CHINA OUHUA WINERY HOLDINGS LIMITED
(Incorporated in Singapore - Registration No. 200900709K)
And its Subsidiary

DIRECTORS' STATEMENT
AND FINANCIAL STATEMENTS

31 December 2018

UHY LEE SENG CHAN & CO
Public Accountants and
Chartered Accountants

CHINA OUHUA WINERY HOLDINGS LIMITED
(Incorporated in Singapore - Registration No. 200900709K)
And its Subsidiary

DIRECTORS' STATEMENT AND FINANCIAL STATEMENTS

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CHINA OUHUA WINERY HOLDINGS LIMITED
Directors' Statement
(Incorporated in Singapore) and its subsidiary

The directors present their statement to the members together with the audited consolidated financial statements of China Ouhua Winery Holdings Limited (the "Company" and collectively with its subsidiary, the "Group") for the financial year ended 31 December 2018 and the statement of financial position of the Company as at 31 December 2018.

Opinion of the directors

In the opinion of the directors,

(a) the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and the financial performance, changes in equity and cash flows of the Group for the financial year ended on that date; 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 with the continuing financial support from a director and shareholder of the Company.

Directors

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

Wang Chao
Sun Huifeng
Zhang Fuwei
Ang Yee Hooi
Zhang Li

Arrangements to enable directors to acquire shares or debentures

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

Directors' interests in shares or debentures

The directors of the Company holding office at the end of the financial year had no interests in the shares or debentures of the Company and related corporation as recorded in the register of directors' shareholdings kept by the Company under Section 164 of the Singapore Companies Act, Cap. 50 except as follows:

Name of director and companies in which interests are held	Shareholdings registered in the name of director and/or spouse		Other shareholdings in which director is deemed to have an interest	
	At beginning of financial year	At end of financial year	At beginning of financial year	At end of financial year
The Company				
China Ouhua Winery Holdings Limited				
(Ordinary shares)				
Wang Chao	-	-	316,000,000*	316,000,000*
The Subsidiary				
Yantai Fazenda Ouhua Winery Co. Ltd.				
(Ordinary shares)				
Wang Chao	-	-	180,000*	180,000*

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

Share options

Options to subscribe for unissued shares
During the financial year, no options to subscribe for unissued shares of the Company or its subsidiary were granted.

Options exercised
During the financial year, there were no shares of the Company or its subsidiary issued by virtue of the exercise of an option to take up unissued shares.

Unissued shares under option
At the end of the financial year, there were no unissued shares of the Company or its subsidiary under option.

Audit committee

The members of the Audit Committee (“AC”) at the date of this statement are:

Sun Huifeng - Chairman
Zhang Fuwei - Member
Ang Yee Hooi - Member

The Audit Committee performs its functions in accordance with Section 201B(5) of the Singapore Companies Act, Bursa Malaysia Securities Berhad Main Market Listing Requirements (“MMLR”) and the Code of Corporate Governance.

The primary duties and responsibilities of the AC are as follows:

(i) To review audit plans of the internal and external auditors of the Company, and review the internal auditors' evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Company's management to the external and internal auditors;
(ii) To review quarterly and annual financial statements and the auditor's report on the annual financial statements of the Company before their submission to the Board;
(iii) To review the effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditors;
(iv) To meet with the external auditors, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC;
(v) To review legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
(vi) To review the cost effectiveness and the independence and objectivity of the external auditors;
(vii) To recommend to the Board the nomination of external auditors, approve the compensation of the external and review the scope and results of the audit;
(viii) To report actions and minutes of the AC to the Board with such recommendations as the AC considers appropriate; and
(ix) To review interested person transactions.

The AC is authorised by the Board to investigate any activity within its Terms of Reference. The AC has unlimited access to both internal auditors and external auditors as well as all employees of the Group. The AC shall also have the authority to obtain independent legal or other professional advice and to secure attendance of outsiders with relevant experience and expertise if it considers this necessary.

The AC held 4 meetings during the financial year. The AC also met with the external auditors, without the presence of the Company's management, at least once a year.

Further details regarding the AC are disclosed in the Corporate Governance Statement in the Annual Report of the Company.

Independent auditor

The independent auditor, UHY Lee Seng Chan & Co, has expressed its willingness to accept re-appointment.

On behalf of the directors,

Wang Chao Director	Zhang Fuwei Director

29 April 2019

Statutory declaration

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

I, Mr Wang Chao, being the officer primarily responsible for the financial management of China Ouhua Winery Holdings Limited, do solemnly and sincerely declare that the accompanying financial statements 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.

Subscribed and solemnly declared by the above mentioned
At Yantai, China on

This day of 29 April 2019

Wang Chao

Before me

Zhi Fu Notary Public Office Yantai City

INDEPENDENT AUDITOR'S 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 (the Group) which comprise the statements of financial position of the Group and of the Company as at 31 December 2018, 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 for the financial 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), Singapore Financial Reporting Standards (International) [SFRS(I)s] which are simultaneously compliant with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and of the financial performance, changes in equity and cash flows of the Group for the financial year ended on that date.

Basis for Qualified Opinion

As disclosed in Note 5 to the financial statements, included in trade and other receivables are deposits of RMB 118,800,000 representing 90% of the total purchase price of RMB 132,000,000 which the Group had paid to Huangwu Subdistrict Office, Zhifu District, Yantai City (the Local Government) under a sale and purchase agreement (the SPA) entered into between the Group and the Local Government on 17 December 2013 for the purchase by the Group of the Assets as described in Note 5 (the Transaction) Pursuant to the SPA, in the event that the Transaction is not completed, the Local Government will refund the deposits of RMB 118,800,000 to the Group. As at the date of this report, the procedures in relation to the Transaction are pending completion.

We have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves with respect to the extent of recoverability of the deposits of RMB 118,800,000 in the event that the Transaction is not completed. Consequently, we are unable to determine whether any adjustments to the carrying amount of the deposits as at 31 December 2018 are necessary. Our audit opinion on the financial statements for the previous financial year was qualified due to the same reason.

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Group 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
CHINA OUHUA WINERY HOLDINGS LIMITED**

Information Other than the Financial Statements and Auditor's Report Thereon

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 auditor's 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 express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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, 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 deposits paid to the Local Government. Accordingly we are unable to conclude whether the other information is materially misstated with respect to this matter.

