

YANTAI CHANGYU PIONEER WINE
COMPANY LIMITED

Financial Statements and Auditor's Report
For the year ended 31 December 2017

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

FINANCIAL STATEMENTS AND AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

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AUDITOR'S REPORT

De Shi Bao (Shen) Zi (18) No. P02977

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TO THE SHAREHOLDERS OF
YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

1. Opinion

We have audited the financial statements of Yantai Changyu Pioneer Wine Company Limited ("Yantai Changyu Company"), which comprise the consolidated and Company's balance sheets as at 31 December 2017, and the consolidated and Company's income statements, the consolidated and Company's cash flow statements and the consolidated and Company's statements of changes in owners' equity for the year then ended, and the notes to the financial statements.

In our opinion, the accompanying financial statements of Yantai Changyu Pioneer Wine Company Limited is prepared and present fairly, in all material respects, the consolidated and Company's financial position as of 31 December 2017, and the consolidated and the Company's results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

2. Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing. 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 Yantai Changyu Company in accordance with the code of ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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. We determine the followings are key audit matters in need of communication in our report.

3. Key Audit Matters - continued

The determination of the fair value of identifiable assets and liabilities associated with business combination

1、Item description

As disclosed in Notes VII, during the year, the Company through its acquired 100% shares of Chile Indomita Wine Group. As disclosed in Notes III-5, the Company need to recognize the acquiree's identifiable assets and liabilities which were met the recognition criteria generated during the acquisition at their fair value on the acquisition day. As disclosed in Notes IV "The determination of the fair value of identifiable assets and liabilities associated with business combination", during the recognition of the above identifiable assets and liabilities' fair value based on the present value of future cash flow, the management of the Company need to forecast the cash flow according the growth rate of sales based on future market's supply and demand, and considered selecting the appropriate discount rate for discounting, which involved the management to exercise significant estimations and judgments. Therefore, we identified the determination of the fair value of identifiable assets and liabilities associated with business combination as a key audit matter.

2、How our audit addressed the key audit matter

Our procedures in relation to the key audit matter mainly included:

- (1) Understanding and assessing the appropriateness of the method used by the management to Identify and recognize the various identifiable assets and liabilities on the acquisition day;
- (2) Understanding and assessing the competence and independence of the valuation specialists appointed by the management;
- (3) Using our internal valuation specialists, and reviewing the rationality of the significant estimations, (including the growth rate of sales, the discount rate and etc.), used by the management and their valuation specialists in the value of various identifiable assets and liabilities' fair value.

3. Key Audit Matters - continued

Valuation of long-term assets' impairment

1、Item description

As disclosed in Notes VI-12 and 13, some subsidiaries of the Company were sustained loss and the cash flow from operating activities were net out and the related assets existed an indication of impairment. As at 31 December 2017, the book values of fixed assets and construction in progress ("CIP") were RMB 928,058,429 and RMB 89,001,307, respectively, and were significant in financial statement level. As disclosed in Notes IV "Impairment of long-term assets ", a highly uncertainty existed related to the Company's management to determine the recoverable amount based on expected future cash flows, which involved the use of significant accounting estimation and judgment on the growth rate of sales, average gross rate, other operating expenses of those subsidiaries of the relevant assets (group of assets) and the discount rate used in calculation the present value. For the above reasons, we identified the valuation of long-term assets' impairment as a key audit matter.

2、How our audit addressed the key audit matter

Our procedures in relation to the key audit matter mainly included:

- (1) Understanding, assessing and testing the relatively designing, implementing and effectiveness of key internal controls over the valuation of book values of the fixed assets and CIP;
- (2) Based on our understanding of the business and industry of those subsidiaries, assessing the rationality of significant accounting estimation and judgment used by the management to forecast the future cash flows during the impairment test, including the growth rate of sales, the average gross rate, other operating expenses and the discount rate used in calculation the present value;
- (3) Using our internal valuation specialists, reviewing the appropriateness of the future cash flows discount model prepared by the management and the rationality of the discount rate used;
- (4) Performing the recalculation procedure, checking the accuracy of calculations in the discount future cash flows model.

AUDITORS' REPORT - continued

De Shi Bao (Shen) Zi (18) No. P02977
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4. Other Information

The management of Yantai Changyu Pioneer Wine Company Limited is responsible for other information. The other information comprises the information included in the Yantai Changyu 2017 annual report, but does not include the financial statements and our auditor's report thereon.

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. We have nothing to report in this regard.

5. Responsibilities of the Management and Those Charged with Governance for the Financial Statements

The management of Yantai Changyu Pioneer Wine Company Limited is responsible for the preparation and fair presentation of the financial statements in accordance with Accounting Standards for Business Enterprises, and designing, implementing and maintaining internal control that is necessary to enable the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing Yantai Changyu Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate Yantai Changyu Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Yantai Changyu Company's financial reporting process.

6. 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 solely to you. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing 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.

AUDITORS' REPORT - continued

De Shi Bao (Shen) Zi (18) No. P02977
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6. Auditor's Responsibilities for the Audit of the Financial Statements - continued

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

- (1) 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.
- (2) 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 internal control.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) Conclude on the appropriateness of the 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 Yantai Changyu Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Yantai Changyu Company to cease to continue as a going concern.
- (5) 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.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Yantai Changyu Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

6. Auditor's Responsibilities for the Audit of the Financial Statements - continued

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

Deloitte Touche Tohmatsu CPA LLP
Shanghai, China

Chinese Certified Public Accountant: Li Xu
(Engagement partner)

Chinese Certified Public Accountant: Li Yangang

19, April , 2018

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
YEAR ENDED 31 DECEMBER 2017

<u>ASSETS</u>	<u>Notes</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
CURRENT ASSETS			
Cash and bank	VI-1	1,402,522,509	1,391,517,607
Notes receivable	VI-2	244,796,818	210,470,027
Accounts receivable	VI-3	263,796,355	173,062,628
Prepayments	VI-4	2,417,931	2,175,606
Interest receivable	VI-5	240,968	24,200
Other receivables	VI-6	18,737,454	18,880,800
Inventories	VI-7	2,473,614,046	2,248,609,740
Non-current assets held for sale	VI-8	2,000,197	2,000,197
Other current assets	VI-9	230,822,759	169,522,242
Total current assets		<u>4,638,949,037</u>	<u>4,216,263,047</u>
NON-CURRENT ASSETS			
Available-for-sale financial assets	VI-10	467,251	340,263
Investment properties	VI-11	18,467,989	-
Fixed assets	VI-12	5,329,083,969	4,683,187,493
Construction in progress	VI-13	1,026,141,569	1,346,281,737
Bearer biological assets	VI-14	201,929,888	201,428,980
Intangible assets	VI-15	655,448,897	483,815,080
Goodwill	VI-16	128,135,981	121,265,866
Long-term prepaid expenses	VI-17	230,009,231	162,206,229
Deferred tax assets	VI-18	308,121,396	295,937,037
Other non-current assets	VI-19	-	17,352,239
Total non-current assets		<u>7,897,806,171</u>	<u>7,311,814,924</u>
Total assets		<u><u>12,536,755,208</u></u>	<u><u>11,528,077,971</u></u>

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
YEAR ENDED 31 DECEMBER 2017 - continued

