551**
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

6. SEGMENT INFORMATION – continued

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

Revenue

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

	2017 *RMB'000*	2016 *RMB'000*
Total segment profit (loss)	**32,491**	(41,311)
Unallocated amounts:		
Change in fair value of biological assets	**4,594**	3,759
Other corporate income	**581**	760
Other corporate expenses	**(74,760)**	(62,284)
Consolidated loss before tax	**(37,094)**	(99,076)

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

	2017 *RMB'000*	2016 *RMB'000*
Assets		
Total segment assets	**85,388**	29,892
Other unallocated amounts		
Property, plant and equipment	**153,095**	149,130
Prepaid lease payments	**54,137**	56,861
Biological assets	**2,903**	2,687
Inventories	**257,744**	299,860
Deposits and prepayments	**5,575**	11,672
Tax recoverable	**5,551**	5,551
Bank balances and cash	**153,647**	181,683
Consolidated total assets	**718,040**	737,336

6. SEGMENT INFORMATION – continued

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

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

	2017 *RMB'000*	2016 *RMB'000*
Liabilities		
Total segment liabilities	**25,551**	6,439
Other unallocated amounts		
Trade payables	**11,847**	5,857
Other payables and accruals	**19,224**	19,432
Bank borrowing	**–**	7,096
Tax liabilities	**9,961**	9,961
Consolidated total liabilities	**66,583**	48,785

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.

	2017 *RMB'000*	2016 *RMB'000*
Sweet wines	**184,607**	144,281
Dry wines	**126,448**	109,566
Brandy	**6,239**	6,010
Others	**6,265**	11,476
	323,559	271,333

7. OTHER INCOME, GAINS AND LOSSES

	2017	2016
	RMB'000	*RMB'000*
Bank interest income	**501**	760
Net foreign exchange gain (loss)	**46**	(155)
Gain (loss) on disposal of property, plant and equipment	**34**	(19)
	581	586

8. FINANCE COSTS

The costs represent the interest on bank borrowing.

9. 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 before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 ***RMB'000***	2016 *RMB'000*
Loss before tax	**(37,094)**	(99,076)
Tax credit at income tax rate of 25% (2016: 25%)	**(9,274)**	(24,769)
Tax effect of expenses not deductible for tax purpose	**10,018**	12,518
Tax effect of tax loss not recognised	**3,718**	12,606
Utilisation of tax losses previously not recognised	**(4,462)**	(355)
Taxation for the year	**–**	–

10. LOSS AND TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR

	2017 *RMB'000*	2016 *RMB'000*
Loss and total comprehensive expense for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**2,120**	1,589
Cost of inventories recognised as an expense	**184,941**	151,553
Depreciation of property, plant and equipment	**10,666**	10,597
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	**17,509**	19,307
– sales commission	**7,448**	5,938
– retirement benefits schemes contributions	**4,360**	4,262
– share-based payments (included in administrative expenses)	**–**	8,025
	29,317	37,532
Write off of inventories (included in cost of sales)	**27,517**	1,684
Advertising and promotion expenses (included in selling and distribution expenses)	**34,141**	101,044

11. 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:

	Directors' fees	Salaries	Retirement benefits scheme contributions	Share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2017					
Executive directors					
Mr. Wang Guangyuan	–	1,605	41	–	1,646
Mr. Zhang Hebin	–	576	31	–	607
Ms. Wang Lijuan (resigned on 2 May 2017)	–	226	7	–	233
Ms. Wang Lijun (appointed on 2 May 2017)	–	327	14	–	341
	–	2,734	93	–	2,827
Independent non-executive directors					
Mr. Lai Chi Keung, Albert	151	–	–	–	151
Mr. Lam Yiu Por	151	–	–	–	151
Mr. Yang Qiang	120	–	–	–	120
	422	–	–	–	422
	422	2,734	93	–	3,249

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

	Directors' fees *RMB'000*	Salaries *RMB'000*	Retirement benefits scheme contributions *RMB'000*	Share-based payments *RMB'000*	Total *RMB'000*
For the year ended 31 December 2016					
Executive directors					
Mr. Wang Guangyuan	–	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. Lai Chi Keung, Albert	161	–	–	–	161
Mr. Li Changgao (resigned on 15 January 2016)	–	–	–	–	–
Mr. Yang Qiang (joined on 15 January 2016)	120	–	–	–	120
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
	441	2,900	93	1,428	4,862

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

Mr. Wang Guangyuan 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.