Material Uncertainty Related to Going Concern

We draw attention to Note 1.2 to the financial statements, which indicates that the Group incurred a net loss of RMB 18,617,000 and generated a negative operating cash flows of RMB 14,953,000 for the financial year ended 31 December 2018. The Company's total and current liabilities exceeded its total and current assets by RMB 992,000 for the financial year ended 31 December 2018. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The ability of the Group and Company to continue as a going concern is dependent upon the continuing financial support from a director and shareholder of the Company. Our opinion is not further qualified in respect of this matter.

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 matters described in the Basis for Qualified Opinion section and Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

Key Audit Matters	Audit Responses
(1) Valuation of trade receivables (RMB 21.759 million) **Refer to Note 5 to the financial statements**	
The Group has significant trade receivables amounting to the RMB21.759 million. In accordance with SFRS(I) 9 *Financial Instruments*, the Group is required to recognise loss allowances on expected credit losses on trade receivables. The determination of the loss allowances requires significant judgement and estimates to determine whether the receivable is credit impaired, and the best estimate of the ultimate realisation of the amounts receivable from customers. 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 management's judgement is provided in Note 3.2(a) to the financial statements and further information related to the aged trade receivables is in Note 22.2 to the financial statements.	We have reviewed the Group's estimation process used in determining the amounts of loss allowance recognised on expected credit losses on trade receivables. The Group has a process to assess credit risk and to determine the amounts of loss allowance to recognise on expected credit losses on trade receivables. We have also reviewed significant inputs to management's assessment of the amounts of loss allowance recognised on expected credit losses, and considered the reasonableness of the inputs by reference to the recent credit review assessments prepared by management. The judgements applied by management around the recovery of receivables were relevant under the facts and circumstances currently made available to the Group. Lastly, we assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving recoverability of the trade receivables. We found the disclosures in describing the areas of judgement and inherent degree of estimation uncertainties involved to be appropriate.
(2) Valuation of inventories (RMB 90.384 million) **Refer to Note 6 to the financial statements**	
The Group's work-in-progress inventories amounting to RMB84.734 million represents 94% of the total inventories. These inventories relate mainly to the direct costs incurred for wine production.	Our audit procedures to validate the valuation of the inventories included 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 as to whether inventories need be adjusted to their net realisable values.

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

Management has estimated the net realisable value 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 is made in Note 3.2(b) to the financial statements and further information related to the write-down of the inventories to its net realisable values is disclosed under Note 6 to the financial statements.	Based on the work performed, we found management's estimates to be reasonable. We also found the disclosures in the financial statements to be adequate.
(3) Impairment of property, plant and equipment and deposit for purchase of land, buildings and ancillary facilities (RMB 118.800 million) **Refer to Notes 5 and 8 to the financial statements** As at 31 December 2018, property, plant and equipment and deposit for purchase of land, buildings and ancillary facilities with carrying amounts of RMB39.382 million and RMB118.800 million constituted approximately 19% and 56% of the total assets of the Group respectively. During the current financial year, the Group carried out a review of the recoverable amount of its property, plant and equipment and deposit for purchase of land, buildings and ancillary facilities. The review process involves significant judgement in determining the appropriate valuation methods to be used, and in estimating the key underlying assumptions to be applied. These critical judgement and significant estimation are disclosed in Notes 3.1(b) and 3.1(c) to the financial statements.	Our audit procedures focused on evaluating the appropriateness and adequacy of the impairment loss recognised for property, plant and equipment. Based on our work performed, we assessed management's key assumptions and review process to be reasonable. We also found the disclosures in the financial statements to be adequate.

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

(4) Allowance for impairment for non-trade amount due from subsidiary (RMB 77.279 million) and impairment of investment in subsidiary (RMB 60.135 million) **Refer to Notes 5 and 7 to the financial statements**	
As at 31 December 2018, the Company has investment in subsidiary with carrying amount of RMB 60.135 million. During the current financial year, there are impairment indicators which require the Group to perform an assessment on the recoverable amount of the investment in subsidiary using a discounted cash flow model for the next five years. Based on the result of the assessment, the Company has fully impaired the investment in subsidiary. Furthermore, the Company has amount owing from its subsidiary amounting to RMB 77.279 million. The management has assessed the future operating and financial performance of the subsidiary to be unfavourable. As a result, the management has fully impaired on the amount due from subsidiary.	We evaluated the reasonableness of the estimates and assumptions in the discounted cash flow model. Based on our audit procedures, we found the significant estimates and key assumption within the discounted cash flow model to be reasonable. We also found the disclosures in the financial statements to be adequate.

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

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, SFRS(I)s which are simultaneously compliant with IFRSs issued by the IASB, 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 assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the 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 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Responsibilities

The supplementary information set out in Note 23 to the financial statements is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is 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 is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

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

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 Tang Boon Sun.

UHY Lee Seng Chan & Co
Public Accountants and
Chartered Accountants

Singapore
29 April 2019

CHINA OUHUA WINERY HOLDINGS LIMITED AND ITS SUBSIDIARY

STATEMENTS OF FINANCIAL POSITION
31 December 2018

	Note	Group 2018 RMB'000	Group 2017 RMB'000	Company 2018 RMB'000	Company 2017 RMB'000
ASSETS					
Current assets					
Cash and cash equivalents	4	**15,930**	31,754	**127**	126
Trade and other receivables	5	**122,783**	134,117	**13**	77,957
Inventories	6	**33,974**	38,324	-	-
		172,687	204,195	**140**	78,083
Non-current assets					
Investment in subsidiary	7	-	-	-	60,135
Property, plant and equipment	8	**39,382**	42,228	-	-
		39,382	42,228	-	60,135
Total assets		**212,069**	246,423	**140**	138,218
LIABILITIES					
Current liabilities					
Trade and other payables	9	**2,086**	2,519	**1,132**	1,219
Total liabilities		**2,086**	2,519	**1,132**	1,219
NET ASSETS/(LIABILITIES)		**209,983**	243,904	**(992)**	136,999
EQUITY					
Share capital	10	**205,838**	205,838	**205,838**	205,838
Other reserves	11	**30,531**	30,531	**1,023**	1,023
(Accumulated losses)/ Retained earnings		**(30,948)**	2,071	**(207,853)**	(69,862)
Equity attributable to owners of Company		**205,421**	238,440	**(992)**	136,999
Non-controlling interests		**4,562**	5,464	-	-
Total equity		**209,983**	243,904	**(992)**	136,999