<u>LIABILITIES AND EQUITY</u>	<u>Notes</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
CURRENT LIABILITIES			
Short-term borrowings	VI-20	714,434,286	662,388,882
Notes payable	VI-21	-	38,900,000
Accounts payable	VI-22	666,442,879	545,231,319
Receipts in advance	VI-23	350,894,156	425,246,421
Advances from customers	VI-24	210,824,234	206,431,734
Taxes payable	VI-25	145,094,156	144,042,600
Interest payable		771,250	563,613
Deferred income	VI-26	16,878,199	11,163,883
Other payables	VI-27	602,964,319	546,305,310
Non-current liabilities due within one year	VI-28	110,954,827	71,799,093
Total current liabilities		<u>2,819,258,306</u>	<u>2,652,072,855</u>
NON-CURRENT LIABILITIES			
Long-term borrowings	VI-29	156,125,854	49,140,555
Long-term payables	VI-30	259,000,000	293,000,000
Deferred income	VI-26	92,918,855	101,775,243
Deferred tax liabilities	VI-18	24,264,203	24,908,410
Other non-current liabilities	VI-31	7,209,312	7,696,222
Total non-current liabilities		<u>539,518,224</u>	<u>476,520,430</u>
Total liabilities		<u>3,358,776,530</u>	<u>3,128,593,285</u>
EQUITY			
Share capital	VI-32	685,464,000	685,464,000
Capital reserve	VI-33	565,955,441	565,955,441
Other comprehensive income	VI-34	3,109,240	(5,259,014)
Surplus reserve	VI-35	342,732,000	342,732,000
Retained earnings	VI-36	7,309,081,618	6,620,118,562
Equity attributable to shareholders of the Company		<u>8,906,342,299</u>	<u>8,209,010,989</u>
Non-controlling interests		<u>271,636,379</u>	<u>190,473,697</u>
Total equity		<u>9,177,978,678</u>	<u>8,399,484,686</u>
Total liabilities and equity		<u>12,536,755,208</u>	<u>11,528,077,971</u>

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

The financial statements on pages 7 to 110 were signed by the following:

Legal Representative

Person in Charge of the
Accounting Body

Chief Accountant

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

BALANCE SHEET OF THE COMPANY
YEAR ENDED 31 DECEMBER 2017

<u>ASSETS</u>	<u>Notes</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
CURRENT ASSETS			
Cash and bank	XIV- 1	559,174,466	269,460,060
Notes receivable	XIV- 2	41,645,203	1,114,200
Accounts receivable	XIV- 3	7,805,333	3,326,683
Prepayments	XIV- 4	99,673	702,647
Interest receivable		76,646	24,200
Dividend receivables	XIV- 5	407,495,922	531,819,113
Other receivables	XIV- 6	592,274,075	3,582,532,862
Inventories	XIV- 7	348,042,053	792,732,418
Non-current assets held for sale	VI-8	2,000,197	2,000,197
Other current assets		29,706,058	20,085,058
Total current assets		<u>1,988,319,626</u>	<u>5,203,797,438</u>
NON-CURRENT ASSETS			
Long-term equity investments	XIV- 8	4,511,202,204	1,834,341,541
Investment properties	VI-11	18,467,989	-
Fixed assets	XIV- 9	288,150,901	347,481,417
Construction in progress	XIV- 10	6,756,349	500,000
Bearer biological assets	XIV- 11	119,572,539	123,036,693
Intangible assets	XIV- 12	69,623,219	72,002,372
Deferred tax assets	XIV- 13	28,787,907	26,985,252
Other non-current assets	XIV- 14	3,718,674,166	2,617,457,460
Total non-current assets		<u>8,761,235,274</u>	<u>5,021,804,735</u>
Total assets		<u><u>10,749,554,900</u></u>	<u><u>10,225,602,173</u></u>

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

BALANCE SHEET OF THE COMPANY
YEAR ENDED 31 DECEMBER 2017 - continued

<u>LIABILITIES AND EQUITY</u>	<u>Notes</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
CURRENT LIABILITIES			
Short-term borrowings	XIV- 15	600,000,000	500,000,000
Accounts payable	XIV- 16	97,833,124	247,568,857
Advances from customers	XIV- 17	6,000,000	6,000,000
Employee benefits payable	XIV- 18	70,108,076	70,812,761
Taxes payable	XIV- 19	14,569,690	33,266,225
Interest payable		652,500	563,613
Deferred income		3,953,054	1,767,054
Other payables	XIV- 20	544,713,172	368,310,362
Non-current liabilities due within one year	XIV- 21	-	29,227,200
Total current liabilities		<u>1,337,829,616</u>	<u>1,257,516,072</u>
NON-CURRENT LIABILITIES			
Deferred income		12,628,573	19,933,699
Other non-current liabilities		2,577,702	2,499,403
Total non-current liabilities		<u>15,206,275</u>	<u>22,433,102</u>
Total liability		<u>1,353,035,891</u>	<u>1,279,949,174</u>
EQUITY			
Share capital	VI-32	685,464,000	685,464,000
Capital reserve	XIV- 22	557,222,454	557,222,454
Surplus reserve	VI-35	342,732,000	342,732,000
Retained earnings		7,811,100,555	7,360,234,545
Total equity		<u>9,396,519,009</u>	<u>8,945,652,999</u>
Total liabilities and equity		<u><u>10,749,554,900</u></u>	<u><u>10,225,602,173</u></u>

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 DECEMBER 2017

	<u>Notes</u>	<u>2017</u> <u>RMB</u>	<u>2016</u> <u>RMB</u>
I. Revenue	VI-37	4,932,545,229	4,717,596,472
Less: Cost of sales	VI-37	1,671,592,279	1,575,770,979
Taxes and surcharges	VI-38	310,252,023	269,716,646
Selling expenses	VI-39	1,272,522,443	1,253,260,668
Administrative expenses	VI-40	340,781,958	309,783,548
Financial expenses	VI-41	18,590,259	21,968,859
Impairment loss of assets	VI-42	8,293,553	3,279,266
Add: Loss (income) from disposal of assets		(222,586)	14,719
Other income	VI-43	46,038,384	-
II. Operating profit		1,356,328,512	1,283,831,225
Add: Non-operating income	VI-44	17,230,727	55,014,314
Less: Non-operating expenses	VI-45	1,631,476	1,226,699
III. Profit before tax		1,371,927,763	1,337,618,840
Less: Income tax	VI-46	338,134,245	357,029,446
IV. Profit for the year		1,033,793,518	980,589,394
(I) Categorized by the nature of continuing operation			
1. Net profit(loss) from continuing operations		1,033,793,518	980,589,394
(II) Categorized by ownership:			
1. Profit or loss attributable to non-controlling interests		2,098,462	(1,871,094)
2. Net profit attributable to owners of the Company		1,031,695,056	982,460,488
V. Other comprehensive income (post-tax)		9,863,872	5,615,689
Other comprehensive income attributable to shareholders of the Company			
Other comprehensive income to be reclassified to profit and loss			
Foreign currency statement translation difference		8,368,254	5,183,498
Other comprehensive income attributable to non-controlling interest		1,495,618	432,191
VI. Total comprehensive income		1,043,657,390	986,205,083
Attribute to shareholders of the Company		1,040,063,310	987,643,986
Attribute to non-controlling interest of the Company		3,594,080	(1,438,903)
VII. Earnings per share			
(I) Basic earnings per share	VI-47	1.51	1.43
(II) Diluted earnings per share	VI-47	N/A	N/A

