CHINA OUHUA WINERY HOLDINGS LIMITED
AND ITS SUBSIDIARY CORPORATION

Company Registration Number: 200900709K

FINANCIAL STATEMENTS FOR THE
FINANCIAL YEAR ENDED
31 DECEMBER 2016

CONTENTS

DIRECTORS' STATEMENT
For the financial year ended 31 December 2016

The directors are pleased to present their statement to the members together with the audited consolidated financial statements of CHINA OUHUA WINERY HOLDINGS LIMITED (the "Company") and its subsidiary corporation (collectively, the "Group") and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2016.

1 OPINION OF THE DIRECTORS

In the opinion of the Directors,

(a) the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 10 to 49 are drawn up so as to give a true and fair view of financial position of the Group and of the Company as at 31 December 2016 and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended in accordance with the provisions of the Singapore Companies Act and International Financial Reporting Standards; and

(b) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The supplementary information set out in Note 26 has been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

2 DIRECTORS

The directors of the Company in office at the date of this statement are:

Wang Chao
Wang Wei
Bernard Tan Chin Teik
Sun Huifeng
Zhang Fuwei
Ang Yee Hooi

3 ARRANGEMENTS TO ENABLE THE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

4 DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

According to the register of directors' shareholdings, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 164 of the Singapore Companies Act, Chapter 50 (the "Act"), none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or any other related corporation either at the beginning of the financial year, or at the date of appointment if later, or at the end of the financial year, except as follows:

	At beginning of financial year	At end of financial year
	Ordinary shares in which the director is deemed to have an interest	
The Company, China Ouhua Winery Holdings Limited		
Wang Chao	316,000,000	316,000,000
Related company, Yantai Ouhua Winery Co. Ltd.		
Wang Chao	180,000	180,000

The deemed interests of Wang Chao in the shares of the Company and its subsidiary corporation are by virtue of his shareholding in Hua Xin International Holdings Limited by virtue of Section 7(4) of the Singapore Companies Act.

5 SHARE OPTIONS

There were no options granted during the financial year to subscribe for unissued shares of the Company or any corporation in the Group.

No shares have been issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company or any corporation in the Group whether granted before or during the financial year.

There were no unissued shares of the Company or any corporation in the Group under option at the end of the financial year.

6 AUDIT COMMITTEE

The members of the Audit Committee during the year and at the date of this statement are:

Sun Huifeng (Chairman)
Bernard Tan Chin Teik (Member)
Zhang Fuwei (Member)

The Audit Committee carried out its functions in accordance with Section 201B (5) of the Singapore Companies Act. The functions performed by the Audit Committee are disclosed in the Report of the Audit Committee.

7 AUDITORS

Helmi Talib & Co have expressed their willingness to accept re-appointment as auditors.

On behalf of the Board of Directors

WANG CHAO
Director

WANG WEI
Director

Date: 19 April 2017

Statutory Declaration

Pursuant to Paragraph 9.27 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad

I, Wang Chao, being the director primarily responsible for the financial management of CHINA OUHUA WINERY HOLDINGS LIMITED, do solemnly and sincerely declare that the accompanying financial statements set out on pages 10 to 49 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the prevailing laws governing declarations for oaths in China.

WANG CHAO
Director

Subscribed and solemnly declared by the above mentioned in Yantai, China on
19 April 2017.

Before me:

Zhi Fu Notary Public Office Yantai City

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF CHINA OUHUA WINERY HOLDINGS LIMITED

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of CHINA OUHUA WINERY HOLDINGS LIMITED (the "Company") and its subsidiary corporation (the "Group") which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and International Financial Reporting Standards ("IFRS") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for Qualified Opinion

Included in other receivables are deposits of RMB 118,800,000 representing 90% of the total cash consideration price, which were made to Huangwu Subdistrict Office, Zhifu District, Yantai City, People's Republic of China. As disclosed in Note 12 to the financial statements, on 17 December 2013, the Group entered into a contract to purchase land, buildings and ancillary facilities including 320KVA power distribution equipment, water supply system, roads surrounding the factory and enclosing wall (collectively known as "Assets") for a cash consideration of RMB 132,000,000. As mentioned in Note 12 to the financial statements, no independent professional valuation of the acquired Assets was made for the deposits.

In the absence of an independent valuation, we were unable to ascertain whether the net recoverable amount of the Assets acquired will exceed the total purchase consideration. In addition, we have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves of the extent of recoverability of the deposits of RMB 118,800,000 in the event that the transaction is not completed. Consequently, we were unable to determine whether any adjustments to the carrying amount of deposits as at 31 December 2016 were necessary. Our opinion on the current year's financial statements is also modified because of the possible effects of this matter on current year's figures as at 31 December 2016.

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter disclosed in the Basis of Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Matter	Audit response
Valuation of trade receivables (RMB 22.816 million) **Refer to Note 12 to the financial statements** The Group has significant and long outstanding trade receivables totaling to RMB 7.193 million, representing 32% of the total trade receivables. Management monitors and assesses the Group's credit risk, and where required, adjust the level of impairment allowance, which requires management to make significant judgements regarding the expected future financial condition and ability of future receipts from debtors, especially where the debts are aged for more than 150 days. Inappropriate judgements and estimates made in the impairment assessment would result in a significant impact on the carrying amount of the trade receivables. Disclosure on the above significant judgement has been made in Note 3 to the financial statements and further information related to the aged trade receivables is provided under Note 12 to the financial statements.	Our audit procedures to evaluate management's assessment on the recoverability of the Group's aged trade receivables which are past due but not impaired include inquiry with management on the reasons for the delay in payments of certain aged trade receivables and review of appropriateness of any allowance for impairment losses to be made by considering among others factors such as subsequent cash receipts, past payment practices, the ongoing business relationship with the debtors and the repayment plans agreed with the debtors. Based on our procedures, we found management's assessment of the recoverability of trade receivables, which premised on the repayment plans to be reasonable. We have also assessed and validated the adequacy and appropriateness of the disclosure made in the financial statements.
Valuation of inventories (RMB 93.126 million) **Refer to Note 13 to the financial statements** The Group's work-in-progress inventories amounting to RMB 92.828 million represents 99% of the total inventories. These inventories relate mainly to the direct costs incurred for wine production. The period over which the wine inventories are converted to finished goods can be a significant length of time and forecasting demand and market prices can vary significantly over the holding period up to the likely date of sale. Management has estimated the net realisable of the work-in-progress inventories based on certain assumptions relating to spoilage and obsolescence. Obsolescence considerations include inventory aging profile, as well as different market factors impacting the sale of these product lines. Inappropriate judgement and estimate made in estimating the conditions and estimated selling price would result in a significant impact on the net realisable value of the work-in-progress inventories. Disclosure on the above significant judgement has been made in Note 3 to the financial statements and further information related to the written-down of the inventories to its net realisable values is provided under Note 13 to the financial statements.	Our audit procedures to validate the valuation of the inventories include performance of test of details on actual margins and valuation of obsolete inventories. We assessed whether there were inventories which were sold with negative margin by evaluating sales invoices issued subsequent to year end to validate management's assessment and decision whether inventories should or should not be adjusted to its net realisable values. Furthermore, we analysed the inventory turnaround based on the inventory turnover days and compared that to management's estimates on obsolete inventories. Based on our procedures, we found management's estimates, which are the basis of the inventory valuation to be reasonable. We have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our independent auditors' report thereon, which we obtained prior to the date of this report.

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

In connection with our audit of the financial statements our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence on the recoverability of the Group's deposit to Huangwu Subdistrict Office. Accordingly we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statement, 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 Company's internal control.