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

CHINA OUHUA WINERY HOLDINGS LIMITED AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Financial year ended 31 December 2018

	Note	Group	
		2018	2017
		RMB'000	RMB'000
Revenue	12	**14,287**	14,084
Cost of sales		**(13,895)**	(13,956)
Gross profit		**392**	128
Other income	13	**85**	3,663
Reversal of impairment loss on financial assets		**829**	1,964
Distribution expenses		**(5,080)**	(2,247)
Administrative expenses		**(14,843)**	(5,495)
Loss before income tax	15	**(18,617)**	(1,987)
Income tax credit	16	**-**	-
Loss for the year, representing total comprehensive loss for the year		**(18,617)**	(1,987)
Total comprehensive loss attributable to:			
Owners of the Company		**(17,715)**	(1,930)
Non-controlling interests		**(902)**	(57)
		(18,617)	(1,987)
Loss per share attributable to owners of the Company (RMB cents)	17		
Basic		**(2.65)**	(0.29)
Diluted		**(2.65)**	(0.29)

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

CHINA OUHUA WINERY HOLDINGS LIMITED AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Financial year ended 31 December 2018

Group

	Share capital RMB'000	Statutory reserve RMB'000	Capital reserve RMB'000	Retained earnings/ (Accumulated losses) RMB'000	Equity attributable to owners of the Company RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at 1 January 2017	205,838	29,508	1,023	4,001	240,370	5,521	245,891
Loss for the year, representing total comprehensive loss for the year	-	-	-	(1,930)	(1,930)	(57)	(1,987)
Balance at 31 December 2017	205,838	29,508	1,023	2,071	238,440	5,464	243,904
Adoption of IFRS 9	-	-	-	(15,304)	(15,304)	-	(15,304)
Balance at 1 January 2018	205,838	29,508	1,023	(13,233)	223,136	5,464	228,600
Loss for the year, representing total comprehensive loss for the year	-	-	-	(17,715)	(17,715)	(902)	(18,617)
Balance at 31 December 2018	205,838	29,508	1,023	(30,948)	205,421	4,562	209,983

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

CHINA OUHUA WINERY HOLDINGS LIMITED AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS
Financial year ended 31 December 2018

	Note	**Group**	
		2018	2017
		RMB'000	RMB'000
Cash flows from operating activities			
Loss before income tax		**(18,617)**	(1,987)
Adjustments for:			
Inventories written down		**7,587**	-
Inventories written back		**-**	(961)
Impairment on property, plant and equipment written back		**-**	(2,621)
Impairment on trade receivables written back		**(829)**	(1,964)
Depreciation of property, plant and equipment		**4,054**	3,952
Property, plant and equipment written off		**23**	-
Interest income		**(82)**	(81)
Operating loss before working capital changes		**(7,864)**	(3,662)
Changes in working capital:			
Inventories		**(3,237)**	5,979
Trade and other receivables		**(3,141)**	3,711
Trade and other payables		**(433)**	(75)
Cash generated (used in)/from operations		**(14,675)**	5,953
Interest received		**82**	81
Net cash (used in)/from operating activities		**(14,593)**	6,034
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,231)**	(596)
Net cash used in investing activities		**(1,231)**	(596)
Net change in cash and cash equivalents		**(15,824)**	5,438
Cash and cash equivalents at beginning of the financial year		**31,754**	26,316
Cash and cash equivalents at end of the financial year	4	**15,930**	31,754

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

CHINA OUHUA WINERY HOLDINGS LIMITED AND ITS SUBSIDIARY

NOTES TO THE FINANCIAL STATEMENTS
31 December 2018

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

1. General

1.1 Corporate information

The Company is incorporated and domiciled in the Republic of Singapore and its registered office is located at 60 Paya Lebar Road, #08-10 Paya Lebar Square Singapore 409051. The address of the principal place of business of the Group is No. 3 North Wolong Road, Yantai City, Shan Dong Province, People's Republic of China ("PRC").

The Company also has a registered office in Malaysia. The registered office address 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 Company is listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

The principal activity of the Company is that of investment holding. The principal activities of the subsidiary are disclosed in Note 7 to the financial statements.

The financial statements for the financial year ended 31 December 2018 were authorised for issue by the Board of Directors on 29 April 2019.

1.2 Going concern

The financial statements have been prepared on a going concern basis notwithstanding that the Group has incurred a net loss of RMB 18,617,000 and generated a negative operating cash flows of RMB 14,953,000 for the financial year ended 31 December 2018 and as at that date, the Company's total and current liabilities exceeded its total and current assets by RMB 992,000. The Group's director and shareholder has confirmed that he will provide continuous financial support to the Group and Company to enable it to continue its obligation as and when they fall due.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with the provisions of the Singapore Companies Act (the "Act"), Singapore Financial Reporting Standards (International) ["SFRS(I)s"] which are simultaneously compliant with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies set out below.

The Group's principal operations are conducted in the People's Republic of China ("PRC") and hence the financial statements are presented in Chinese renminbi ("RMB"), being the functional and presentation currency of the Company and the Group respectively. All financial information is presented in RMB rounded to the nearest thousand ("RMB'000") unless otherwise stated.

Adoption of SFRS(I)

The Group has adopted a new financial reporting framework, SFRS(I) on 1 January 2018. SFRS(I)s comprise standards and interpretations that are equivalent to SFRS(I)s as issued by the International Accounting Standards Board. An entity that compiles with SFRS(I)s can also elect to simultaneously include an explicit and unreserved statement of compliance with IFRSs. The Group has elected to assert dual compliance with both SFRS(I)s and IFRSs with effect from annual periods beginning on or after 1 January 2018. All references to SFRS(I)s and IFRSs are referred collectively as SFRS(I)s in these financial statements, unless specified otherwise. The financial statements for the financial year ended 31 December 2018 are the first set of annual financial statements the Group prepared in accordance with SFRS(I)s. The Group's previously issued financial statements for periods up to and including the financial year ended 31 December 2017 were prepared in accordance with IFRSs. Accordingly, the Group does not have any adjustments to the opening balances as at 1 January 2017 and the financial statements are presented only for two years, 2018 and 2017.

The preparation of financial statements in conformity with SFRS(I) requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of accounting estimates and assumptions. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The areas where estimates and assumptions are significant or critical to the financial statements are disclosed in Note 3 to the financial statements.