12. FIVE HIGHEST PAID EMPLOYEES

For the years ended 31 December 2017 and 2016, of the five individuals with the highest emoluments in the Group, 2 were directors of the Company whose emoluments were disclosed in note 11 above. The emoluments of the remaining 3 highest paid individuals were as follows:

	2017	2016
	RMB'000	*RMB'000*
Salaries, allowance and benefits in kind	**3,397**	2,656
Retirement benefits	**142**	161
Equity-settled share option expense	**–**	3,299
	3,539	6,116

Their emoluments were within the following bands:

	2017	2016
	No. of employees	*No. of employees*
Below HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**2**	–
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**–**	1
	3	3

During the years ended 31 December 2017 and 2016, no emoluments were paid by the Group to any of the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the years ended 31 December 2017 and 2016, nor has any dividend been proposed since the end of the reporting period.

14. LOSS PER SHARE

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

	2017	2016
	RMB'000	*RMB'000*
Loss for the year attributable to owners of the Company and loss for the purposes of calculating the basic and diluted loss per share	**(39,553)**	(93,291)

	2017 & 2016
	Number of shares
Number of shares	
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	2,013,018,000

For the years ended 31 December 2017 and 2016, the computation of diluted loss per share does not assume the exercise of the Company's share options since their exercise would result in a decrease in loss per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Fixtures and office equipment RMB'000	Motor vehicles RMB'000	Bearer plants RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2016	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
Additions	–	–	207	–	–	3,949	10,768	14,924
Transfer	7,998	–	3,423	–	–	–	(11,421)	–
Disposals	–	–	(6,470)	–	(230)	–	–	(6,700)
At 31 December 2017	460,123	10,355	403,898	16,261	3,674	25,677	2,581	922,569
DEPRECIATION AND IMPAIRMENT								
At 1 January 2016	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
Provided for the year	3,468	239	3,244	1,800	258	1,657	–	10,666
Disposals	–	–	(6,258)	–	(149)	–	–	(6,407)
At 31 December 2017	373,099	10,355	366,563	10,341	2,930	6,186	–	769,474
CARRYING VALUES								
At 31 December 2017	87,024	–	37,335	5,920	744	19,491	2,581	153,095
At 31 December 2016	82,494	239	37,161	7,720	1,083	17,199	3,234	149,130

15. 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.

16. PREPAID LEASE PAYMENTS

	RMB'000
COST	
At 1 January 2016, 31 December 2016 and 2017	93,059
AMORTISATION AND IMPAIRMENT	
At 1 January 2016	33,474
Provided for the year	2,724
At 31 December 2016	36,198
Provided for the year	2,724
At 31 December 2017	38,922
CARRYING VALUES	
At 31 December 2017	54,137
At 31 December 2016	56,861

	2017	2016
	RMB'000	*RMB'000*
Analysed for reporting purposes as:		
Non-current asset	**51,414**	54,138
Current asset	**2,723**	2,723
	54,137	56,861

17. BIOLOGICAL ASSETS

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

	RMB'000
At 1 January 2016	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
Increase due to cultivation	1,278
Transfer to inventories	(5,656)
Change in fair value of biological assets	4,594
At 31 December 2017	2,903

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 754 tonnes (2016: 740 tonnes) during the year ended 31 December 2017. Grapes of RMB5,656,000 (2016: RMB5,165,000) are transferred to inventories of the Group for production. The Group has remeasured the fair value of the harvest at the spot of transferring to inventories during the year. After the harvests, plantation works commenced again on the grapevines.

The Group is exposed to a number of risks related to its biological assets. The Group is exposed to the following operating risks:

Climate, disease and other natural risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating these risks, including regular inspections, disease controls, surveys and deinsectisation.