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

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Conclude on the appropriateness of management's 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 Company'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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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's audit. We remain solely responsible for our audit opinion.

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

We also provide the directors 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 the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is See John Kuan.

Other Reporting Responsibilities

The supplementary information set out in Note 26 to the financial statements are disclosed to meet the requirements of Bursa Malaysia Securities Berhad and are not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information are prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

HELMI TALIB & CO
Public Accountants and
Chartered Accountants

Singapore

Date: 19 April 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the financial year ended 31 December 2016

		GROUP	
	Note	2016 RMB '000	2015 RMB '000
Revenue	5	13,814	12,964
Cost of sales		(13,039)	(12,835)
Gross profit		775	129
Other income	6	138	411
Distribution costs		(10,397)	(6,826)
Administrative expenses		(45,763)	(20,166)
Other expenses		(90)	(146)
Loss before taxation	8	(55,337)	(26,598)
Income tax credit	9	15,299	-
Loss for the year		(40,038)	(26,598)
Total comprehensive loss for the year		(40,038)	(26,598)
Total comprehensive loss attributable to:			
Equity holders of the Company		(37,312)	(25,300)
Non-controlling interests		(2,726)	(1,298)
		(40,038)	(26,598)
Loss per share attributable to owners of the Company (cents per share)			
Basic	10	(5.59)	(3.79)
Diluted		(5.59)	(3.79)

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION
As at 31 December 2016

		GROUP		COMPANY	
	Note	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000
Assets					
Current assets					
Cash and bank balances	11	26,316	53,777	202	353
Trade and other receivables	12	135,864	142,407	141,316	141,952
Inventories	13	43,342	60,845	-	-
Total current assets		205,522	257,029	141,518	142,305
Non-current assets					
Property, plant and equipment	14	42,963	47,260	-	-
Investment in a subsidiary corporation	15	-	-	60,135	60,135
Biological assets	16	-	-	-	-
Total non-current assets		42,963	47,260	60,135	60,135
Total assets		248,485	304,289	201,653	202,440
Liabilities and equity					
Liabilities					
Current liabilities					
Trade and other payables	17	9,638	10,132	807	803
Other liabilities	18	686	659	346	325
Total current liabilities		10,324	10,791	1,153	1,128
Non-current liabilities					
Deferred tax liabilities	19	-	15,299	-	-
Total non-current liabilities		-	15,299	-	-
Total liabilities		10,324	26,090	1,153	1,128
Equity					
Capital and reserves attributable to equity owners of Company					
Share capital	20	205,838	205,838	205,838	205,838
(Accumulated losses)/Retained earnings		(3,729)	33,583	(6,361)	(5,549)
Other reserves	21	30,531	30,531	1,023	1,023
Total equity attributable to owners of Company		232,640	269,952	200,500	201,312
Non-controlling interests		5,521	8,247	-	-
Total equity		238,161	278,199	200,500	201,312
Total liabilities and equity		248,485	304,289	201,653	202,440

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2016

GROUP

	Share Capital RMB '000	Retained Earnings/ (Accumulated Losses) RMB '000	Other Reserves RMB '000	Statutory Reserve Fund RMB '000	Non-Controlling Interests RMB '000	Total Equity RMB '000
At 1 January 2015	205,838	58,883	1,023	29,508	9,545	304,797
Loss for the year, representing total comprehensive loss for the year	-	(25,300)	-	-	(1,298)	(26,598)
At 31 December 2015	205,838	33,583	1,023	29,508	8,247	278,199
Loss for the year, representing total comprehensive loss for the year	-	(37,312)	-	-	(2,726)	(40,038)
At 31 December 2016	205,838	(3,729)	1,023	29,508	5,521	238,161

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the financial year ended 31 December 2016

COMPANY

	Share Capital RMB '000	Accumulated Losses RMB '000	Other Capital Reserves RMB '000	Total Equity RMB '000
At 1 January 2015	205,838	(4,915)	1,023	201,946
Loss for the year, representing total comprehensive loss for the year	-	(634)	-	(634)
At 31 December 2015	205,838	(5,549)	1,023	201,312
Loss for the year, representing total comprehensive loss for the year	-	(812)	-	(812)
At 31 December 2016	205,838	(6,361)	1,023	200,500

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the financial year ended 31 December 2016

	Note	GROUP 2016 RMB '000	GROUP 2015 RMB '000
Cash flows from (used in) operating activities			
Loss before taxation		(55,337)	(26,598)
Adjustments for			
Allowance for inventory obsolescence		25,827	7,430
Allowance for impairment loss of trade receivables		7,193	925
Depreciation on property, plant and equipment		4,206	4,276
Loss on disposal of property, plant and equipment		90	146
Other payable written-off		-	(170)
Interest income		(138)	(240)
Total adjustments to profit (loss) account		37,178	12,367
Total operating cash flows before changes in working capital		(18,159)	(14,231)
Changes in working capital			
Increase in inventories		(8,324)	(2,215)
Increase in trade and other receivables		(650)	(7,776)
(Decrease) Increase in trade and other payables		(494)	623
Increase (Decrease) in other liabilities		27	(359)
Total changes in working capital		(9,441)	(9,727)
Cash generated from operations		(27,600)	(23,958)
Interest received		138	240
Net cash flows used in operating activities		(27,462)	(23,718)
Cash flows from (used in) investing activities			
Proceed from sale of property, plant and equipment		1	5
Purchase of property, plant and equipment		-	(222)
Net cash flows from (used) in investing activities		1	(217)
Cash flows from (used in) financing activities			
Net cash flows from (used in) financing activities		-	-
Net decrease in cash and bank balances		(27,461)	(23,935)
Cash and bank balances at beginning of financial year		53,777	77,712
Cash and bank balances at end of financial year	11	26,316	53,777
Cash and bank balances if different from statement of financial position			
Total cash and bank balances as per cash flow statement		26,316	53,777
Net cash flows			
Net cash flows used in operating activities		(27,462)	(23,718)
Net cash flows from (used) in investing activities		1	(217)
Net cash flows from (used in) financing activities		-	-

The accompanying notes form an integral part of these financial statements.

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 CORPORATE INFORMATION

China Ouhua Winery Holdings Limited (the “Company”) with a registration number of 200900709K is a limited liability company incorporated in Singapore and registered in Malaysia as a foreign company. It is listed on the Main Market of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The Company has two registered offices which are located in Singapore and Malaysia. The registered office of the Company in Singapore is at 60 Paya Lebar Road, 08-55 Paya Lebar Square Singapore 409051; while the registered office in Malaysia is at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8 Jalan Kerinchi, 59200 Kuala Lumpur, Wilayah Persekutuan, Malaysia. The principal place of business is located at No. 3 North Wolong Road, Yantai City Shan Dong Province, The People’s Republic of China (“PRC”).

The principal activity of the Company is investment holding. The principal activity of its subsidiary corporation is described in Note 15 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements, have been prepared in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the “Act”) and International Financial Reporting Standards (“IFRS”). The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates. The consolidated financial statements of the Group and the statement of financial position of the Company are presented in Chinese Renminbi (“RMB”) which is also the functional currency of the Company, and all values presented are rounded to the nearest thousand (“RMB’000”), unless otherwise indicated.

The preparation of the financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management’s best knowledge of current events, actions, historical experiences and various other factors that are believed to be reasonable under the circumstances, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing 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 areas involving a high degree of judgement in applying accounting policies, or areas where assumptions and estimates have a significant risk of resulting in material adjustment within the next financial year are disclosed in Note 3 to the financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

In the current financial year, the Group has adopted all the new and revised IFRS and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are relevant to its operations and effective for annual period beginning on or after 1 January 2016. The adoption of these new/revised IFRS and IFRIC did not have any material effect on the financial result or position of the Group and the Company reported for the current financial year.