Interpretations and amendments to published standards effective 2018

On 1 January 2018, the Group adopted the new or amended SFRS(I) and Interpretations of SFRS(I) ("INT SFRS(I)") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective SFRS(I) and INT SFRS(I).

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The adoption of these new or amended SFRS(I) and INT SFRS(I) did not result in substantial changes to the Group's accounting policies and had no material effect on the amounts reported for the current and prior financial years expect for the following:

Adoption of SFRS(I) 9 Financial Instruments

The Group has adopted the new standard retrospectively from 1 January 2018, in line with the transition provision permitted under the standard. Comparatives for financial year ended 31 December 2017 are not restated and the Company has recognised any difference between the carrying amounts at 31 December 2017 and 1 January 2018 in the opening retained earnings.

The accounting policies for financial instruments under SFRS(I) 9 are disclosed in Note 2.2.

The effects of adopting SFRS(I) 9 as at 1 January 2018 are as follows:

	Note	Financial assets, at amortised cost * RMB'000 **$**	Retained earnings/ (Accumulated losses) RMB'000 **$**
Balances at 31 December 2017 before adoption of SFRS(I) 9		165,871	2,071
Impairment allowance on trade receivables	(i)	(15,304)	(15,304)
Balances at 1 January 2018 after adoption of SFRS(I) 9		150,567	(13,233)

* Financial assets measured at amortised cost includes cash and bank deposits, trade and other receivables (excluding VAT receivables, advance to suppliers and prepayments).

(i) Impairment of financial assets

The Company has the following financial assets subject to the expected credit loss impairment model under SFRS(I) 9:

- Trade receivables

Details of additional impairment allowance of RMB15,304,000 recognised on 1 January 2018 on adoption of SFRS(I) 9 is disclosed in Note 5.

2.2 Financial instruments

These accounting policies are applied on and after the initial application date of SFRS(I) 9, 1 January 2018:

(a) Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when the entity becomes party to the contractual provisions of the instruments.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.
Trade receivables are measured at the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

Subsequent measurement

Investment in debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the contractual cash flow characteristics of the asset. The three measurement categories for classification of debt instruments are amortised cost, FVOCI and FVPL. The Company only has debt instruments at amortised cost.

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through the amortisation process.

Investment in equity instruments

On initial recognition of an investment in equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income which will not be reclassified subsequently to profit or loss. Dividends from such investments are to be recognised in profit or loss when the Company's right to receive payments is established. For investments in equity instruments which the Company has not elected to present subsequent changes in fair value in other comprehensive income, changes in fair value are recognised in profit or loss.

Derecognition

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 in other comprehensive income for debt instruments is recognised in profit or loss.

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at FVPL, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at FVPL are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. On derecognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

These accounting policies are applied before the initial application date of SFRS(I) 9, 1 January 2018:

(a) Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at FVPL, directly attributable transaction costs.

Subsequent measurement

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables comprise loan to the holding company, trade and other receivables, and cash and cash equivalents.

Cash and cash equivalents comprise cash at banks and on hand.

Derecognition

A financial asset is derecognised when 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, where applicable, any cumulative gain or loss that has been recognised in other comprehensive income) is recognised in profit or loss.

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at FVPL, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at FVPL are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Such financial liabilities comprise trade and other payables.

Derecognition

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

2.3 Impairment of financial assets

These accounting policies are applied on and after the initial application date of SFRS(I) 9, 1 January 2018:

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

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

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment which could affect debtors' ability to pay.

The Company considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

These accounting policies are applied before the initial application date of SFRS(I) 9, 1 January 2018:

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

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.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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

2.4 Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Consideration transferred also includes the fair value of any contingent consideration given.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognised amount of the identifiable net assets of the acquiree, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair value as at the acquisition date through profit or loss.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary 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 profit or loss and other comprehensive income, statement of changes in equity and statement of financial position. Total comprehensive income is attributed to the non-controlling interest based on their respective interests in a subsidiary, even if the subsidiary incurred losses and the losses allocated exceed the non-controlling interest in the subsidiary's equity.

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

(ii) Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Investment in subsidiary is stated in the Company's statement of financial position at cost less accumulated impairment losses.

(iii) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with joint venture is eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.5 Property, plant and equipment

All items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Depreciation of property, plant and equipment is computed on a straight-line basis to allocate their depreciable amounts over their estimated useful lives as follows:

	Useful lives
Buildings	20
Renovations	5 to 10
Plant and machinery	5 to 10
Office equipment	5
Motor vehicles	5

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these property, plant and equipment.

The residual values, useful lives and depreciation methods of property, plant and equipment are reviewed, and adjusted as appropriate, at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

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 financial year the asset is derecognised.

2.6 Impairment of non-financial assets

The Group's non-financial assets are reviewed for impairment at the end of each reporting period and whenever there is any indication that these assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine the amount of the impairment loss (if any).

Recoverable amount of an asset is the higher of its fair value less cost to sell and value in use. For the purpose of impairment testing, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs.

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

Impairment losses are recognised in profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset or CGU in prior years. A reversal of impairment loss is recognised in profit or loss.

2.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

Raw materials - purchase cost on a weighted average basis.

Finished goods and work-in-progress - cost of direct materials, direct labour and a proportion of production overheads based on normal operating capacity (excluding borrowing costs). 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.

2.8 Leases

Operating leases - where the Group is a lessee

Leases where a significant portion of the risks and rewards of ownership are retained by the lessors are classified as operating leases. Payments made under operating leases are taken to profit or loss on a straight-line basis over the period of the leases.

When an operating lease is terminated before the lease period has expired, 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.

2.9 Revenue recognition

These accounting policies are applied on and after the initial application date of SFRS(I) 15, 1 January 2018:

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation by transferring a promised good or services to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

Sale of goods - Wholesale of manufactured white and red wines

The Group sold its manufactured white and red wines to its distributors. Contract is identified with customer confirms with reference to the sales contract signed by both parties. Upon receipt of acknowledged delivery orders from customer, the person in charge of invoicing customer will generate sales invoice with reference to the per price list stipulated in the sales contract and delivery order documents for items sold.

Revenue is recognised when the goods have been transferred to the customer in accordance with the acknowledged delivery order (i.e. at a point in time).

These accounting policies are applied before the initial application date of SFRS(I) 15, 1 January 2018:

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty.

Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership of the goods to the buyer.

Interest income

Interest income is recognised as interest accrues using the effective interest method.