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

INCOME STATEMENT OF THE COMPANY
YEAR ENDED 31 DECEMBER 2017

	<u>Notes</u>	<u>2017</u> RMB	<u>2016</u> RMB
I. Revenue	XIV- 23	1,311,256,854	1,415,104,946
Less: Cost of sales	XIV- 23	1,165,953,408	1,152,076,500
Taxes and surcharges	XIV- 24	76,570,225	106,469,217
Administrative expenses	XIV- 25	80,693,044	85,962,137
Financial expenses	XIV- 26	637,568	34,226,452
Add: Investment income	XIV- 27	798,877,905	1,798,129,418
Loss (income) from disposal of assets		(29,625)	111,362
Other income		5,219,126	-
		<hr/>	<hr/>
II. Operating Profit		791,470,015	1,834,611,420
Add: Non-operating income		686,646	7,275,905
Less: Non-operating expenses		335,237	359,415
		<hr/>	<hr/>
III. Profit before tax		791,821,424	1,841,527,910
Less: Income tax		(1,776,586)	10,953,440
		<hr/>	<hr/>
IV. Profit for the year		793,598,010	1,830,574,470
		<hr/>	<hr/>
Net profit from continuing operations		793,598,010	1,830,574,470
		<hr/>	<hr/>
V. Total comprehensive income		793,598,010	1,830,574,470
		<hr/>	<hr/>

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2017

	<u>Notes</u>	<u>2017</u> RMB	<u>2016</u> RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from the sale of goods and the rendering of services		4,827,152,526	4,441,041,101
Receipts of tax refunds		53,196,910	17,860,500
Other cash receipts relating to operating activities	VI-48(1)	85,236,905	66,707,865
Sub-total of cash inflows from operating activities		<u>4,965,586,341</u>	<u>4,525,609,466</u>
Cash payments for goods purchased and services received		1,143,840,915	961,128,796
Cash payments to and on behalf of employees		512,777,815	435,621,220
Payment of various types of taxes		1,260,813,596	1,133,232,957
Other cash payments relating to operating activities	VI-48(2)	1,074,910,988	1,105,714,523
Sub-total of cash outflows from operating activities		<u>3,992,343,314</u>	<u>3,635,697,496</u>
Net cash flows from operating activities	VI-49(1)	<u>973,243,027</u>	<u>889,911,970</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in term deposits over 3 months		205,000,000	98,021,025
Proceeds from return on investments		4,084,350	7,723,126
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		7,594,005	7,208,774
Sub-total of cash inflows from investing activities		<u>216,678,355</u>	<u>112,952,925</u>
Cash paid for acquisition of properties, plants and equipment, intangible assets and other long-term assets		435,960,357	704,834,302
Cash paid for term deposits over 3 months		297,000,000	92,021,025
Cash paid for purchase of available-for-sale financial assets		129,216	-
Cash paid for the purchase subsidiaries and other equity	VI-48(3)	303,796,543	3,539,144
Sub-total of cash outflows from investing activities		<u>1,036,886,116</u>	<u>800,394,471</u>
Net cash flows from investing activities		<u>(820,207,761)</u>	<u>(687,441,546)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from capital contributions		48,396,726	-
Including: cash receipts from capital contributions from minority owners of subsidiaries		48,396,726	-
Cash receipts from borrowings		963,564,600	1,011,089,858
Other cash received from financing activities	VI-48(4)	52,930,804	180,477,587
Sub-total of cash inflows from financing activities		<u>1,064,892,130</u>	<u>1,191,567,445</u>
Cash paid for borrowings		876,502,273	839,962,581
Cash paid for dividends, profits and interests		369,791,284	372,529,256
Cash paid from other financing activities	VI-48(5)	61,700,000	20,000,000
Sub-total of cash outflows from financing activities		<u>1,307,993,557</u>	<u>1,232,491,837</u>
Net cash flows from financing activities		<u>(243,101,427)</u>	<u>(40,924,392)</u>
Effect of foreign exchange rate changes on cash and cash equivalents		14,013,131	3,154,611
NET DECREASE/(INCREASE) OF CASH AND CASH EQUIVALENTS		(76,053,030)	164,700,643
Add: cash and cash equivalents at beginning of the year	VI-49(3)	<u>1,256,942,304</u>	<u>1,092,241,661</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	VI-49(3)	<u>1,180,889,274</u>	<u>1,256,942,304</u>

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CASH FLOW STATEMENT OF THE COMPANY
YEAR ENDED 31 DECEMBER 2017

	<u>Notes</u>	<u>2017</u> RMB	<u>2016</u> RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from the sale of goods and the rendering of services		984,103,489	1,260,184,309
Other cash receipts relating to operating activities		431,983,092	232,328,473
Sub-total of cash inflows from operating activities		<u>1,416,086,581</u>	<u>1,492,512,782</u>
Cash payments for goods purchased and services received		398,827,772	887,413,606
Cash payments to and on behalf of employees		89,894,049	121,662,409
Cash payment of various types of taxes		207,917,864	132,372,497
Other cash payment relating to operating activities		121,377,127	805,127,368
Sub-total of cash outflows from operating activities		<u>818,016,812</u>	<u>1,946,575,880</u>
Net cash flows from operating activities	XIV- 28	<u>598,069,769</u>	<u>(454,063,098)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash receipts from deposits over 3 months		103,000,000	18,021,025
Cash receipts from return on investments		827,218,467	1,530,872,587
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		26,760,929	9,705,026
Sub-total of cash outflows from investing activities		<u>956,979,396</u>	<u>1,558,598,638</u>
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		22,527,073	28,351,843
Cash payments for term deposits over 3 months		105,000,000	12,021,025
Cash payments for subsidiary investment		881,056,220	468,882,418
Sub-total of cash outflows from investing activities		<u>1,008,583,293</u>	<u>509,255,286</u>
Net cash flows from investing activities		<u>(51,603,897)</u>	<u>1,049,343,352</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from borrowings		600,000,000	500,000,000
Cash inflows from financing activities		-	135,584,347
Sub-total of cash outflows from investing activities		<u>600,000,000</u>	<u>635,584,347</u>
Cash paid for borrowings		530,339,600	764,619,892
Cash paid for dividends, profits and interests		360,560,604	372,039,591
Sub-total of Cash outflows from financing activities		<u>890,900,204</u>	<u>1,136,659,483</u>
Net cash flows from financing activities		<u>(290,900,204)</u>	<u>(501,075,136)</u>
NET INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS			
AND CASH EQUIVALENTS		255,565,668	94,205,118
Add: cash and cash equivalents at beginning of the year	XIV- 29	<u>238,003,198</u>	<u>143,798,080</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	XIV- 29	<u><u>493,568,866</u></u>	<u><u>238,003,198</u></u>

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

**STATEMENT OF CHANGES IN EQUITY OF THE COMPANY
YEAR ENDED 31 DECEMBER 2017**

	2017				
	<u>Issued capital</u> RMB	<u>Capital reserve</u> RMB	<u>Surplus reserve</u> RMB	<u>Retained earnings</u> RMB	<u>Total</u> RMB
I. Opening balance of the current year	685,464,000	557,222,454	342,732,000	7,360,234,545	8,945,652,999
II. Changes for the year					
(I) Total comprehensive income	-	-	-	793,598,010	793,598,010
(II) Profit distribution					
Distributions to shareholders (VI-36)	-	-	-	(342,732,000)	(342,732,000)
III. Closing balance of the current year	<u>685,464,000</u>	<u>557,222,454</u>	<u>342,732,000</u>	<u>7,811,100,555</u>	<u>9,396,519,009</u>
	2016				
	<u>Issued capital</u> RMB	<u>Capital reserve</u> RMB	<u>Surplus reserve</u> RMB	<u>Retained earnings</u> RMB	<u>Total</u> RMB
I. Opening balance of the current year	685,464,000	557,222,454	342,732,000	5,872,392,075	7,457,810,529
II. Changes for the year					
(I) Total comprehensive income	-	-	-	1,830,574,470	1,830,574,470
(II) Profit distribution					
Distributions to shareholders (VI-36)	-	-	-	(342,732,000)	(342,732,000)
III. Closing balance of the current year	<u>685,464,000</u>	<u>557,222,454</u>	<u>342,732,000</u>	<u>7,360,234,545</u>	<u>8,945,652,999</u>

I. CORPORATE INFORMATION

Yantai Changyu Pioneer Wine Co., Ltd. (the "Company") was incorporated as a joint stock limited company in accordance with the Company Law of the People's Republic of China (the "PRC") in a reorganization carried out by Yantai Changyu Group Co., Ltd. ("Changyu Group Company"), in which Changyu Group Company injected certain assets and liabilities in relation to the brandy, wine, and sparkling wine production and sales businesses to the Company. The Company and its subsidiaries (the "Group") are principally engaged in the production and sales of wine, brandy, sparkling wine, grape growing and acquisition, as well as travel resource development, etc. . Registration place of the Company is Yantai, Shandong. Headquarter of the Company is located at No. 56 Da Ma Lu, Zhifu District, Yantai, Shandong, PRC.