New standards, amendments to standards and interpretations that have been issued at the reporting date but are not yet effective for the financial year ended 31 December 2016 have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group and the Company.

		Description	Effective for annual periods beginning on or after
FRS 7	:	Amendments to FRS 7: Disclosure Initiative	1 January 2017
FRS 115	:	Revenue from Contracts with Customers	1 January 2018
Amendments to FRS 115	:	Clarifications to FRS 115 Revenue from Contracts with Customers	1 January 2018
FRS 109	:	Financial Instruments	1 January 2018
FRS 116	:	Leases	1 January 2019

FRS 115 Revenue from Contracts with Customers

FRS 115 establishes a five-step model that will apply to revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Key issues for the Company include identifying performance obligations, accounting for contract modifications, applying the constraint to variable consideration, evaluating significant financing components, measuring progress toward satisfaction of a performance obligation, recognising contract cost assets and addressing disclosure requirements.

The new standard will supersede all current revenue recognition requirements under FRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

Transition

The following practical expedients are available when applying FRS 115 retrospectively.

- For completed contracts, an entity need not restate contracts that begin and end with the same annual reporting period or are completed contracts at the beginning of the earliest period presented.

- For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating the variable consideration amounts in the comparative reporting periods; and

- For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract for those contract modifications. Instead, an entity shall reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented when:

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

FRS 115 Revenue from Contracts with Customers (Continued)

Transition (Continued)

- identifying the satisfied and unsatisfied performance obligations;
- determining the transaction price; and
- allocating the transaction price to the satisfied and unsatisfied performance obligations.

- For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognise that amount as revenue.

The Company plans to adopt the new standard on the required effective date using the full retrospective method and apply all the practical expedients available for full retrospective approach under FRS 115 as listed above.

FRS 109 Financial Instruments

FRS 109 introduces new requirements for classification and measurement of financial assets, impairment of financial assets and hedge accounting. Financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The impairment requirements in FRS 109 are based on an expected credit loss model and replace the FRS 39 incurred loss model.

FRS 116 Leases

FRS 116 requires lessees to recognise most leases on the statement of financial position to reflect the rights to use the leased assets and the associated obligations for lease payments as well as the corresponding interest expense and depreciation charges. The standard includes two recognition exemption for lessees - leases of ‘low value’ assets and short-term leases which do not contain any purchase options. The new standard is effective for annual periods beginning on or after 1 January 2019.

The Company is currently assessing the impact of the new standard and plans to adopt the new standard on the required effective date. The Company expects the adoption of the new standard to result in an increase in total assets and total liabilities, earnings before interest, taxes, depreciation and amortisation and gearing ratio.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary corporation as at the reporting date. The financial statements of the subsidiary corporation used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognised in assets, such as inventory and property, plant and equipment, are eliminated in full.

Subsidiary corporation is consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation (Continued)

Losses within a subsidiary corporation are attributed to the non-controlling interest even if that results in a deficit balance.

Business combinations are accounted for by applying the acquisition method. The consideration transferred for the acquisition comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary corporation. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and services are rendered. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Any excess of the fair value of the consideration transferred in the business combination, the amount of any non-controlling interest in the acquiree (if any) and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the net identifiable assets acquired is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the date of acquisition.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary corporation attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary corporation, even if the subsidiary corporation incurred losses and the losses allocated exceed the non-controlling interests in the subsidiary corporation's equity.

For non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, the Group elects on an acquisition-by-acquisition basis whether to measure them at fair value, or at the non-controlling interests' proportionate share of the acquiree's net identifiable assets, at the acquisition date. All other non-controlling interests are measured at acquisition-date fair value or, when applicable, on the basis specified in another standard.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Changes in the Company's ownership interest in a subsidiary corporation that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners).

When a change in the Company's ownership interest in a subsidiary corporation results in a loss of control over the subsidiary corporation, the assets and liabilities of the subsidiary corporation including any goodwill are derecognised. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to accumulated profits if required by a specific IFRS.

Consolidation of the subsidiary corporation in the PRC is based on the subsidiary corporation's financial statements prepared in accordance with IFRS. Profits reflected in the financial statements prepared in accordance with IFRS may differ from those reflected in the PRC statutory financial statements of the subsidiary corporation, prepared for PRC reporting purposes. In accordance with the relevant laws and regulations, profits available for distribution by the PRC subsidiary corporation are based on the amounts stated in the PRC statutory financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Transactions with non-controlling interests

Non-controlling interest represents the equity in a subsidiary not attributable, directly or indirectly, to owners of the Company.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

2.4 Subsidiary corporation

A subsidiary corporation is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

In the Company's separate financial statements, investment in a subsidiary corporation is accounted for at cost less accumulated impairment losses. On disposal of the investment, the difference between the disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.5 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods, net of sales related taxes, rebates and discounts, and after eliminating sales within the Group. Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of the revenue and related cost can be reliably measured.

(a) Sales of goods

Revenue from sale of goods is recognised when a Group entity has delivered the products to the customer and significant risks and rewards of ownership of the goods have been passed to the customer.

(b) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

2.6 Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period expires, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Employee benefits

(a) Defined contribution plan

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. Such state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

(b) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

2.8 Income taxes

(a) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax is the expected tax payable or recoverable on the taxable income for the current year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or recoverable in respect of previous years.

(b) Deferred tax

Deferred income tax is provided using the liability method, on all temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except where the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither the accounting nor taxable profit or loss.

Deferred income tax is provided on temporary differences arising on investment in a subsidiary corporation, except where the timing of the reversal of the temporary difference can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on currently enacted or substantively enacted tax rates at the reporting date.

Deferred tax are charged or credited to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Income taxes (Continued)

(c) Value added tax ("VAT")

Revenues, expenses and assets are recognised net of the amount of VAT, except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

2.9 Property, plant and equipment

All items of property, plant and equipment are initially recognised at cost. Subsequent to initial recognition property, plant, and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Dismantlement, removal or restoration costs are included as part of the costs of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the assets only when it is probable that future economic benefits associated with the assets will flow to the Group and the cost can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	-	20 years
Vineyard land preparation costs and fixtures	-	10 years
Renovations	-	5 to 10 years
Plant and machinery	-	5 to 10 years
Furniture and fixtures (at specialty stores)	-	5 years
Office equipment	-	5 years
Motor vehicles	-	5 years

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at the end of each reporting period. The effects of any revision are recognised in profit or loss when the changes arise.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Biological assets

(a) Vineyards

Biological assets consist of immature grape vines. The grape vines have an average life of 40 years. Prior to the vineyards having attained a sustainable yield of grapes from their harvest, they are deemed as immature. As market determined prices or values are not readily available for grape vines in its present condition and for which alternative estimates of fair value are determined to be clearly unreliable, the biological assets are stated at cost less accumulated depreciation and impairment.

Costs include all costs of purchase and other costs in bringing the vineyards to their present location and condition. They include purchase of seedlings and vineyard maintenance costs.

Once immature vines commence bearing crop which is harvested (but prior to having attained a sustainable yield or industry productivity), the cost of the biological assets is expensed on the basis of yield achieved as a proportion of anticipated yield of a mature vine.