2.10 Employee benefits

Employee leave entitlements

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for annual leave is recognised for services rendered by employees up to the end of the reporting period.

Pension obligations

The Group participates in the defined contribution national pension and other welfare schemes as provided by the laws of the countries in which has operations.

Contributions to defined contribution plans are recognised in the same financial year as the employment that gives rise to the contributions.

Pursuant to the relevant regulations in the People’s Republic of China, a subsidiary of the Company in the People’s Republic of China participates in a local municipal government retirement benefits scheme (the “Scheme”), whereby the subsidiary is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary. The only obligation of the subsidiary with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

2.11 Taxes

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred tax

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

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 tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(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 statements of financial position.

2.12 Foreign currencies

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 ("functional currency"). The financial statements of the Company and the Group are presented in RMB, which is also the functional currency of the Company.

Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences arising from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the end of the reporting period are recognised in profit or loss. Non-monetary items are not retranslated at the end of the reporting period and are measured at historical cost (translated using the exchange rates at transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when the fair value was determined.

2.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.14 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances that are convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

2.15 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.

2.16 Segment reporting

An operating segment is a distinguishable component of the Group that engages in business activities from which it may earn revenue and incur expenses (including revenue and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3. Significant accounting judgements and estimates

In the application of the Group's accounting policies, which are described in Note 2 to the financial statements, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an 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.

3.1 Judgements made in applying accounting policies

In the process of applying the Group's accounting policies which are described in Note 2, management has made the following judgements apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

(a) Withholding taxes arising from PRC subsidiary'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, that are subject to withholding taxes according to the relevant tax jurisdiction, is subject to judgement on the timing of the dividend payment.

In 2018, the Group considered that it is not probable that the subsidiary will distribute such earnings in the foreseeable future due to its continuing operating losses and accumulated losses as at 31 December 2018.

(b) Impairment of property, plant and equipment

The Group assesses whether there are any indicators of impairment for property, plant and equipment in accordance with the accounting policy in Note 2.

As disclosed in Note 8 to the financial statements, the Group conducted a review of the recoverable amount of its property, plant and equipment.

The Group estimate the valuation on property, plant and equipment. The Group adopted the replacement cost method to value these property, plant and equipment. The valuation which involves significant estimation, is based on the estimates of the gross replacement costs of the property, plant and equipment. The Group also noted there are no significant changes to the prior year estimation.

(c) Impairment of refundable deposit

The Group assesses whether there are any indicators of impairment for refundable deposit paid to purchase the land, buildings and ancillary facilities as described in Note 5 in accordance with the accounting policy in Note 2.

The Group estimate the valuation on the refundable deposit paid for the said land, buildings and ancillary facilities to determine their valuation. The Group adopted the income approach and replacement cost method to value the buildings and ancillary facilities respectively. The Group also noted there are no significant changes to the prior year estimation.

For land use rights, the Group had adopted the market comparison method. The values of land use rights are derived by analysing prices of similar land use rights transacted recently and making adjustments based on differences in land sizes and useful lives of these land use rights. No impairment is recognised due to the market values being higher than the carrying amounts of the land use rights. The Group also noted there are no significant changes to the prior year estimation.

3.2 Key sources of estimation uncertainty

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

(a) Provision for expected credit losses ("ECLs") of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust historical credit loss experience with forward-looking information. At every reporting date, historical default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 22.2.

The carrying amount of the Group's trade receivables as at 31 December 2018 is RMB2,055,000 (1 January 2018 : Nil, 2017 : RMB15,304,000).

(b) Inventory valuation method

Inventory write-down is made based on the current market conditions, historical experience and selling goods of similar nature. It could change significantly as a result of changes in market conditions. A review is made periodically on inventories for excess inventories, obsolescence and declines in net realisable value and an allowance is recorded against the inventory balances for any such declines. The realisable value represents the best estimate of the recoverable amount and is based on the most reliable evidence available and inherently involves estimates regarding the future expected realisable value. The carrying amount of the Group's inventories as at 31 December 2018 was RMB33,974,000 (2017 : RMB38,324,000). If the future expected realisable value lower by 10% of its carrying amount, the carrying amount of the Group's inventory would have been RM3,397,000 lower.

(c) Impairment of investment in subsidiary

At the end of each financial year, an assessment is made on whether there is objective evidence that the investment in subsidiary is impaired. This assessment requires significant estimation and judgement. The Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health and near-term business outlook of the investment, including factors such as industry performance, changes in technology and operational and financing cash flows. The carrying amount of the Company's investment in subsidiary as at 31 December 2018 is disclosed in Note 7 to the financial statements.

(d) Depreciation of property, plant and equipment

Management estimates the useful lives of property, plant and equipment to be within 5 to 20 years. These are common life expectancies applied in the relevant industry. The carrying amount of the Group's property, plant and equipment is disclosed in Note 8 to the financial statements. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets. Hence, future depreciation charges could be revised.

4. Cash and cash equivalents

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at banks and on hand	15,930	31,754	127	126

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5. Trade and other receivables

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables				
- third parties	21,759	20,533	-	-
- allowance for impairment [Note 22.2]	(19,704)	(5,229)	-	-
	2,055	15,304	-	-
Other receivables				
- amount due from subsidiary (non-trade)	-	-	77,279	77,944
- allowance for impairment	-	-	(77,279)	-
	-	-	-	77,944
- refundable deposits*	118,813	118,813	13	13
- VAT receivables	1,030	-	-	-
- advance to suppliers	488	-	-	
- prepayments	397	-	-	
	120,728	118,813	13	77,957
	122,783	134,117	13	77,957

Trade receivables are non-interest bearing and the average credit period is between 30 to 90 days (2017 : 30 to 90 days).

Allowance for impairment on trade receivables is determined based on management's assessment of collectability and by reference to past default experience.

There is no other class of financial asset that is past due and/or impaired except for trade receivables.

<u>Receivables that were impaired</u>

In 2017, the impairment was assessed based on the incurred loss impairment model.

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	Group 2017 RMB'000
Gross amounts	5,229
Allowance for impairment	(5,229)
Balance at end	-
Balance at beginning of financial year	7,193
Written back	(1,964)
Balance at end of financial year	5,229

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.