Financial risks

The Group is exposed to financial risks arising from changes in the market price of grapes. A significant increase/decrease in the estimated market price or the estimated production quantity would result in a significant increase/decrease in the fair value of the biological assets.

The Group does not anticipate that the market price of grapes will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in market prices of grapes. The Company reviews its outlook for market prices of grapes regularly in considering the need for active financial risk management.

17. BIOLOGICAL ASSETS – continued

As at the years ended 31 December 2017 and 2016, 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 (Level 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	Level 3	Income approach			
		The key inputs are:			
		(1) Growth rate of average production quantity per grape tree;	(1) Growth rate of average production quantity per grape tree taking into account of life cycle of grapevine.	(1) The higher the growth rate of average production quantity, the higher the fair value.	(1) 3% (2016: 3%) per annum for all types of grapes.
		(2) Production quantity per grape tree;	(2) Production quantity per grape tree.	(2) The higher the production quantity per grape tree, the higher the fair value.	(2) 1.59 kg to 7.73 kg (2016: 1.48 kg to 7.14 kg), varies from different types of grapes at different time periods.
		(3) Market price per kilogram ("kg") of grapes; and	(3) Market price of grapes.	(3) The higher the market price, the higher the fair value.	(3) RMB3.00 per kg to RMB16.80 per kg (2016: RMB2.70 per kg to RMB16.70 per kg), varies from different types of grapes.
		(4) Discount rate	(4) Discount rate, taking into account of nature of winery industry and grapes production prevailing market condition.	(4) The higher the discount rate, the lower the fair value.	(4) 20% (2016: 20%)

18. INVENTORIES

	2017 *RMB'000*	2016 *RMB'000*
Raw materials and consumables	**54,405**	38,092
Work in progress	**188,963**	246,168
Finished goods	**14,376**	15,600
	257,744	299,860

19. 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.

	2017	2016
	RMB'000	*RMB'000*
0 – 30 days	56,001	18,274
31 – 60 days	29,387	9,133
	85,388	27,407

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 and no impairment allowance is provided at the end of the reporting period.

20. DEPOSITS AND PREPAYMENTS

	2017	2016
	RMB'000	*RMB'000*
Other deposits and prepayments	5,575	1,867
Prepaid other taxes	–	12,290
	5,575	14,157

21. BANK BALANCES AND CASH

Bank balances carry interest at average market rates ranging from 0.01% to 0.37% (2016: 0.01% to 0.32%) per annum.

22. TRADE PAYABLES

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

	2017	2016
	RMB'000	*RMB'000*
0 – 30 days	**9,171**	288
31 – 60 days	**2,676**	5,569
	11,847	5,857

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.

23. OTHER PAYABLES AND ACCRUALS

	2017	2016
	RMB'000	*RMB'000*
Accrued expenses	**19,061**	17,501
Other tax payables	**22,187**	6,174
Payables for the construction of plant and acquisition of machinery	**261**	784
Other payables	**3,266**	1,412
	44,775	25,871

24. BANK BORROWING

	2017	2016
	RMB'000	*RMB'000*
Unsecured and unguaranteed bank borrowing repayable on demand	–	7,096

As at 31 December 2016, the bank borrowing was denominated in Hong Kong Dollar ("HKD"). The contract interest rate on the bank borrowing was 2.25% per annum below the Hong Kong Dollar Prime rate.

The bank borrowing was fully repaid during the year ended 31 December 2017.

25. SHARE CAPITAL OF THE COMPANY

	Number of ordinary shares '000 at HK$0.01 per share	Amount
		HK$'000
Authorised:		
At 1 January 2016, 31 December 2016 and 31 December 2017	10,000,000	100,000
Issued and fully paid:		
At 1 January 2016, 31 December 2016 and 31 December 2017	2,013,018	20,131
Shown in the consolidated financial statements At 31 December 2016 and 2017	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 2017 and 2016.

26. 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, suppliers of goods and services, consultants, advisers, contractors, business or service partners. 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.