Once the fair value of the vines becomes reliably measurable, the grape vines are measured at their fair value less estimated point-of-sale costs at point of harvest. Gains or losses arising on initial recognition of grape vines at fair value less estimated point-of-sale costs is dealt with in profit or loss when it arises. Subsequent to initial recognition, changes in fair value are recognised in profit or loss.

Grapes are initially measured at their fair value less estimated point-of-sale costs at the time of harvest. The fair value of grapes at the time of harvest is determined by reference to market prices for grapes in the local area. At the time of harvest, such measurement of the grapes is recorded as inventory and the gain on initial recognition of grapes is recognised in profit or loss.

(b) Prepayments

Prepayments relate to crop compensation costs paid to previous lessees of the land on which the Group's vineyards reside. Prepayments are amortised in profit or loss on a straight-line basis over the lease term of the vineyards, which ranges from 30 to 50 years.

2.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows expected to be generated by the asset 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Impairment of non-financial assets (Continued)

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

2.12 Financial assets

(a) Classification

Financial assets are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

The Group classifies its financial assets according to the nature of the assets and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those maturing later than 12 months after the reporting date which are classified as non-current assets. The Group's loans and receivables include the cash and bank balances and trade and other receivables on the statement of financial position.

(b) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised directly in other comprehensive income is recognised in profit or loss.

(c) Initial measurement

Loans and receivables are initially recognised at fair value plus directly attributable transaction costs.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

(d) Subsequent measurement

Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less impairment losses. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

(e) Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account, and the amount of the loss is recognised in profit or loss. The allowance amount is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, the carrying amount of impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written-off against the carrying amount of the financial asset. Subsequent recoveries of amounts previously written-off are recognised against the same line item in profit or loss.

If in subsequent periods, 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 does not exceed its amortised cost at the reversal date.

2.13 Cash and bank balances

For the purpose of presentation in the consolidated statement of cash flows, cash and bank balances comprise of cash on hand, deposits with financial institutions which are subject to an insignificant risk of change in value, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value and excludes pledged deposits.

2.14 Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – Purchase cost on a weighted average basis; and
- Finished goods and work-in-progress – Cost of raw materials, direct labour, other direct costs, and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Financial liabilities

Financial liabilities include trade and other payables, including payables to related parties. Financial liabilities are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is extinguished. Gains and losses are recognised in profit or loss when the liabilities are derecognised and through the amortisation process.

2.16 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.17 Share capital

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.18 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements of the Group and the Company are presented in Chinese Renminbi ("RMB") which is the Company's functional currency.

(b) Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiary and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Foreign currencies (Continued)

(c) Translation of Group entities' financial statements

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing rates at the reporting date;
(ii) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the date of the transactions); and
(iii) All resulting exchange differences are recognised in other comprehensive income and accumulated in currency translation reserve within equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are taken to the foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

On disposal of a foreign group entity, the cumulative amount of the currency translation reserve relating to that particular foreign entity is reclassified from equity and recognised in profit or loss when gain or loss on disposal is recognised.

2.19 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the Group. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker for making decisions about allocating resources and assessing performance of the operating segments.

2.20 Related party

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and the Company if that person:

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Related party (Continued)

(b) An entity is related to the Group and the Company if any of the following conditions applies:

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

3 CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:

Withholding taxes arising from PRC subsidiary corporation's undistributed earnings

The Group's determination as to whether to recognise deferred tax for withholding taxes that would be payable on the undistributed earnings of the subsidiary corporation, that are subject to withholding taxes according to the relevant tax jurisdictions, is subject to judgement on the timing of the dividend payment.

In 2016, the Group considered that it is not probable that the subsidiary corporation will distribute such earnings in the foreseeable future due to the continuance operating losses and accumulated losses as at 31 December 2016. As the results, deferred tax liabilities for withholding taxes amounted to RMB 15,299,000 recognised in prior years were reversed during the financial year.

The carrying amounts of the Group's deferred tax liabilities as at 31 December 2016 are disclosed in Note 19.

3 CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Judgements made in applying accounting policies (Continued)

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

No impairment is necessary as there are no indicators of impairment for all the non-financial assets that the carrying amounts may not be recoverable as at the reporting date.

The carrying amounts of the Group's property, plant and equipment and investment in subsidiary as at 31 December 2016 are disclosed in Note 14 and Note 15 respectively.

Key sources of estimation uncertainty

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

Useful lives of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values.

The Group reviews the useful lives and residual values of property, plant and equipment at each reporting date in accordance with the accounting policy in Note 2.9. The estimation of the useful lives and residual amount involves assumptions concerning the future and estimations of the assets' common life expectancies and expected level of usage. The net carrying amount of property, plant and equipment as at 31 December 2016 and the annual depreciation charge for the financial year ended 31 December 2016 are disclosed in Note 14.

Any changes in the expected useful lives of the assets would affect the net carrying amount of property, plant and equipment, and the depreciation charge for the financial year.

As disclosed in Note 14, as the result of the unexpected poor performance of the Group, the Group carried out a review of the recoverable amount of that manufacturing plant and the related equipment. The review led to the recognition of an impairment loss of RMB 3,214,000, which has been recognised in profit or loss.

Impairment of trade receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

3 CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Impairment of trade receivables (Continued)

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's trade receivables at the end of the reporting period is disclosed in Note 12 to the financial statements.

As at 31 December 2016, management revisited the aging of trade debtors for objective evidence of impairment. Accordingly, an allowance for impairment loss of RMB 7,193,000 was made for those debtors more than 360 days old.

If the present value of estimated future cash flows differs from management's estimates, the Group's allowance for impairment of trade receivables and the trade receivables balance at the end of the reporting period will be affected accordingly.

Allowance for inventory obsolescence

The Group periodically reviews the inventories, and makes provision for obsolete and slow moving inventory items identified that are no longer suitable for sale and decline in net realisable values below cost. The net realisable values for such inventories are estimated based on historical obsolescence and current market conditions. Possible changes in these estimates could result in revisions to the valuation of inventories.

As at 31 December 2016, management reassessed the obsolescence of the 2014 work-in-progress ("WIP") based on 3 year life span and provided an allowance for inventory obsolescence of RMB 25,827,000.

If net realisable value of the inventory decreases by 10% from management's estimates, the Group's loss will increase by RMB 4,334,200 (2015: RMB 6,084,500).

4 RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the financial statements, the Group had the following transactions with related parties, on terms agreed between the parties concerned as follows:

(a) *Compensation of key management personnel*

	Group	
	2016 RMB '000	2015 RMB '000
Salaries and other short-term employee benefits	1,244	922
Employer's contribution to defined contribution plans	39	51
	1,283	973
Comprise amounts paid to:		
Directors	725	529
Other key management personnel	558	444
	1,283	973

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

4 RELATED PARTY TRANSACTIONS (Continued)

(b) Rental

	Group 2016 RMB '000	Group 2015 RMB '000
Rental of office building from a related party, in which a director, Wang Chao, has an interest	794	794

5 REVENUE

Revenue represents sale of goods net of discounts and value added tax.