<u>Expected credit losses ("ECLs")</u>

The movement in allowance for expected credit losses of trade receivables computed based on lifetime ECL as follows:

	Group 2018 RMB'000
Balance at 31 December 2017	5,229
Adoption of SFRS(I) 9 (Note 2.1)	15,304
Balance at 1 January 2018	20,533
Written back	(829)
Balance at end of the financial year	19,704

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Non-trade amount due from subsidiary is unsecured, interest-free and repayable on demand. This amount is fully impaired in 2018.

**Refundable deposits*

On 17 December 2013, the Group entered into a Sale and Purchase Agreement ("SPA") with Huangwu Subdistrict Office, Zhifu District, Yantai City, PRC ("Local Government") to acquire all the land, buildings and ancillary facilities including 320KVA power distribution equipment, water supply system, roads surrounding the factory and enclosing wall (collectively the "Assets") located at No. 3 Wolong North Road, Yantai City which the Group has been leasing since 1997, for a total cash consideration of RMB132,000,000. 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). Pursuant to the SPA, the Group had made a down payment of RMB 118,800,000 which amount was recorded as a refundable deposit.

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

- The transfer cost, transfer ownership fee and all relevant taxes and other expenses, 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 and the remaining 10% to be settled upon completion of the transfer procedures.
- The Local Government was required to complete the transfer procedures 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.

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 for 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 RMB118,800,000 will be refunded to the Group.
(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.

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Impairment testing of refundable deposits

During the current financial year, the Group carried out a review of the recoverable amount of the refundable deposits paid for the purchase of the Assets as described above. The valuation method used for the land use rights is market comparison method while the valuation methods used for the buildings and ancillary facilities are income approach and replacement cost method respectively.

Key assumptions used

Land use rights comparable price	RMB25,199,000 to RMB26,115,000
Buildings :	
- residual rate	18% to 22%
Ancillary facilities :	
- residual rate	70%

6. Inventories

	Group	
	2018	2017
	RMB'000	RMB'000
Statement of financial position		
Raw materials	311	397
Work-in-progress	84,734	86,736
Finished goods	5,339	14
	90,384	87,147
Allowance for inventory obsolescence	(56,410)	(48,823)
	33,974	38,324
Statement of profit or loss and other comprehensive income		
Inventories recognised as an expense in cost of sales	13,412	12,377
- inclusive of inventories written down/(back)	7,587	(961)

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7. Investment in subsidiary

	Company	
	2018	2017
	RMB'000	RMB'000
Unquoted equity shares, at cost	60,135	60,135
Impairment losses	(60,135)	-
	-	60,135

Details of the subsidiary are as follows:

Name of subsidiary	Country of incorporation/ place of operation	Percentage of equity held		Principal activities
		2018 %	2017 %	
Yantai Fazenda Ouhua Winery Co. Ltd.*	People's Republic of China	95	95	Production of varieties of wine and sales of its self-produced wines

* Jointly audited by UHY Lee Seng Chan & Co and Zhong Xing Cai Guang Hua Certified Public Accountants (Special General Partnership) Shandong Branch for the purpose of expressing an opinion on the consolidated financial statements of the Group for the financial year ended 31 December 2018.

Impairment testing of investment in subsidiary

Management performed an assessment on the recoverable amount of the investment in subsidiary using a discounted cash flow model based on cash flow projections derived from financial budgets prepared by management for the years ending 31 December 2019 to 2023. A pre-tax discount rate of 15.33% was used in discounting the projected cash flows. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital ("WACC"). In 2018, the cost of investment in the subsidiary is fully impaired.

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8. Property, plant and equipment

Group
2018

	Buildings RMB'000	Renovations RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
Balance at beginning	38,912	13,200	55,093	644	3,857	111,706
Additions	-	-	1,231	-	-	1,231
Written off	-	-	-	(133)	-	(133)
Balance at end	38,912	13,200	56,324	511	3,857	112,804
Accumulated depreciation						
Balance at beginning	10,280	13,200	41,908	570	2,927	68,885
Charge for the financial year	1,751	-	2,117	-	186	4,054
Written off	-	-	-	(110)	-	(110)
Balance at end	12,031	13,200	44,025	460	3,113	72,829
Accumulated impairment						
Balance at beginning and end	-	-	593	-	-	593
Carrying amount						
Balance at 31 December 2018	26,881	-	11,706	51	744	39,382

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Group
2017

	Buildings RMB'000	Renovations RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
Balance at beginning	38,912	13,200	55,093	644	3,261	111,110
Additions	-	-	-	-	596	596
Balance at end	38,912	13,200	55,093	644	3,857	111,706
Accumulated depreciation						
Balance at beginning	8,529	13,200	39,939	567	2,698	64,933
Charge for the financial year	1,751	-	1,969	3	229	3,952
Balance at end	10,280	13,200	41,908	570	2,927	68,885
Accumulated impairment						
Balance at beginning	-	-	3,214	-	-	3,214
Impairment loss written back	-	-	(2,621)	-	-	(2,621)
Balance at end	-	-	593	-	-	593
Carrying amount						
Balance at 31 December 2017	28,632	-	12,592	74	930	42,228

Impairment testing of property, plant and equipment

During the current financial year, the Group estimated the recoverable amount of its property, plant and equipment based on fair values less costs of disposal. The valuation method used is that of the replacement cost approach.

Key assumptions used

Property, plant and equipment	
- residual rate	50% to 60%

The key assumptions include consideration of technical obsolescence and physical deterioration of the property, plant and equipment.

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9. Trade and other payables

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables				
- third parties	34	-	-	-
Other payables				
- due to a director (non-trade)	801	801	801	801
- third parties	85	109	79	90
- VAT payables and other operating tax payables	7	380	-	-
- withholding tax	690	690	-	-
- accrued operating expenses	469	539	252	328
	2,052	2,519	1,132	1,219
	2,086	2,519	1,132	1,219

Non-trade amount due to a director is unsecured, interest-free and repayable in cash on demand.

10. Share capital

	Group/Company			
	2018	2017	2018	2017
	Number of ordinary shares		Amount	
			RMB'000	RMB'000
Issued and fully paid				
Balance at beginning and end	668,000,000	668,000,000	205,838	205,838

The holders of the ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares have no par value and carry one vote per share without restrictions.

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11. Other reserves

(a) *Statutory reserve*
The Group follows the accounting principles and relevant financial regulations of the People's Republic of China ("PRC") in the preparation of the accounting records and statutory financial statements of the PRC subsidiary.