As at 31 December 2017 the total shares issued by the Company amounts to 685,464,000 shares. Please refer to Note VI-32 in detail.

The holding company of the Group is Changyu Group Company, which is jointly controlled by Yantai GuoFeng Investment Holding Ltd, ILLVA SARONNO HOLDING SPA, International Finance Corporation and Yantai Yuhua Investment and Development Company Limited.

The financial statements have been authorized by the board of directors on 19 April 2018. According to the Company's articles of association, the financial statements will be reviewed by shareholders on the shareholder's meeting.

For consolidation scope of the year, please refer to Notes VIII "Equity in other entities" in detail. For detail of changes in consolidation scope of the year, please refer to Notes VII "Change in consolidation scope".

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

1. Basis of preparation

The Group has adopted the Accounting Standards for Business Enterprises ("ASBE") issued by the Ministry of Finance ("MoF"). In addition, the Group has disclosed relevant financial information in accordance with Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 - General Provisions on Financial Reporting (Revised in 2014).

2. Basis of accounting and principle of measurement

The Group has adopted the accrual basis of accounting. The Group adopts the historical cost as the principle of measurement in the financial statements. Where assets are impaired, provisions for asset impairment are made in accordance with relevant requirements.

Under the historical cost measurement, an asset is measured at the fair value of consideration paid in cash and cash equivalents at the date of the purchase. Liability is measured at the value of asset received through taking current obligation, the contract value for taking current obligation, or the cash and cash equivalents value estimated for repaying debt in daily business activity.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS - continued

2. Basis of accounting and principle of measurement - continued

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis.

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

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

3. Going concern

As at 31 December 2017, the Group evaluated the profitability ability in the foreseeable 12 months and did not notice any event or circumstance that would constitute significant doubt on going concern ability of the Group. Therefore, the financial statements have been prepared on a going concern basis.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING

1. Declaration for implementing CAS

The financial statements are prepared in accordance with CAS, which showing a true and fair view of the financial position on 31 December 2017, financial performance and cash flow in 2017 of the Company and the Group.

2. Accounting year

The accounting year of the Group is from 1 January to 31 December of each calendar year.

3. Business cycle

Business cycle refers to the period from purchasing assets to be processed to receiving cash or cash equivalents by the Company. The business cycle of the Company is 12 months.

4. Reporting currency

Renminbi ("RMB") is the currency of the primary economic environment in which the Company and its domestic subsidiaries operate. Therefore, the Company and its domestic subsidiaries choose RMB as their functional currency. The Company's foreign subsidiary chooses Currency Euro and Chilean Peso as its functional currency on the basis of the primary economic environment in which it operates. The Company adopts RMB to prepare its financial statements.

**III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING -
continued**

5. Business combination

5.1 Business combinations not involving enterprises under common control and goodwill

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

The cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognised in profit or loss when they are incurred.

Qualified identifiable assets, liabilities and contingent liabilities obtained by acquirer in the acquisition are measured using fair value at the acquisition date.

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is treated as an asset and recognised as goodwill, which is measured at cost on initial recognition. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognises the remaining difference immediately in profit or loss for the current period.

Goodwill arising on a business combination is measured at cost less accumulated impairment losses, and is presented separately in the consolidated financial statements. It is tested for impairment at least at the end of each year.

6. Preparation of consolidated financial statements

6.1 Preparation of consolidated financial statements

The scope of consolidation in the consolidated financial statements is determined on the basis of control. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. The Group will re-evaluate if changes in relevant facts and circumstances results in changes in relevant factors involved in the above definition of control.

Consolidation of subsidiary starts from the control on the subsidiary by the Group and ends at the loss of control on the subsidiary by the Group.

For the subsidiaries through business combination not involving enterprises under common control, the results of operations and cash flows from the acquisition day were properly included in the consolidated income statements and consolidated cash flow statements.

**III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING -
continued**

6. Preparation of consolidated financial statements - continued

6.1 Preparation of consolidated financial statements

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Company.

All significant intra-group balances and transactions are eliminated on consolidation.

The portion of subsidiaries' equity that is not attributable to the Company is treated as non-controlling interests and presented as "non-controlling interests" in the consolidated balance sheet within shareholders' equity. The portion of net profits or losses of subsidiaries for the period attributable to non-controlling interests is presented as "non-controlling interests" in the consolidated income statement below the net profit line item.

When the amount of loss for the period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount are still allocated against non-controlling interests.

7. Cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

8. Translation of transactions and financial statements denominated in foreign currencies

8.1 Transactions denominated in foreign currencies

A foreign currency transaction is recorded, on initial recognition, by applying the spot exchange rate on the date of the transaction.

At the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rates at the balance sheet date. Exchange differences arising from the differences between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are recognised in profit or loss for the period, except that (1) exchange differences related to a specific-purpose borrowing denominated in foreign currency that qualify for capitalisation are capitalised as part of the cost of the qualifying asset during the capitalisation period; (2) exchange differences related to hedging instruments for the purpose of hedging against foreign currency risks are accounted for using hedge accounting; (3) exchange differences arising from available-for-sale non-monetary items denominated in foreign currencies and changes in the carrying amounts of available-for-sale monetary items are recognised as other comprehensive income and included in capital reserve.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

8. Translation of transactions and financial statements denominated in foreign currencies - continued

8.1 Transactions denominated in foreign currencies - continued

Foreign currency non-monetary items measured at historical cost are translated to the amounts in functional currency at the spot exchange rates on the dates of the transactions and the amounts in functional currency remain unchanged. Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rate on the date the fair value is determined. Difference between the re-translated functional currency amount and the original functional currency amount is treated as changes in fair value (including changes of exchange rate) and is recognised in profit and loss or as other comprehensive income included in capital reserve.

8.2 Translation of financial statements denominated in foreign currencies

For the purpose of preparing the consolidated financial statements, financial statements of a foreign operation are translated from the foreign currency into RMB using the following method: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; shareholders' equity items except for retained earnings are translated at the spot exchange rates at the dates on which such items arose; all items in the income statement as well as items reflecting the distribution of profits are translated at the spot exchange rates on the dates of the transactions; the opening balance of retained earnings is the translated closing balance of the previous year's retained earnings; the closing balance of retained earnings is calculated and presented on the basis of each translated income statement and profit distribution item. The difference between the translated assets and the aggregate of liabilities and shareholders' equity items is separately presented as the exchange differences arising on translation of financial statements denominated in foreign currencies of other comprehensive income under the shareholders' equity in the balance sheet.

Cash flows arising from a transaction in foreign currency and the cash flows of a foreign subsidiary are translated at the spot exchange rate on the date of the cash flows. The effect of exchange rate changes on cash and cash equivalents is regarded as a reconciling item and presented separately in the cash flow statement as "effect of exchange rate changes on cash and cash equivalents".