6 OTHER INCOME

	Group 2016 RMB '000	Group 2015 RMB '000
Interest income	138	240
Other payable written-off	-	170
Net foreign exchange gain	-	1
	138	411

7 EMPLOYEE BENEFITS EXPENSE

	Group 2016 RMB '000	Group 2015 RMB '000
Salaries, wages and bonuses (including insurance)	5,905	5,214
Termination benefits	900	2,750
Employer's contribution to defined contribution plans	231	436
Labour union expense	45	64
Welfare expense	7	239
	7,088	8,703

8 LOSS BEFORE TAXATION

The following items have been included in arriving at profit (loss) before tax:

	Group 2016 RMB '000	Group 2015 RMB '000
Allowance for inventory obsolescence	25,827	7,430
Allowance for impairment loss of trade receivables	7,193	925
Employee benefits expense	7,088	8,703
Distributor promotional expense	5,121	1,676
Depreciation of property, plant and equipment	4,206	4,276
Operating lease expense	794	794
Audit fee payable/paid to the auditor of the Company	320	300
Loss on disposal of property, plant and equipment	90	146

9 INCOME TAX CREDIT AND PAYABLES

(a) Income tax credit

Tax credit attributable to profit is made up of:

	Group	
	2016 RMB '000	2015 RMB '000
Income tax:		
- Current income tax provision	-	-
Deferred tax (Note 19):		
- Reversal of temporary differences	15,299	-
	15,299	-

The income tax expense on the results of the financial year differs from the amount of income tax determined by applying the applicable corporate income tax rate to profits in the countries where the Group operates due to the following factors:

	Group	
	2016 RMB '000	2015 RMB '000
Profit (loss) before income tax	(55,337)	(26,598)
Tax at domestic rates applicable to profits in countries which the Group operates	(13,769)	(6,599)
Deferred tax asset not recognised	12,499	5,795
Expenses not deductible for tax purposes	1,132	696
Losses not allowed to be carried forward	139	139
Income not taxable for tax purposes	(1)	(31)
	-	-
Reversal of deferred tax liabilities (Note 19)	15,299	-
	15,299	-

According to the New Corporate Income Tax Law starting from 1 January 2008, companies in the PRC are subject to PRC Corporate Income Tax law ("CIT") rate of 25%. According to the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, the subsidiary corporation in the PRC is entitled to exemption from CIT for the first two years commencing from the first profit-making year after offsetting all tax losses carried forward, and a 50% reduction for the three years thereafter. Yantai Fazenda Ouhua Winery Co., Ltd. ("Yantai Fazenda Ouhua"), a PRC subsidiary corporation of the Company, was in its fifth profit-making year for the financial year ended 31 December 2011 and has benefited from the 50% reduction. Profits derived by Yantai Fazenda Ouhua are taxed at 25%.

Temporary difference relating to investment in subsidiary corporation

At the end of the reporting date, the Group reversed the deferred tax liability of RMB 15,299,000 which was recognised for taxes in prior years in relation to the undistributed earnings of Yantai Fazenda Ouhua when remitted as dividends to the Company as it is not probable that there will be accumulated profits to declare dividends to the Company in the foreseeable future.

9 INCOME TAX CREDIT AND PAYABLES

(b) Income tax payables

	Group		Company	
	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000
Balance at beginning of financial year	-	-	-	-
Income tax paid	-	-	-	-
Tax expenses on profit:				
- Current financial year	-	-	-	-
Balance at end of financial year	-	-	-	-

10 LOSS PER SHARE

Basic loss per share is calculated by dividing the Group's loss for the year attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2016	2015
Loss for the year (RMB '000)	(37,312)	(25,300)
Weighted average number of ordinary shares in issue ('000)	668,000	668,000
Basic loss per share (RMB cents)	(5.59)	(3.79)

Diluted earnings (loss) per share is same as basic earnings (loss) per share as there were no potential dilutive ordinary shares for the financial years ended 31 December 2016 and 31 December 2015.

11 CASH AND BANK BALANCES

	Group		Company	
	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000
Cash at banks	26,315	53,775	202	353
Cash on hand	1	2	-	-
	26,316	53,777	202	353

Cash at bank earns interest at floating rates based on daily bank deposit rates. The weighted average effective interest rates as at 31 December 2016 for the Group and the Company were 0.35% and NIL (2015: 0.35% and NIL), respectively.

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000
Chinese Renminbi	26,114	53,424	-	-
Hong Kong Dollar	97	248	97	248
Singapore Dollar	79	79	79	79
United States Dollar	26	26	26	26
	26,316	53,777	202	353

12 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016	2015	2016	2015
	RMB '000	RMB '000	RMB '000	RMB '000
Trade receivables				
Outside parties	22,816	23,451	-	-
Less: Allowance for impairment	(7,193)	-	-	-
	15,623	23,451	-	-
Other receivables				
Deposits	118,813	118,813	13	13
VAT receivables	1,428	-	-	-
Outside parties	-	143	-	-
Subsidiary corporation	-	-	141,303	141,939
	120,241	118,956	141,316	141,952
	135,864	142,407	141,316	141,952
Total trade and other receivables (excluding VAT receivables)	134,436	142,407	141,316	141,952
Add: Cash and bank balances (Note 11)	26,316	53,777	202	353
Total loans and receivables	160,752	196,184	141,518	142,305

Trade receivables are non-interest bearing and generally on 30 to 150 days term except for one key distributor. They are recognised at their original invoice amounts which represent their fair values on initial recognition. In respect of the key distributor, credit terms granted is not more than 365 days.

Amount due from a subsidiary corporation

Amount due from a subsidiary corporation is non-trade in nature, non-interest bearing and is repayable on demand.

Deposits

Deposits include a down payment made to purchase various assets. On 17 December 2013, the Group entered into a Sale and Purchase Agreement ("SPA") with the Huangwu Subdistrict Office, Zhifu District, Yantai City, PRC ("Local Government") to acquire all the land and buildings and ancillary facilities including 320KVA power distribution equipment, water supply system, roads surrounding the factory and enclosing wall (collectively known as "Assets") located at No. 3 Wolong North Road, Yantai City which the Group has been leasing since 1997, for a total cash consideration of RMB 132 million. The building has a gross floor area measuring approximately 12,600 square meters and the land has an area of 40 Mu (approximately 6.589 acres).

The salient provisions of the acquisition as set out in the SPA are as follows:

- The transfer cost, transfer ownership fee and all the taxes and other fees, etc would be borne by the Local Government.
- The Group agreed to pay 60% of the total consideration within 5 days from the date of SPA ("First Payment") and at the same time, the Local Government agreed to cease all rental/lease charges to the Group. Subsequently, 30% of the total consideration ("Second Payment") is to be paid by 30 December 2013 whilst the remaining 10% to be made upon the completion of the transfer procedures.
- The Local Government is required to complete the transfer procedure within four months of the Second Payment.
- Any liabilities incurred before 31 December 2013 would be borne by the Local Government.
- The Local Government confirmed that the Assets are free from other encumbrances.

12 TRADE AND OTHER RECEIVABLES (Continued)

***Deposits** (Continued)*

In 2013, the Group paid RMB 118.8 million to the Local Government which represents a down payment of 90% of the total acquisition cost and was presented in the financial statements as deposits. The Second Payment was made on 27 December 2013 and as of the report date, the transfer procedures have not yet been completed.

In relation to the acquisition of the Assets as described above, the directors are of the view that:

i. the Assets are acquired for use as production facilities and office;
ii. the transfer procedures will include a transfer of land use rights of up to 50 years from the date of acquisition and a further option renewal upon expiry of 50 years of industrial and/or commercial land;
iii. having considered that the land use rights (as referred to in (ii) above) are not yet established as of the report date, the cost of obtaining an independent professional valuation of the Assets will outweigh its benefits;
iv. in the event that the transaction is not completed, the deposits of RMB 118.8 million made by the Group will be refunded;
v. in the directors' own assessment, the total purchase consideration is based on the prevailing market value of the Assets at the time of acquisition and the fair value of the Assets acquired equals to or exceeds the acquisition cost as at the report date.