In accordance with the Foreign Enterprise Law applicable to the subsidiary in the PRC, the subsidiary is required to make appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiary'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. The SRF is not available for dividend distribution to shareholders.

There is no appropriation made to the SRF in 2018 and 2017 as the subsidiary did not generate any statutory after tax profits in these two financial years.

(b) *Capital reserve*
The capital reserve relates to the purchase consideration payable for the acquisition of the PRC subsidiary which was waived by the major shareholder of the subsidiary.

12. Revenue

Disaggregation of revenue

	Group	
	2018	2017
	RMB'000	RMB'000
Revenue from:		
Sale of white wine	730	1,756
Sale of red wine	13,557	12,328
	14,287	14,084
Timing of transfer of goods		
At a point in time	14,287	14,084

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13. Other income

	Group	
	2018	2017
	RMB'000	RMB'000
Interest income	82	81
Impairment loss written back on:		
- inventories (Note 6)	3	961
- property, plant and equipment (Note 8)	-	2,621
	85	3,663

14. Employee benefits expense

	Group	
	2018	2017
	RMB'000	RMB'000
Salaries, wages, bonuses and related costs (including directors' remuneration)	4,420	4,386
Employer's contribution to defined contribution plans	163	216
	4,583	4,602

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15. Loss before income tax

Loss before income tax is stated at after charging:

	Group	
	2018	2017
	RMB'000	RMB'000
Depreciation of property, plant and equipment (Note 8)	4,054	3,952
Distributor promotional and advertising expenses	737	1,835
Employee benefits expense (Note 14)	4,583	4,602
Inventories written down (Note 6)	7,590	-
Property, plant and equipment written off	23	-
Rental of premises [Note 18 (a)]	794	794
Repair and maintenance	4,116	109

16. Income tax expense

There is no income tax expense as the Group has no taxable income for the current and previous financial years.

Reconciliation of effective tax rate

	Group	
	2018	2017
	RMB'000	RMB'000
Loss before income tax	(18,617)	(1,987)
Tax at domestic rates applicable to countries in which the Group operates	(9,465)	(497)
Tax effect of expenses which are not deductible in determination of taxable profit	7,971	1,199
Income not subject to tax	(208)	(1,386)
Loss disregarded	1,702	684
	-	-

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17. Loss per share

The basic and diluted earnings per share attributable to the owners of the Company is computed as follows:

	Group	
	2018	2017
	RMB'000	RMB'000
Loss attributable to owners of the Company (RMB'000)	(17,715)	(1,930)
Weighted average number of ordinary shares in issue ('000)	668,000	668,000
Loss per share		
- Basic (RMB cents)	(2.65)	(0.29)
- Diluted (RMB cents)	(2.65)	(0.29)

Diluted loss per share is the same as basic loss per share as the Company does not have potential dilutive shares for both the financial years.

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18. Related party transactions

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial year:

	Group	
	2018	2017
	RMB'000	RMB'000
(a) With a related party		
Rental expenses (Note 15)	794	794
(b) Compensation of key management personnel		
Short-term benefits paid to		
- directors		
- salaries and related costs	431	621
- employer's contributions to defined contribution plans	14	26
- fees	166	217
	611	864
- other key management personnel		
- salaries and related costs	461	463
- employer's contributions to defined contribution plans	12	13
	473	476

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

19. Operating lease commitments

	Group	
	2018	2017
	RMB'000	RMB'000
Operating lease expense for the financial year	794	794

At the end of the reporting period, the Group has outstanding rental commitments under non-cancellable operating leases falling due as follows:

	Group	
	2018	2017
	RMB'000	RMB'000
Within one year	397	794
Later than one year but less than five years	3,334	3,294
More than five years	833	1,667
	4,564	5,755

The above operating leases do not contain any escalation clauses and do not provide for contingent rents.

20. Capital commitments

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

	Group	
	2018	2017
	RMB'000	RMB'000
Capital commitments in respect of contract for purchase of property, plant and equipment	13,200	13,200

21. 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.

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(b) Red wine (“RW”)
The Red wine segment relates to the business producing red wine from Cabernet Sauvignon, Pinot Noir, Shiraz, Merlot grape varietals, grown on Yantai Fazenda Ouhua’s vineyards, as well as wines purchased for production.

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

	WW		**RW**		**Total**	
	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue (external customers)	730	1,756	13,557	12,328	14,287	14,084
Segment results	47	(59)	345	187	392	128
Other income					914	5,627
Unallocated expenses					(19,923)	(7,742)
Loss before income tax					(18,617)	(1,987)
Income tax credit					-	-
Net loss for the financial year					(18,617)	(1,987)
Other segment information						
Depreciation of property, plant and equipment					4,054	3,952
Interest income					82	81

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.

(i) *Geographical information*
Segmented information by geographical region is not applicable for the financial years ended 31 December 2018 and 31 December 2017 as the business operations of the Group is only carried out in the PRC.

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(ii) *Information about major customers*
Revenue from top four (2017 : four) major customers for the financial year ended 31 December 2018 amounted to RMB11,679,000 (2017 : RMB11,732,000) and accounted for 82 % (2017 : 83%) of the Group's revenue from both its operating segments (i.e. White wine and Red wine).

22. Financial instruments, financial risks and capital risks management

22.1 Categories of financial instruments

Financial instruments as at the end of the reporting period are as follows:

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at amortised cost	136,798	-	13	-
Loan and receivables	-	165,871	-	78,083
	136,798	165,871	13	78,083
Financial liabilities				
Financial liabilities at amortised cost	1,389	1,449	1,132	1,219

22.2 Financial risk management

The main risks arising from the Group's normal course of business are credit, liquidity, interest rate and foreign currency risks. The Group's overall risk management strategy seeks to minimise potential adverse effects of these risks on the financial performance of the Group.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group.

Risk management policies and procedures are reviewed regularly to reflect changes in market conditions and the Group’s activities.

The following sections provide details regarding the Group’s exposure to the above mentioned financial risks and the objectives, policies and processes for the management of these risks.

Credit risk

Credit risk is the potential risk of financial loss resulting from the failure of a customer or counterparty to settle its financial and contractual obligations to the Group as and when they fall due.

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis.

The Group manages credit risk through vigilant follow up of receivables.

At the end of the reporting period, approximately 75% (2017 : 86%) of the Group’s trade receivables were due from 4 major customers located in the PRC. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statements of financial position. Cash is placed with banks that are regulated.