The opening balances and the comparative figures of previous year are presented at the translated amounts in the previous year's financial statements.

9 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. For other financial assets and financial liabilities, transaction costs are included in their initial recognised amounts.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

9 Financial instruments - continued

9.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

9.2 Classification, recognition and measurement of financial assets

On initial recognition, the Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Financial assets of the Group are loans and receivables and available-for-sale financial assets.

9.2.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables by the Group include notes receivable, accounts receivable, interest receivable and other receivables.

Loans and receivables are subsequently measured at amortised cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortisation is recognised in profit or loss.

9.2.2 Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated on initial recognition as available for sale, and financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost.

**III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING -
continued**

9. Financial instruments - continued

9.3 Impairment of financial assets

The Group assesses at each balance sheet date the carrying amounts of financial assets other than those at fair value through profit or loss. If there is objective evidence that a financial asset is impaired, the Group determines the amount of any impairment loss. Objective evidence that a financial asset is impaired is evidence that, arising from one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the financial asset, which can be reliably measured, have been affected.

Objective evidence that a financial asset is impaired includes the following observable events:

- (1) Significant financial difficulty of the issuer or obligor;
- (2) A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- (3) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower;
- (4) It becoming probable that the borrower will enter bankruptcy or other financial reorganisations;
- (5) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;
- (6) Upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes:
 - Adverse changes in the payment status of borrower in the group of assets;
 - Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets;
- (7) Significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;
- (8) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;
- (9) Other objective evidence indicating there is an impairment of a financial asset.

- Impairment of financial assets measured at amortised cost

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

9. Financial instruments - continued

9.3 Impairment of financial assets - continued

- Impairment of financial assets measured at amortised cost - continued

For a financial asset that is individually, the Group assesses the asset individually for impairment.

- Impairment of available for sale assets measured at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognised as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognised.

9.4 Transfer of financial assets

The Group derecognises a financial asset if one of the following conditions is satisfied: (1) the contractual rights to the cash flows from the financial asset expire; or (2) the financial asset has been transferred and substantially all the risks and rewards of ownership of the financial asset is transferred to the transferee; or (3) although the financial asset has been transferred, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised in other comprehensive income, is recognised in profit or loss.

9.5 Classification, recognition and measurement of financial liabilities

Debt and equity instruments issued by the Group are classified into financial liabilities or equity on the basis of the substance of the contractual arrangements and definitions of financial liability and equity instrument.

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities in group are other financial liabilities, including short-term borrowings, notes payable, account payables, interest payables, other payables, non-current liabilities due within one year and long-term payables etc.

9.5.1 Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gain or loss arising from derecognition or amortisation recognised in profit or loss.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

9. Financial instruments - continued

9.6 Derecognition of financial liabilities

The Group derecognises a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged.

When the Group derecognises a financial liability or a part of it, it recognises the difference between the carrying amount of the financial liability (or part of the financial liability) derecognised and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

9.7 Offsetting financial assets and financial liabilities

Where the Group has a legal right that is currently enforceable to set off the recognised financial assets and financial liabilities, and intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

9.8 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group does not recognise any changes in the fair value of equity instruments. The equity instruments transaction expenses deducted from equity.

The Group treats distribution to equity instrument holders as profit distributions. Shareholder equity is not affected by share dividend distributed.

10 Accounts Receivable

The Group believes that the individual receivables are all significant, and the corresponding receivables are individually tested for impairment, and individual recognition method is used to confirm bad debt provision.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

11 Inventories

11.1 Categories of inventories

The Group's inventories mainly include raw materials, work in progress and finished goods. Inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditures incurred in bringing the inventories to their present location and condition.

11.2 Valuation method of inventories upon delivery

The actual cost of inventories upon delivery is calculated using the weighted average method.

Agricultural products harvested are reported in accordance with the CAS 1 Inventories.

11.3 Basis for determining net realisable value of inventories and provision methods for decline in value of inventories

At the balance sheet date, inventories are measured at the lower of cost and net realisable value. If the net realisable value is below the cost of inventories, a provision for decline in value of inventories is made. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs necessary to make the sale and relevant taxes. Net realisable value is determined on the basis of clear evidence obtained, and takes into consideration the purposes of holding inventories and effect of post balance sheet events.

Provision for decline in value of other inventories is made based on the excess of cost of inventory over its net realisable value on an item-by-item basis.

After the provision for decline in value of inventories is made, if the circumstances that previously caused inventories to be written down below cost no longer exist so that the net realisable value of inventories is higher than their cost, the original provision for decline in value is reversed and the reversal is included in profit or loss for the period.

11.4 Inventory count system

The perpetual inventory system is maintained for stock system.

11.5 Amortisation method for low cost and short-lived consumable items and packaging materials

Packaging materials and low cost and short-lived consumable items are amortised using the immediate write-off method.

12 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale category when the Group recovers the book value through a sale (including an exchange of nonmonetary assets that has commercial substance) rather than continuing use.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

12. Non-current assets held for sale - continued

Non-current assets or disposal groups classified as held for sale are required to satisfy the following conditions: (1) the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset or disposal group; (2) the sale is highly probable, i.e. the Group has made a resolution about selling plan and obtained a confirmed purchase commitment and the sale is expected to be completed within one year.

The Group measures the no-current assets or disposal groups classified as held for sale at the lower of their carrying amount and fair value less costs to sell. Where the carrying amount is higher than the net amount of fair value less costs to sell, carrying amount should be reduced to the net amount of fair value less costs to sell, and such reduction is recognized in impairment loss of assets and included in profit or loss for the period. Meanwhile, provision for impairment of held-for-sale assets are made. When there is increase in the net amount of fair value of non-current assets held for sale less costs to sell at the balance sheet date, the original deduction should be reversed in impairment loss of assets recognized after the classification of held-for-sale category, and the reverse amount is include in profit or loss for the period.

Non-current assets held for sale in non-current assets are not subject to depreciation or amortization.

13. Long term equity investments

13.1 Basis for determining control, joint control and significant influence

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating policy decisions relating to the activity require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

13.2 Determination of initial investment cost

For a long-term equity investment acquired not involving enterprises under common control, the investment cost of the long-term equity investment is the cost of acquisition.

Audit fee, legal services, consulting fees and other related management costs in acquisition are expensed in profits and losses when happened.

Other long-term equity investments acquired from other than acquisitions are recognised using original cost.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

13. Long term equity investments - continued

13.3 Subsequent measurement and recognition of profit or loss

13.3.1 Long-term equity investment accounted for using the cost method

The Group accounts for long-term equity investment using the cost method. A subsidiary is an investee that is controlled by the Group.

Under the cost method, a long-term equity investment is measured at initial investment cost. Long-term equity investment is adjusted when capital is added or recollected. Investment income is recognised in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee.

13.4 Disposal of long-term equity investments

On disposal of a long term equity investment, the difference between the proceeds actually received and receivable and the carrying amount is recognised in profit or loss for the period.

14. Investment properties

Investment property is property held to earn rentals or for capital appreciation or both.

An investment property is measured initially at cost. Subsequent expenditures incurred for such investment property are included in the cost of the investment property if it is probable that economic benefits associated with an investment property will flow to the Group and the subsequent expenditures can be measured reliably. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

The Group uses the cost model for subsequent measurement of investment property, and adopts a depreciation or amortisation policy for the investment property which is consistent with that for buildings or land use rights.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

15. Fixed assets

15.1 Recognition criteria for fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING-continued

15. Fixed assets - continued

15.1 Recognition criteria for fixed assets - continued

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset and if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

15.2 Depreciation of each category of fixed assets

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The useful life, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

	<u>Estimated useful life</u>	<u>Estimated residual rate</u>	<u>Annual depreciation rate</u>
Buildings	20-40years	0-5%	2.4%-5.0%
Machinery	5-30years	0-5%	3.2%-20.0%
Motor Vehicles	4-12years	0-5%	7.9%-25.0%

Estimated net residual value assumes the situation where a fixed asset expire for its estimated useful life and is in its expected final status. Estimated net residual value is the amount that the Group can obtain from the disposal less expected disposal fees.