Receivables that are past due but not impaired

The Group has trade receivables amounting to RMB 4,323,000 (2015: RMB 13,081,000), that are past due at the end of the reporting period but not impaired. These receivables are unsecured and the analysis of their aging at the end of the reporting period is as follows:

	Group	
	2016 RMB '000	2015 RMB '000
Trade receivables that are past due		
1 to 30 days	1,267	412
31 to 60 days	606	433
61 to 150 days	1,957	4,477
More than 150 days	493	7,759
	4,323	13,081

Receivables that are impaired

The carrying amounts of trade receivables individually determined to be impaired at the end of the reporting period are as follows:

	Group	
	2016 RMB '000	2015 RMB '000
Trade receivables – Nominal amounts	7,193	925
Less: Allowance for impairment	(7,193)	(925)
	-	-

12 TRADE AND OTHER RECEIVABLES (Continued)

Movements in allowance accounts

	Group	
	2016 RMB '000	2015 RMB '000
At beginning of financial year	-	39,651
Charge for the financial year	7,193	925
Written-off	-	(40,576)
At end of financial year	7,193	-

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

Trade and other receivables are denominated in the following currencies:

	Group		Company	
	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000
Chinese Renminbi	135,851	142,394	141,303	141,939
Malaysian Ringgit	13	13	13	13
	135,864	142,407	141,316	141,952

13 INVENTORIES

	Group	
	2016 RMB '000	2015 RMB '000
Statement of financial position		
Raw materials	266	460
Work-in-progress	92,828	84,296
Finished goods	32	46
Total inventories at cost	93,126	84,802
Less: Allowance for inventory obsolescence	(49,784)	(23,957)
Total inventories at the lower of cost and net realisable value	43,342	60,845
Statement of comprehensive income		
Inventories recognised as an expense	39,355	18,883
- Inclusive of inventories written down	25,827	7,430

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB '000	Furniture & fixtures (at specialty stores) RMB '000	Renovations RMB '000	Plant & machinery RMB '000	Office equipment RMB '000	Motor vehicles RMB '000	Vineyard land preparation costs & fixtures RMB '000	Total RMB '000
Group								
Cost								
At 1 January 2015	38,912	-	13,200	56,912	1,048	3,337	-	113,409
Additions	-	-	-	222	-	-	-	222
Disposals	-	-	-	(1,397)	(113)	-	-	(1,510)
At 31 December 2015	38,912	-	13,200	55,737	935	3,337	-	112,121
Disposals	-	-	-	(644)	(291)	(76)	-	(1,011)
At 31 December 2016	38,912	-	13,200	55,093	692	3,261	-	111,110
Accumulated depreciation								
At 1 January 2015	5,027	-	13,200	37,862	928	1,713	-	58,730
Depreciation	1,751	-	-	1,944	8	573	-	4,276
Disposals	-	-	-	(1,257)	(102)	-	-	(1,359)
At 31 December 2015	6,778	-	13,200	38,549	834	2,286	-	61,647
Depreciation	1,751	-	-	1,969	4	482	-	4,206
Disposals	-	-	-	(579)	(271)	(70)	-	(920)
At 31 December 2016	8,529	-	13,200	39,939	567	2,698	-	64,933
Accumulated impairment								
At 1 January 2015	-	-	-	3,214	-	-	-	3,214
Additions	-	-	-	-	-	-	-	-
At 31 December 2015	-	-	-	3,214	-	-	-	3,214
Additions	-	-	-	-	-	-	-	-
At 31 December 2016	-	-	-	3,214	-	-	-	3,214
Net carrying amount								
At 31 December 2015	32,134	-	-	13,974	101	1,051	-	47,260
At 31 December 2016	30,383	-	-	11,940	77	563	-	42,963

In 2014, as the result of the unexpected poor performance of the Group, the Group carried out a review of the recoverable amount of that manufacturing plant and the related equipment. The review led to the recognition of an impairment loss of RMB 3,214,000, which has been recognised in statement of comprehensive income. The recoverable amount of the relevant assets has been determined on the basis of their fair value less costs of disposal.

15 INVESTMENT IN A SUBSIDIARY CORPORATION

	Company	
	2016 RMB '000	2015 RMB '000
Unquoted equity shares, at cost	60,135	60,135

The particulars of the subsidiary corporation are as follows:

Name of Company (Country of incorporation)	Principal activities (Place of business)	Equity held by Company	
		2016 %	2015 %
* Yantai Fazenda Ouhua Winery Co., Ltd. ("Yantai Fazenda Ouhua") (People's Republic of China)	Production of varieties of wine and sales of its self-produced wines (People's Republic of China)	95	95

* Audited by other firm of accountants.

Interest in subsidiary with material non-controlling interest ("NCI")

The Group's subsidiary corporation that has NCI that are material to the Group:

Name of Company (Country of incorporation)	Proportion of ownership interest held by non-controlling interest		Loss allocated to NCI		Accumulated NCI	
	2016 %	2015 %	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000
Yantai Fazenda Ouhua (People's Republic of China)	5	5	(2,726)	(1,298)	5,521	8,247

Summarised financial information about subsidiary with material NCI

Summarised financial information in respect of the Group's subsidiary that has material NCI is set out below. These represent amounts before intragroup eliminations:

Summarised balance sheet

	Yantai Fazenda Ouhua	
	2016 RMB'000	2015 RMB'000
Current		
Assets	205,307	256,663
Liabilities	(150,474)	(151,602)
Net current assets	54,833	105,061
Non-current		
Assets	42,963	47,260
Net assets	97,796	152,321

15 INVESTMENT IN A SUBSIDIARY CORPORATION (Continued)

Summarised financial information about subsidiary with material NCI (Continued)

Summarised statement of comprehensive income

	Yantai Fazenda Ouhua	
	2016	2015
	RMB'000	RMB'000
Revenue	13,814	12,964
Loss for the year	54,525	25,965
Total comprehensive loss for the year	54,525	25,965

Other summarised information

	Yantai Fazenda Ouhua	
	2016	2015
	RMB'000	RMB'000
Net cash flow used in operations	(27,310)	(23,417)
Net cash flow from (used in) investing activities	1	(217)

16 BIOLOGICAL ASSETS

	Group	
	2016	2015
	RMB '000	RMB '000
Immature planted vineyards		
At cost		
At 1 January	-	146,702
Additions	-	-
Written-off	-	(146,702)
At 31 December	-	-
Accumulated depreciation		
At 1 January	-	16,038
Additions	-	-
Written-off	-	(16,038)
At 31 December	-	-
Accumulated impairment		
At 1 January	-	130,664
Additions	-	-
Written-off	-	(130,664)
At 31 December	-	-
Net carrying amount		
At 31 December	-	-

In 2014, the Group ceased to lease the land on which the vineyards reside, and abandoned the vineyards and related assets as majority of the grapevines had died due to bad weather, insect pest and poor management.

17 TRADE AND OTHER PAYABLES

	Group		Company	
	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000
Trade payables				
Outside parties	-	-	-	-
Other payables				
VAT and other operating tax payables	8,822	9,287	-	-
Director	733	733	733	733
Outside parties	83	112	74	70
	9,638	10,132	807	803
	9,638	10,132	807	803
Total trade and other payables (excluding VAT and other operating tax)	816	845	807	803
Add: Other liabilities (Note 18)	686	659	346	325
Total financial liabilities carried at amortised cost	1,502	1,504	1,153	1,128

Trade payables are non-interest bearing and normally settled on 60 days term.

Amount owing to director is unsecured, non-interest bearing and is repayable on demand. This amount is to be settled in cash.