As at 31 December 2017, the age analysis of trade receivables is as follows:

	Group 2017 RMB'000
Neither past due nor impaired	10,659
Past due but not impaired	
1 - 30 days	1,334
31 - 60 days	1,070
61 - 150 days	1,351
More than 150 days	890
	15,304

In 2018, the Group uses the following categories of internal credit risk rating for financial assets which are subject to expected credit losses under the 3-stage general approach. These four categories reflect the respective credit risk and how the loss provision is determined for each of those categories.

Category of internal credit rating	Definition of category	Basis for recognition of expected credit losses
Performing	Borrower or issuer have a low risk of default and a strong capacity to meet contractual cash flows	12-month expected credit losses
Under-performing	Significant increase in credit risk as significant in credit risk is presumed if interest and/or principal repayment are 150 days past due	Lifetime expected credit losses
Non-performing	Interest and/or principal payment are 365 days past due	Lifetime expected credit losses
Write-off	Interest and/or principal repayments are 365 days past due and there is no reasonable expectation of recovery	Asset is written off

	Note	12-month or lifetime ECL	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
31 December 2018					
Trade receivables	5	Lifetime ECL (simplified)	21,759	(19,704)	2,055
1 January 2018					
Trade receivables	5	Lifetime ECL (simplified)	20,533	(20,533)	-

For trade receivables, the Group has applied the simplified approach in SFRS(I) 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of trade receivables is presented based on their past due status in terms of the provision matrix.

	Trade receivables					
	Days past due					
	Current	<30 days	31-60 days	61-90 days	>90 days	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2018						
ECL rate	0%	100%	100%	100%	100%	
Trade receivables	2,055	2,562	502	-	16,640	21,759
Loss allowances	-	(2,562)	(502)	-	(16,640)	(19,704)
1 January 2018						
ECL rate	100%	100%	100%	100%	100%	
Trade receivables	10,659	1,333	1,070	1,351	6,120	20,533
Loss allowances	(10,659)	(1,333)	(1,070)	(1,351)	(6,120)	(20,533)

The age analysis of trade receivables is as follows:

	Group 2018 RMB'000
Neither past due nor impaired	2,055

Liquidity risk

Liquidity risk refers to the risk that the Group will encounter difficulties in meeting its short-term obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. It is managed by matching the payment and receipt cycles. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of standby credit facilities.

All financial liabilities in 2018 and 2017 are repayable on demand or due within one year from the end of the reporting period.

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group does not have any interest bearing liabilities as at 31 December 2018.

The Group does not use derivative financial instruments to hedge interest rate risks.

Foreign currency risk

Foreign currency risk arises from changes in foreign exchange rates that may have an adverse effect on the Group in the current reporting period or in future years.

The Group's exposure to foreign currency risk relates mainly to financial assets and financial liabilities that are denominated in currencies other than the functional currency of each entity in the Group. The currencies giving rise to this risk are primarily with respect to Hong Kong dollar ("HKD"), Singapore dollar ("SGD"), Malaysian ringgit ("MYR") and United States dollar ("USD").

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The carrying amounts of significant foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	HKD RMB'000	SGD RMB'000	MYR RMB'000	USD RMB'000
Group/Company				
2018				
Cash and cash equivalents	21	79	-	27
Trade and other receivables	-	-	13	-
Trade and other payables	-	(234)	(97)	-
	21	(155)	(84)	27
2017				
Cash and cash equivalents	19	79	-	28
Trade and other receivables	-	-	13	-
Other payables	-	(300)	(118)	-
	19	(221)	(105)	28

The Group's exposure to foreign currency risk is insignificant.

22.3 Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain an adequate and efficient capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may issue new shares or obtain additional borrowings.

No changes were made to the policies or processes of capital management since the previous financial year.

The Group and the Company monitor capital using a gearing ratio, which is net debt divided by total capital. The Group and Company include trade and other payables 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:

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	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Other payables	2,086	2,519	1,132	1,219
Less: Cash and bank balances	(15,930)	(31,754)	(127)	(126)
Net (debts)/cash	(13,844)	(29,235)	1,005	1,093
Equity attributable to the equity holders of the Company	205,421	238,440	76,287	136,999
Less: Statutory reserve	(29,508)	(29,508)	-	-
Capital	175,913	208,932	76,287	136,999
Gearing ratio	(8%)	(14%)	N.M	N.M

The subsidiary of the Group in the PRC is required to contribute to and maintain a non-distributable statutory reserve fund which utilisation is subject to approval by the relevant PRC authorities.

22.4 Fair values of financial instruments

Management has determined that the carrying amounts of financial assets and liabilities approximate their fair values because these instruments are short-term in nature or are repriced frequently.

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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23. SUPPLEMENTARY INFORMATION

The breakdown of the (accumulated losses)/retained earnings of the Group and of the Company as at 31 December 2018 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	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Total (accumulated losses)/ retained earnings of the Company and its subsidiary				
- realised (loss)/profit	(90,060)	3,995	(207,853)	(69,862)
- unrealised (loss)/profit	-	-	-	-
	(90,060)	3,995	(207,853)	(69,862)
Less: Consolidation adjustments	59,112	(1,924)	-	-
	(30,948)	2,071	(207,853)	(69,862)

24. Standards issued but not yet effective

The Group has not adopted the following standards applicable to the Group that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
SFRS(I) 16 *Leases*	1 January 2019

The nature of the impending changes in accounting policy on adoption of SFRS(I) 16 are described below.

SFRS(I) 16 Leases

SFRS(I) 16 requires lessees to recognise most leases on the statement of financial position. The standard includes two recognition exemptions for lessees - leases of 'low value' assets and short-term leases. SFRS(I) 16 is effective for annual periods beginning on or after 1 January 2019. At commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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The Group plans to adopt SFRS(I) 16 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 January 2019.

On the adoption of SFRS(I) 16, the Group expects to choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

(i) its carrying amount as if SFRS(I) 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate as of 1 January 2019; or

(ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2019.

In addition, the Group plans to elect the following practical expedients:

- not to reassess whether a contract is, or contains a lease at the date of initial application and to apply SFRS(I) 16 to all contracts that were previously identified as leases;
- to apply the exemption not to recognise right-of-use asset and lease liabilities to leases for which the lease term ends within 12 months as of 1 January 2019; and
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Group is currently assessing the impact of the new accounting standard and plans to adopt the standard when it becomes effective on 1 January 2019.