15.3 Other explanations

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognised. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognised in profit or loss for the period.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year-end, and account for any change as a change in an accounting estimate.

16. Construction in progress

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period, borrowing costs capitalised before it is ready for intended use and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset when it is ready for intended use.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

17. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalised when expenditures for such asset and borrowing costs are incurred and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. Capitalisation of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Capitalisation of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is suspended abnormally and when the suspension is for a continuous period of more than 3 months. Capitalisation is suspended until the acquisition, construction or production of the asset is resumed. Other borrowing costs are recognised as an expense in the period in which they are incurred. Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds.

18. Biological assets

The Group's biological assets are bearer biological assets.

18.1 Bearer biological assets

Bearer biological assets are biological assets, for example, held for the production of agricultural produce, provision of services or rental. Bearer biological assets in the Group are vines. A bearer biological asset is initially measured at cost. The cost of a bearer biological asset self-grown or self-bred comprises those costs necessarily incurred and directly attributable to the asset before the asset becomes available for its intended production and operating purposes, and any borrowing cost meeting the capitalisation criteria.

The Group charge depreciation for productive biological assets which satisfy expected production, and record the depreciation in balance sheet and income statement. The Group uses straight line method to calculate the depreciation, and details as follows:

<u>Category</u>	<u>Estimated useful life</u>	<u>Estimated residual rate</u>	<u>Annual depreciation rate</u>
Vines	20 years	-	5.0%

The Group evaluates the useful life and expected net salvage value by considering the normal producing life of the bearer biological assets.

The Group reviews the useful life and estimated net residual value of bearer biological assets and the depreciation method applied at least once at each financial year-end, and account for any change as a change in an accounting estimate.

On the sale, identification of any shortages during stocktaking, death or damage of biological asset, the proceeds on disposal net of the carrying amount and relevant taxes is recognised in profit or loss for the current period.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

19. Intangible assets

Intangible assets include land use rights, software, etc.

An intangible asset is measured initially at cost method. When an intangible asset with a finite useful life is available for use, its original cost less net residual value and any accumulated impairment losses is amortised over its estimated useful life using the straight-line method. Intangible assets with indefinite useful lives are not amortized. The useful lives of the intangible assets are as follows:

<u>Item</u>	<u>Useful life</u>	<u>Net residual value</u>	<u>Annual amortization rate</u>
Land use rights	40-50 years	-	2.0%-2.5%
Software	5-10 years	-	10.0%-20.0%
Trademark	10 years	-	10.0%

Except for the above intangible assets with finite useful lives, the Group had also land use right and trademark with infinite useful lives. Land use right with infinite useful lives was related to the Group acquired Viña Indómita, S.A., Viña Dos Andes, S.A., and Bodegas Santa Alicia SpA. (collectively referred to as the "Chile Indomita Wine Group"), which was a permanent ownership and held by the Chile Indomita Wine Group according to the relatively Chilean law, therefore there was no amortization. Trademark was related to the Group acquired the Chile Indomita Wine Group, which had no finite useful lives. The valuation of trademark was based on the trends in the market and competitive environment, product cycle, and managing long-term development strategy. Those basis indicated the trademark will provide net cash flows to the Group within a given period. Because it was hard to predict the period that it would bring economic benefits to the Group, the useful lives were uncertain.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of the period, and makes adjustments when necessary.

20. Impairment of long-term assets

The Group and the Company review the impairment status of long-term equity investments, fixed assets, construction in progress, bearer biological asset and intangible assets with finite useful life at the end of each year. If the assets exist impairment, the Group estimates the recoverable amount of the assets. Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset.

If recoverable amount of assets is less than book value, the difference is recognised as impairment provision and expensed in current period.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

20. Impairment of long-term assets - continued

Goodwill is tested for impairment at least at the end of each year. For the purpose of impairment testing, goodwill is considered together with the related assets group (s), i.e., goodwill is reasonably allocated to the related assets group (s) or each of assets group (s) expected to benefit from the synergies of the combination. An impairment loss is recognised if the recoverable amount of the assets group or sets of assets groups (including goodwill) is less than its carrying amount. The impairment loss is firstly allocated to reduce the carrying amount of any goodwill allocated to such assets group or sets of assets groups, and then to the other assets of the group pro-rata on the basis of the carrying amount of each asset (other than goodwill) in the group.

The impairment is recognised in profit or loss for the period in which it is incurred and will not be reversed in any subsequent period.

21. Long term prepaid expenses

Long term prepaid expenses of the Group are amortized over the following period:

	<u>Amortization period</u>
Land requisition fee	50 years
Land lease prepayment	50 years
Greening fee	5-20 years
Leasehold improvement	3-5years
Others	3 years

22. Employee benefits

22.1 Short-term employee benefits

In an accounting period in which an employee has rendered service to the Group, the Group recognises the actual employee benefits for that service as a liability. The employee benefits of the Group are either included in cost of related assets or charged to profit or loss in the period when they are incurred. Non-monetary employee benefits are measured at fair value.

Social insurances such as medical insurance, injury insurance and pregnancy insurance, housing funds, labor union and employee education fees paid by the Group for employees, are recognised as relevant liability in the period in which the employees provide service, in accordance with the regulated recognition basis and percentage. The related expenditures are either included in cost of related assets or charged to profit or loss in the period when they are incurred.

22.2 Accounting treatments of retired benefits

Retired benefits of the Group are all predetermined provision plan.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

22. Employee benefits- continued

22.2 Accounting treatments of retired benefits- continued

In the period in which the employees provide service, the Group recognise liability in accordance with the amounts to be paid calculated according to the predetermined provision plan, and the related expenditures are either included in cost of related assets or charged to profit or loss in the period when they are incurred.

22.3 Accounting treatments of termination benefits

When providing termination benefits to employees, the Group recognise employee benefits payroll resulting from termination benefits at the earlier of: the Group cannot unilaterally withdraw from the termination plan or the redundancy offer; the Group recognise relevant costs and expenses related to the payment of termination benefits in restructuring.

23. Revenue

23.1 Revenue from sale of goods

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

23.2 Revenue from rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognized by reference the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the costs incurred that will be recoverable, and the costs incurred are recognised as expenses for the period. When it is not probable that the costs incurred will be recovered, revenue is not recognised.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

24. Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. A government grant is recognised only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

Monetary government grants are measured by the amount received or receivable.

24.1 Government grant related to an asset

A government grant related to an asset is recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset.

24.2 Government grant related to income

For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss over the periods in which the related costs are recognised. If the grant is a compensation for related expenses or losses already incurred, the grant is recognised immediately in profit or loss for the period.

A government grant related to the Group's daily activities is recognized in other income based on the nature of economic activities; a government grant is not related to the Group's daily activities is recognized in non-operating income and expenses.

The Company's government loans with below-market rate of interest are directly paid to the Company, and the related low rate interest will write off related borrowing costs . The government loans with below-market rate of interest obtained by other subsidiaries of the Group are government loans, which is provided by local bureau of finance through bank with below-market rate of interest. The actual amount of the loan received by the Group recognized as borrowings, and the related borrowing costs are calculated according to the principal of the loan and the below-market rate.