At 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 99,300,000 (2016: 155,850,000), representing 4.93% (2016: 7.74%) 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.

26. SHARE-BASED PAYMENT TRANSACTIONS – continued

Equity-settled share option scheme of the Company – continued

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 2017 and 2016 are as follows:

Date of grant	Number of options	Exercisable period	Exercise price
18 May 2012	– (2016: 40,000,000)	18 May 2012 to 17 May 2017	HK$0.710
9 May 2016	99,300,000 (2016: 115,850,000)	9 May 2016 to 8 May 2021	HK$0.263

The following table discloses movements of the Company's share options granted under the Scheme during the years ended 31 December 2017 and 2016:

Category of participant	Date of grant	Outstanding at 1.1.2016	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding at 31.12.2016	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding at 31.12.2017
A director	9 May 2016	–	16,550,000	–	–	16,550,000	–	–	–	16,550,000
Employees	18 May 2012	40,000,000	–	–	–	40,000,000	–	(40,000,000)	–	–
	9 May 2016	–	99,300,000	–	–	99,300,000	–	(16,550,000)	–	82,750,000
		40,000,000	99,300,000	–	–	139,300,000	–	(56,550,000)	–	82,750,000
Total		40,000,000	115,850,000	–	–	155,850,000	–	(56,550,000)	–	99,300,000
Exercisable at the end of the year		40,000,000				155,850,000				99,300,000

26. SHARE-BASED PAYMENT TRANSACTIONS – continued

Equity-settled share option scheme of the Company – continued

During the year ended 31 December 2017, 56,550,000 share options to employees were lapsed.

For share options granted on 9 May 2016 and 18 May 2012, 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.

For share options granted on 9 May 2016 and 18 May 2012, they were vested immediately. The Company recognised the total expense of RMB8,025,000 for the year ended 31 December 2016 in relation to share options granted by the Company, no such expense had incurred for the year ended 31 December 2017.

27. 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.

28. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2017	2016
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**239,035**	209,090
Financial liabilities		
Amortised cost	**15,374**	15,149

b. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, bank balances and cash, trade payables, 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.

28. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Market risk

(i) Currency risk

Certain transactions and monetary assets and liabilities of the Group are denominated in 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	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
HKD	**4**	3	**3,479**	8,841

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 the key management personnel and represents the 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 where RMB strengthen 10% against HKD. For a 10% weakening of RMB against HKD, there would be an equal and opposite impact on the loss and the balances below would be positive.

	2017	2016
	RMB'000	*RMB'000*
HKD	**(348)**	(884)

In the 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.

28. FINANCIAL INSTRUMENTS – continued

b. Financial risk management objectives and policies – continued

Market risk – continued

(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.

Credit risk

As at 31 December 2017 and 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 material debt by region 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.

28. 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*
2017					
Non-derivative financial liabilities					
Trade payables	**N/A**	**–**	**11,847**	**–**	**11,847**
Other payables	**N/A**	**3,266**	**–**	**261**	**3,527**
		3,266	**11,847**	**261**	**15,374**
2016					
Non-derivative financial liabilities					
Trade payables	N/A	–	5,857	–	5,857
Other payables	N/A	1,412	–	784	2,196
Bank borrowing	3.0	7,096	–	–	7,096
		8,508	5,857	784	15,149

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.

29. OPERATING LEASES

The Group as lessee

	2017 RMB'000	2016 RMB'000
Minimum lease payments paid under operating leases during the year:		
Premises for office	771	822

At the years ended 31 December 2017 and 2016, the Group had commitments for minimum lease payment under non-cancellable operating leases which fall due as follows:

	2017 RMB'000	2016 RMB'000
Rented premises for office		
Within one year	681	870
In the second to fifth year inclusive	–	725
	681	1,595

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 for both years.

30. CAPITAL COMMITMENTS

The significant capital commitments are as follows:

	2017	2016
	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	**14,615**	7,686

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.

Forfeited contribution can be used to reduce future contribution of the Group. There was no utilisation of forfeited contribution during 2017 and as at 31 December 2017, there is no forfeited contribution receivable for reduction of future contribution.