Trade and other payables are denominated in the following currencies:

	Group		Company	
	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000
Chinese Renminbi	9,564	10,062	733	733
Malaysian Ringgit	74	70	74	70
	9,638	10,132	807	803

18 OTHER LIABILITIES

	Group		Company	
	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000
Accrued operating expenses	686	659	346	325

Other liabilities are denominated in the following currencies:

	Group		Company	
	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000
Chinese Renminbi	340	584	-	250
Singapore Dollar	320	50	320	50
Malaysian Ringgit	26	25	26	25
	686	659	346	325

19 DEFERRED TAX LIABILITIES

	Group	
	2016	2015
	RMB '000	RMB '000
Deferred tax liabilities		
Difference in the income from harvest of grapes for tax purpose	-	-
Withholding tax on unremitted earnings of subsidiary corporation	-	15,299
	-	15,299

Movement in the net deferred tax liabilities during the financial year is as follows:

	Group	
	2016	2015
	RMB '000	RMB '000
Balance at beginning of financial year	(15,299)	(15,299)
Credit to statement of comprehensive income	15,299	-
Balance at end of financial year	-	(15,299)

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

Withholding taxes arising from distribution of dividends

The PRC subsidiary corporation's distributable earnings generated from 1 January 2008 which will be subjected to withholding tax when the PRC subsidiary corporation declares dividend to its foreign investor. The directors expect that no more than 50% of the PRC subsidiary corporation's earnings each year will be distributed to the Company in the foreseeable future and accordingly, the deferred tax liability is provided on this amount.

In 2016, the Group considered that it is not probable that the subsidiary corporation will distribute such earnings in the foreseeable future due to the continuance operating losses and accumulated losses as at 31 December 2016. As the results, deferred tax liabilities for withholding taxes amounted to RMB 15,299,000 recognised in prior years were reversed during the financial year.

20 SHARE CAPITAL

Issued and fully paid ordinary share capital, with no par value

	Group and Company			
	2016		2015	
	No. of shares	RMB '000	No. of shares	RMB '000
Balance at beginning and end of financial year	668,000,000	205,838	668,000,000	205,838

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions.

21 OTHER RESERVES

(a) *Statutory reserve fund*

In accordance with the Foreign Enterprise Law applicable to the subsidiary corporation in the PRC, the subsidiary corporation is required to make appropriations to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory profits after tax as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the statutory surplus reserve reaches 50% of the subsidiary corporation's registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiary corporation. The SRF is not available for dividend distribution to shareholders.

	Group	
	2016	2015
	RMB '000	RMB '000
Balance at beginning of financial year	29,508	29,508
Appropriations from retained earnings made during the financial year	-	-
Balance at end of financial year	29,508	29,508

(b) *Other capital reserve*

	Group and Company	
	2016	2015
	RMB '000	RMB '000
Balance at beginning of financial year	1,023	1,023
Appropriations from retained earnings made during the financial year	-	-
Balance at end of financial year	1,023	1,023

Other capital reserve relates to the purchase consideration of equity interest in a subsidiary corporation waived by a major shareholder.

22 COMMITMENTS

(a) *Operating lease commitments*

The Group has operating lease agreements for its office and factory buildings and vineyards in the PRC. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing. Future minimum rental payable under non-cancellable operating leases at the end of the reporting period are as follows:

	Group	
	2016	2015
	RMB '000	RMB '000
Not later than one year	794	794
Later than one year but not later than five years	3,255	3,215
Later than five years	2,500	3,334
	6,549	7,343

In 2014, the Group ceased to lease the land on which the vineyards reside. The Group has abandoned the vineyards and related assets as majority of the grapevines had died due to bad weather, insect pest and poor management.

22 COMMITMENTS (Continued)

(b) Capital commitments

Capital expenditures contracted for as at the end of the reporting period but not recognised in the financial statements are as follows:

	Group	
	2016	2015
	RMB '000	RMB '000
Capital commitments in respect of contract for purchase of property, plant and equipment	13,200	13,200

23 FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

Financial instruments as at reporting date are as follows:

	Group		Company	
	2016	2015	2016	2015
	RMB '000	RMB '000	RMB '000	RMB '000
Financial assets				
Loans and receivables	160,752	196,184	141,518	142,305
Financial liabilities				
Financial liabilities at amortised cost	1,502	1,504	1,153	1,128

(b) Financial risk management

The Group's overall risk management policy is to ensure adequate financial resources are available for the development of the Group's businesses whilst managing its market risk (including foreign currency risk and interest rate risk), liquidity risk and credit risk. The Group's overall risk management is determined and carried out by the Board of Directors. The policies for managing each of these risks are summarised as follows:

Foreign exchange risk

Currently, the PRC's government imposes control over foreign currencies. RMB, the official currency in China, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions.

Payments for imported materials or services, which is outside of the PRC, are subject to availability of foreign currencies which depends on the foreign currency denominated earnings of the enterprises, or exchanges of RMB for foreign currency must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchase of imported materials and remittance of earnings. While conversion of RMB into foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

23 FINANCIAL INSTRUMENTS (Continued)

(b) *Financial risk management* (Continued)

Foreign exchange risk (Continued)

The Group and the Company hold cash and other short-term deposits denominated in foreign currencies for working capital purposes. The Group and the Company also hold related party receivables and payables denominated in foreign currencies. At the end of the reporting period, such foreign currency balances are mainly in Hong Kong Dollar ("HKD"), Malaysian Ringgit ("MYR"), United States Dollar ("USD") and Singapore Dollar ("SGD").

The Group's and the Company's foreign currency transaction exposures based on the information provided to key management are as follows:

	HKD RMB '000	MYR RMB '000	USD RMB '000	SGD RMB '000
Group				
2016				
Financial assets				
Cash and bank balances	97	-	26	79
Other receivables	-	13	-	-
	97	13	26	79
Financial liabilities				
Other payables	-	74	-	-
Other liabilities	-	26	-	320
	-	100	-	320
Net financial assets (liabilities) denominated in foreign currencies	97	(87)	26	(241)
2015				
Financial assets				
Cash and bank balances	248	-	26	79
Other receivables	-	13	-	-
	248	13	26	79
Financial liabilities				
Other payables	-	70	-	-
Other liabilities	-	25	-	50
	-	95	-	50
Net financial assets (liabilities) denominated in foreign currencies	248	(82)	26	29

23 FINANCIAL INSTRUMENTS (Continued)

(b) ***Financial risk management*** (Continued)

Foreign exchange risk (Continued)

The Group's and the Company's foreign currency transaction exposures based on the information provided to key management are as follows: (Continued)

	HKD RMB '000	MYR RMB '000	USD RMB '000	SGD RMB '000
Company				
2016				
Financial assets				
Cash and bank balances	97	-	26	79
Other receivables	-	13	-	-
	97	13	26	79
Financial liabilities				
Other payables	-	74	-	-
Other liabilities	-	26	-	320
	-	100	-	320
Net financial assets (liabilities) denominated in foreign currencies	97	(87)	26	(241)
2015				
Financial assets				
Cash and bank balances	248	-	26	79
Other receivables	-	13	-	-
	248	13	26	79
Financial liabilities				
Other payables	-	70	-	-
Other liabilities	-	25	-	50
	-	95	-	50
Net financial assets (liabilities) denominated in foreign currencies	248	(82)	26	29

23 FINANCIAL INSTRUMENTS (Continued)

(b) ***Financial risk management*** (Continued)

Foreign exchange risk (Continued)

<u>*Sensitivity analysis for foreign currency risk*</u>

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in the HKD, MYR, USD and SGD exchange rates against RMB, Company's functional currency, with all other variables held constant.