25. Deferred tax assets/deferred tax liabilities

The income tax expenses include current income tax and deferred income tax.

25.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

**III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING -
continued**

25. Deferred tax assets/deferred tax liabilities - continued

25.2 Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognised as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognised using the balance sheet liability method.

Deferred tax is generally recognised for all temporary differences. Deferred tax assets for deductible temporary differences are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognised.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

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

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realised or the liability is settled.

Current and deferred tax expenses or income are recognised in profit or loss for the period, except when they arise from transactions or events that are directly recognised in other comprehensive income or in shareholders' equity, in which case they are recognised in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilised. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

25. Deferred tax assets/deferred tax liabilities - continued

25.3 Net off of income taxes

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realise the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

26. Leases

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

26.1. Operating lease accounting methods

26.1.1 The Group as lessee under operating leases

Operating lease payments are recognised on a straight-line basis over the term of the relevant lease, and are either included in the cost of related asset or charged to profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period.

26.1.2 The Group as lessor under operating leases

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs with more than an insignificant amount are capitalised when incurred, and are recognised in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are charged to profit or loss in the period in which they actually arise.

27. Changes in accounting policies

The Group started adopting the *Accounting Standard for Business Enterprise No.16 - Government Grants* revised by MoF in 2017 respectively since 28 May 2017 and 12 June 2017 respectively. Besides, the financial statements have been prepared under the *Notice of the Revised Format of Financial Statements for General Business Enterprise* (Cai Kuai (2017) No. 30, hereinafter referred to as the "Cai Kuai No.30 Document") released by the MoF on 25 December 2017.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

27. Changes in accounting policies - continued

Government grants

Prior to the implementation of the *Accounting Standard for Business Enterprise No.16 - Government Grants (revised)*, the Group did not distinguish whether government grants were related to daily activities and were included in non-operating income. After the implementation of the *Accounting Standard for Business Enterprise No.16 - Government Grants (revised)*, a government grant related to the Group's daily activities is recognized in other income based on the nature of economic activities; a government grant is not related to the Group's daily activities is recognized in non-operating income.

The Group has accounted for the above change in accounting policy retrospectively. Such changes in accounting policy has no impact on the financial statements for the comparable years.

IV. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY ASSUMPTIONS AND UNCERTAINTIES IN ACCOUNTING ESTIMATES

In the application of accounting policies as set out in Note III, the Group is required to make judgments, estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately, due to the internal uncertainties of the operating activities. These judgments, estimates and assumptions are based on historical experience of the Group's management as well as other factors that are considered to be relevant. Actual results may differ from these estimates.

The Group periodically review the judgments, estimates and assumptions above on a going concern basis. For those changes in accounting policies that only affect current financial statements, the influences are recognized in current period. For those changes in accounting policies that affect both current and future financial statements, the influences are recognized in both current and prospective periods.

Significant accounting judgments and accounting estimates

The following are key assumptions for after balance sheet date event and other factors of uncertain estimation. They may cause material adjustment on balance sheet in following accounting period.

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

IV. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY ASSUMPTIONS AND UNCERTAINTIES IN ACCOUNTING ESTIMATES - continued

Significant accounting judgments and accounting estimates - continued

Depreciation

As set out in Note III-15, the depreciation is calculated on the straight line basis to write-off the cost of each item of fixed assets to its residual value over its estimated useful life. The Group's management determines the estimated useful lives for its fixed assets. This estimate is based on the historical experience of the actual useful lives of fixed assets of similar nature and functions. If the previous estimates have significant changes, and depreciation expenses will be adjusted in the future periods.

Useful life of intangible assets

The estimated useful lives of the intangible assets are determined based on the historical experience of the actual useful lives of intangible assets of similar nature and functions as well as considering the contractual rights and statutory rights applicable to the intangible assets.

When the estimated useful lives of finite intangible assets are shortened or extended, the amortization periods should be adjusted accordingly.

Impairment of long-term assets

The Group assesses whether the recoverable amount is lower than the book value. If there are any indicators that the book value of non-current assets cannot be fully recoverable, impairment losses should be recorded.

The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from an asset. As it is difficult for the Group to obtain the quoted market price of the assets (or assets group), the fair value of the assets cannot be reliably estimated. When the management make estimation on the expected future cash flows from the asset or cash generating unit, estimates should be made on choosing a suitable growth rate of sales , average gross profit , related operating costs and discount rate in order to calculate the present value of those cash flows, which has a high uncertainty.

Estimated provision for accounts receivable

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy are considered indicators that the trade receivable is impaired. The provision is reassessed at the end of each year.

IV. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY ASSUMPTIONS AND UNCERTAINTIES IN ACCOUNTING ESTIMATES - continued

Significant accounting judgments and accounting estimates - continued

Inventory provision based on net realizable value

The inventories are measured on the lower of carrying value and net realizable value, and provision should be made for impairment on obsolete and slow moving inventories. The group will reassess whether the net realizable value is lower than the carrying cost at the end of each year.

The determination of the fair value of identifiable assets and liabilities associated with business combination.

For the cost of business combination, the Group allocates the purchase price based on fair value of relatively identifiable assets and liabilities. When the fair value of relatively identifiable assets and liabilities are evaluated by the present value of its future cash flows, The management need estimate the growth rate of sales based on future market supply and demand to predict cash flows, and considered the proper discount rate for calculating, management need use major accounting estimates and judgments in the progress.

V. TAXES

1. The main taxes and tax rate are as follows:

(1) China

Value added tax	VAT is levied at 6% and 17% on the invoiced amount after deduction of eligible input VAT.
Consumption tax	The consumption tax of the group is levied on gross revenue at rates ranging from 10% to 20%.
City development tax	Levied at 7% of total business tax payment.
Corporate income tax	The Group is subject to a corporate income tax rate of 25% on its taxable income.

(2) France

Value added tax	VAT is levied at 19.6% on the invoiced amount after deduction of eligible input VAT.
Corporate income tax	The Group is subject to a corporate income tax rate of 33% on its taxable income.

(3) Spain

Value added tax	VAT is levied at 21% on the invoiced amount after deduction of eligible input VAT.
Corporate income tax	The Group is subject to a corporate income tax rate of 28% on its taxable income.

V. TAXES

1. The main taxes and tax rate are as follows - continued:

(4) Chile

Value added tax	VAT is levied at 19% on the invoiced amount after deduction of eligible input VAT.
Corporate income tax	The Group is subject to a corporate income tax rate of 25.5% on its taxable income.

Other than tax incentives stated in Note V-2, applicable tax rates of the Group in 2017 and 2016 are all stated as above.

2. Tax incentives and relative permit

Ningxia Changyu Grape Growing Co., Ltd. ("Ningxia Growing"), a subsidiary of the Group, whose principal activity is grape growing is incorporated in Ningxia Huizu Autonomous Region. According to clause 27 of PRC Corporate Income Tax and clause 86 of PRC Corporate Income Tax Measures for Implementation, Ningxia Growing enjoys an exemption of corporate income tax.

Yantai Changyu Grape Growing Co., Ltd. ("Grape Growing"), a branch of the Company, whose principal activity is grape growing is incorporated in Zhifu District, Yantai City, Shandong Province. According to clause 27 of PRC Corporate Income Tax and clause 86 of PRC Corporate Income Tax Measures for Implementation, Grape Growing enjoys an exemption of corporate income tax.

Xinjiang Tianzhu Co., Ltd ("Xinjiang Tianzhu"), a subsidiary of the Company, is an enterprise of wine production and sales incorporated in Shihezi city, Xinjiang Weizu Autonomous. In accordance with the *Notice on Tax Policy Issues concerning Further Implementation of the Western China Development Strategy* (Cai Shui [2011] No.58), Xinjiang Tianzhu is qualified to enjoy preferential taxation policies, which means it can pay corporate income tax at a preferential rate of 15% for the period from 2015 to 2020.