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 RMB4,360,000 (2016: RMB4,262,000).

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or the future cash flows will be, classified in the Group's consolidated cash flows from financing activities.

	Bank borrowing (Note 24) *RMB'000*
At 1 January 2017	7,096
Financing cash flows	(7,162)
Finance costs incurred during the year	66
At 31 December 2017	–

33. RELATED PARTIES TRANSACTIONS

Compensation of key management personnel

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

	2017 ***RMB'000***	2016 *RMB'000*
Short-term benefits	**7,084**	6,401
Post-employment benefits	**403**	420
Share-based payments	**–**	8,025
	7,487	14,846

The remuneration of directors and key executives is determined by the board of directors of the Company (upon the recommendation of the remuneration committee) having regard to the performance of individuals and market trends.

34. PARTICULARS OF 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 2017	2016	Principal activity
Fullest Power Investments Limited ("Fullest Power") *(note 1)*	BVI	Ordinary shares US$100,000	100%	100%	Investment holding
Rich Treasure Link Limited	Hong Kong	Ordinary shares HK$10,000	100%	100%	Investment holding and provision of administrative services
Topping Future Limited	Hong Kong	Ordinary shares HK$10,000	100%	100%	Investment holding
Shine Wealth Hong Kong Group 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%	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%	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%	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%	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%	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.

None of the subsidiaries had issued any debt securities at the end of the year.

34. PARTICULARS OF 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	Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2017 & 2016	**2017**	2016	**2017**	2016
			RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Yantai Baiyanghe	PRC	40%	**2,459**	(5,785)	**70,760**	68,301

34. 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.

	2017 *RMB'000*	2016 *RMB'000*
Non-current assets	**39,196**	40,144
Current assets	**147,015**	137,734
Current liabilities	**(9,311)**	(7,126)
Equity attributable to owners of the Company	**106,140**	102,451
Non-controlling interests	**70,760**	68,301
Revenue	**77,089**	77,812
Expenses	**(70,941)**	(92,276)
Profit (loss) for the year	**6,148**	(14,464)
Profit (loss) attributable to:		
Owners of the Company	**3,689**	(8,679)
Non-controlling interests	**2,459**	(5,785)
	6,148	(14,464)
Net cash outflow from operating activities	**(11,557)**	(2,056)
Net cash outflow from investing activities	**(831)**	(6,537)
Net cash outflow	**(12,388)**	(8,593)

35. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 *RMB'000*	2016 *RMB'000*
Non-current Assets		
Investment in a subsidiary	–	–
Property, plant and equipment	–	238
Amounts due from subsidiaries	134,153	135,029
	134,153	135,267
Current Assets		
Deposits and prepayments	271	271
Amounts due from subsidiaries	8,000	22,100
Bank balances	4	4
	8,275	22,375
Current Liabilities		
Other payables and accruals	(7,063)	(1,236)
Bank borrowing	–	(7,096)
	(7,063)	(8,332)
Net Current Assets	1,212	14,043
Total Assets less Current Liabilities	135,365	149,310
Capital and Reserves		
Share capital	17,624	17,624
Reserves	117,741	131,686
Total Equity	135,365	149,310

The Company's statement of financial position was approved and authorised for issue by the board of directors on 16 March 2018 and are signed on its behalf by:

Wang Guangyuan
EXECUTIVE DIRECTOR

Zhang Hebin
EXECUTIVE DIRECTOR

35. 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 2016	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
Loss and total comprehensive expense for the year	–	–	(13,945)	(13,945)
Share options lapsed	–	(6,998)	6,998	–
At 31 December 2017	910,541	6,926	(799,726)	117,741

The Company's reserves available for distribution to shareholders as at 31 December 2017 comprised the accumulated losses and share premium of RMB110,815,000 (2016: RMB117,762,000).

Under the Companies Act 1981 of Bermuda (as amended), the share premium is available for distribution unless it is, or would after the payment be, unable to pay its liabilities as they become due; or the realisable value of its assets would thereby less than the aggregate of its liabilities and issued share capital and share premium accounts.