	Group	
	Profit net of tax Increase (Decrease)	
	2016 RMB '000	2015 RMB '000
HKD against RMB		
- strengthened 5% (2015: 5%)	3,632	9,300
- weakened 5% (2015: 5%)	(3,632)	(9,300)
MYR against RMB		
- strengthened 5% (2015: 5%)	(3,242)	(3,061)
- weakened 5% (2015: 5%)	3,242	3,061
USD against RMB		
- strengthened 5% (2015: 5%)	978	965
- weakened 5% (2015: 5%)	(978)	(965)
SGD against RMB		
- strengthened 5% (2015: 5%)	(9,033)	1,092
- weakened 5% (2015: 5%)	9,033	(1,092)

Interest rate risk

The Group's and the Company's exposure to the risk of changes in interest rates relates primarily to the Group's and the Company's cash and bank balances placed with financial institutions. Interest rate risk is managed by the Group on an on-going basis with the primary objective of limiting the extent to which net interest income could be affected by an adverse movement in interest rates.

The sensitivity analysis for interest rate risk is not disclosed as the effect on the profit or loss is considered not significant.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position.

23 FINANCIAL INSTRUMENTS (Continued)

(b) ***Financial risk management*** (Continued)

Credit risk (Continued)

At the end of the financial year, approximately 84% (2015: 89%) of the Group's trade receivables were due from 5 major customers located in the PRC. In particular, 22% (2015: 22%) of the Group's trade receivables was due from one key customer.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and bank balances that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Trade receivables amounting to RMB 7,193,000 (2015: RMB 925,000) which have been past due were impaired during the financial year.

The age analysis of trade receivables past due but not impaired is disclosed in Note 12.

The Group does not hold any collateral in respect of these receivables and there are no disputes on these outstanding receivables. The Group has been working to reduce the exposure through its continued business relationship with the said customers.

Management has performed an impairment assessment on these receivables and concluded that these receivables are not impaired. This assessment is based on past payment trend and discussions with customers. Management is of the opinion that the outstanding receivables are collectible.

Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group and the Company maintain sufficient cash and bank balances, and internally generated cash flows to finance its activities.

In managing its liquidity, management monitors and reviews the Group's and the Company's forecasts of liquidity reserves (comprise of cash and bank balances) on the basis of expected cash flows determined at local level in the respective operating companies of the Group in accordance with limits set by the Group.

The financial liabilities of the Group and the Company as presented in the statements of financial position are due within twelve months from the reporting date and approximate the contracted undiscounted payments.

23 FINANCIAL INSTRUMENTS (Continued)

(c) Fair value of financial instruments by classes, that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of the financial assets and financial liabilities in the financial statements of the Group and the Company approximate their fair values due to the relatively short-term maturity of these financial instruments.

During the financial year, no amount (2015: NIL) has been recognised in profit or loss in relation to the change in fair value of financial assets or financial liabilities, estimated using a valuation technique.

The Group has no fair value measurement recognised in the statement of financial position as at the end of the reporting period.

24 SEGMENT INFORMATION

For management purposes, the Group is organised into two main business segments:

(a) White wine ("WW")

The White wine segment relates to the business producing white wine from Chardonnay, Riesling, Sauvignon Blanc and Pinot Blanc grape varietals, grown on Yantai Fazenda Ouhua's vineyards, grapes sourced from grape growers from areas neighbouring Yantai Fazenda Ouhua's vineyards, as well as wines purchased for production.

(b) Red wine ("RW")

The Red wine segment relates to the business of producing red wines from Cabernet Sauvignon, Pinot Noir, Shiraz, Merlot grape varietals, grown on Yantai Fazenda Ouhua's vineyards, grapes sourced from grape growers from areas neighbouring Yantai Fazenda Ouhua's vineyards, as well as wines purchased for production.

The segment information provided to management for the reportable segments are as follows:

	WW		**RW**		**Total**	
	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000
Segment revenue						
Sales to external customers	3,447	1,654	10,367	11,310	13,814	12,964
Segment profit	184	(271)	591	400	775	129
Unallocated expenses, net					(55,475)	(26,967)
Interest income					138	240
Loss before tax					(55,337)	(26,598)
Tax credit					15,299	-
Loss for the year					(40,038)	(26,598)

24 SEGMENT INFORMATION (Continued)

	WW		RW		Total	
	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000
Other segment information						
Depreciation of property, plant and equipment					4,206	4,276
Impairment on property, plant and equipment					-	-
Depreciation of biological assets					-	-
Impairment on biological assets					-	-
Amortisation of long-term prepayments					-	-
Prepayments written-off					-	-

Property, plant and equipment of the Group are utilised interchangeably between the different segments and there is no reasonable basis to allocate other assets and liabilities of the Group between the different segments. Accordingly, segmental information on assets and liabilities of the Group are not disclosed.

Segment accounting policies are the same as the policies of the Group as described in Note 2.

(a) Geographical information

Segmented information by geographical region is not applicable for the financial years ended 31 December 2016 and 31 December 2015 as the business operations of the Group is only carried out in the PRC.

(b) Information about major customers

Revenue from top four (2015: five) major customers for the financial year ended 31 December 2016 amounted to RMB 3,064,000 (2015: RMB 2,324,000), RMB 3,000,000 (2015: RMB 1,137,000), RMB 2,886,000 (2015: RMB 2,335,000), RMB 2,732,000 (2015: RMB 2,705,000), respectively, and accounted for 85% (2015: 81%) of the Company's revenue from both its operating segments (i.e. White wine and Red wine).

25 CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares and obtain new borrowings.

No changes were made in the objectives, policies or processes during the financial years ended 31 December 2016 and 31 December 2015.

25 CAPITAL MANAGEMENT (Continued)

The Group and the Company monitor capital using a gearing ratio, which is net debt divided by total capital less net debt. The Group and Company include trade and other payables, and other liabilities, less cash and cash equivalents within net debts. Capital represents equity attributable to the equity holders of the Company less the statutory reserve fund. The Group's and the Company's gearing ratios are shown below:

	Group		Company	
	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000
Trade and other payables	9,638	10,132	807	803
Other liabilities	686	659	346	325
Less: Cash and bank balances	(26,316)	(53,777)	(202)	(353)
Net debts	(15,992)	(42,986)	951	775
Equity attributable to the equity holders of the Company	232,640	269,952	200,500	201,312
Less: Statutory reserve fund	(29,508)	(29,508)	-	-
Capital less net debt	203,132	197,458	201,451	202,087
Gearing ratio	(8%)	(22%)	N.M.	N.M.

The subsidiary corporation of the Group in the PRC is required to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant authority in the PRC. This externally imposed capital requirement has been complied with by the above-mentioned subsidiary corporation for the financial years ended 31 December 2016 and 31 December 2015.

26 SUPPLEMENTARY INFORMATION

The breakdown of the retained profits of the Group and of the Company as at 31 December 2016 into realised and unrealised profits is presented in accordance with the directive issued by Bursa Securities dated 25 March 2011 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	Group		Company	
	2016 RMB '000	2015 RMB '000	2016 RMB '000	2015 RMB '000
Total retained earnings (accumulated losses) of the Company and its subsidiary corporation:				
- Realised	(1,748)	68,889	(6,361)	(5,549)
- Unrealised	-	(15,299)	-	-
	(1,748)	53,590	(6,361)	(5,549)
Less: Consolidation adjustments	(1,981)	(20,007)	-	-
	(3,729)	33,583	(6,361)	(5,549)

27 AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the directors on the same date as per the Directors' Statement.