Xinjiang Babao Baron Chateau Co., Ltd. ("Shihezi Chateau"), a subsidiary of the Company, is an enterprise of wine production and sales incorporated in Shihezi city, Xinjiang Weizu Autonomous. In accordance with the *Notice on Tax Policy Issues concerning Further Implementation of the Western China Development Strategy* (Cai Shui [2011] No.58), Shihezi Chateau is qualified to enjoy preferential taxation policies, which means it can pay corporate income tax at a preferential rate of 15% for the period from 2015 to 2020.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Cash	136,973	117,507
Bank balance	1,278,397,711	1,240,607,797
Other currency fund	123,987,825	150,792,303
Total	<u>1,402,522,509</u>	<u>1,391,517,607</u>

At 31 December 2017, the balance of restricted cash of the Group is as follows:

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
The Company's housing fund	<u>2,645,410</u>	<u>2,711,926</u>

As at 31 December 2017, the Group's other monetary assets is as follows:

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Research and Development Co., Ltd ("R&D Centre") pledged deposit	61,700,000	46,100,000
Refundable deposit for notes payable	-	38,900,000
Deposit for letter of credit	57,946,190	25,694,735
Alipay account balance	4,317,635	40,047,367
Deposit for Company cards	14,000	50,201
Deposit for ICBC platform	10,000	-
	<u>123,987,825</u>	<u>150,792,303</u>

As at 31 December 2017, the Group's term deposits with original maturity of more than three months when acquired is RMB 95,000,000 with interest rate 1.40%-1.95% (31 December 2016:RMB3,000,000).

2. Notes receivable

(1) Categories of notes receivable

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Bank acceptances	<u>244,796,818</u>	<u>210,470,027</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

2. Notes receivable - continued

- (2) Notes receivable which have been pledged as security at the end of the period

As at 31 December 2017, there was no pledged notes receivable (31 December 2016: Nil).

- (3) Notes endorsed by the Group to other parties which are not yet due at the end of the period

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Bank acceptances	<u>188,855,843</u>	<u>198,302,531</u>

As at 31 December 2017, notes endorsed by the Group to other parties which are not yet due at the end of the period is RMB 188,855,843 (31 December 2016: RMB 198,302,531). The notes are used for payment to suppliers and constructions. The Group believes that due to good reputation of bank, the risk of notes not accepting by bank on maturity is very low, and almost all the risks and rewards on ownership of the notes receivable have been transferred to the supplier, therefore derecognise the note receivables endorsed. If the bank is unable to pay the notes on maturity, according to the relevant laws and regulations of China, the Group would undertake limited liability for the notes.

- (4) Notes receivable reclassified to accounts receivable due to the drawers' inability to settle the note on maturity

As at 31 December 2017, no notes receivable were reclassified as accounts receivable due to the default of drawer (31 December 2016: Nil).

3. Accounts receivable

- (1) Disclosure of accounts receivable by categories:

	<u>Closing balance</u>					<u>Opening balance</u>				
	<u>Amount</u>		<u>Bad debts provision</u>		<u>Carrying amount</u>	<u>Amount</u>		<u>Bad debts provision</u>		<u>Carrying amount</u>
	<u>Amount</u> RMB	<u>Proportion</u> %	<u>Amount</u> RMB	<u>Ratio</u> %	<u>Amount</u> RMB	<u>Amount</u> RMB	<u>Proportion</u> %	<u>Amount</u> RMB	<u>Ratio</u> %	<u>Amount</u> RMB
Accounts receivable for which bad debt provision has been assessed individually	<u>263,796,355</u>	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>263,796,355</u>	<u>173,062,628</u>	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>173,062,628</u>

The normal credit term is one month, which can be extended to one year for certain major customers. The accounts receivable are interest-free.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

3. Accounts receivable - continued

(1) Disclosure of accounts receivable by categories - continued

As at 31 December 2017, ownership restricted accounts receivable is RMB 46,337,062 (31 December 2016: RMB 30,732,944), referring to Note VI-50.

The aging analysis is as follows:

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Within 1 year	263,112,714	172,610,351
1 to 2 years	683,641	452,277
	<u>263,796,355</u>	<u>173,062,628</u>

(2) Recognitions, collections and reversals during the current period:

As at 31 December 2017, there was no bad debt provision for accounts receivable (31 December 2016: Nil). There was no bad debt provision made, reversed or written-off by management in 2017 (2016: Nil).

(3) Top five entities with the largest balances of accounts receivable:

<u>Name</u>	<u>Relationship with the Group</u>	<u>Amount</u> RMB	<u>Aging</u>	<u>Percentage of total receivables</u> %
VIÑA SAN PEDRO TARAPACA S.A.	Third party	18,700,096	Within 1 year	7.1
Nongongshang Supermarket (Group) Co., Ltd	Third party	10,810,966	Within 1 year	4.1
DISTRIBUIDORA INTERNACIONAL SLIGRO B.V.	Third party	9,999,760	Within 1 year	3.8
SAINSBURY'S SUPERMARKETS LTD	Third party	8,487,591	Within 1 year	3.2
		6,511,762	Within 1 year	2.5
		<u>54,510,175</u>		<u>20.7</u>

4. Prepayments

(1) The aging analysis is as follows:

	<u>Closing balance</u>		<u>Opening balance</u>	
	<u>Amount</u> RMB	<u>Ratio</u> %	<u>Amount</u> RMB	<u>Ratio</u> %
Within 1 year	<u>2,417,931</u>	<u>100.0</u>	<u>2,175,606</u>	<u>100.0</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

4. Prepayments

(2) As at 31 December 2017, the top 5 of prepayments were as follows:

	<u>Relationship with the Group</u>	<u>Amount</u> RMB	<u>Aging</u>	<u>Reason for being outstanding</u>	<u>Percentage of total advances to suppliers</u> %
DONELLI VINI S.P.A.	Third party	370,673	Within 1 year	goods not received	15.3
Shenzhen Yijia Packaging Product Co., Ltd.	Third party	313,200	Within 1 year	goods not received	13.0
Shandong Electricity Company Yantai branch	Third party	200,000	Within 1 year	electricity purchase	8.3
Beijing Aidixi Time International Trade Co., Ltd.	Third party	168,000	Within 1 year	goods not received	6.9
Yantai Cihang International Freight Agent Co., Ltd.	Third party	121,907	Within 1 year	prepaid agency fees	5.0
		<u>1,173,780</u>			<u>48.5</u>

5. Interest receivable

(1) Categories of interest receivable

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Interests of term deposits	<u>240,968</u>	<u>24,200</u>

(2) Overdue interest

As at 31 December 2017, there was no overdue interest receivable (31 December 2016: Nil).

6. Other receivables

(1) Disclosure of other receivables by categories

	<u>Closing balance</u>					<u>Opening balance</u>				
	<u>Amount</u>		<u>Bad debts provision</u>		<u>Carrying amount</u>	<u>Amount</u>		<u>Bad debts provision</u>		<u>Carrying amount</u>
	<u>Amount</u> RMB	<u>Proportion</u> %	<u>Amount</u> RMB	<u>Ratio</u> %		<u>Amount</u> RMB	<u>Proportion</u> %	<u>Amount</u> RMB	<u>Ratio</u> %	
Other receivable for which bad debt provision has been assessed individually	<u>18,737,454</u>	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>18,737,454</u>	<u>18,880,800</u>	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>18,880,800</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

6. Other receivables- continued

(1) Disclosure of other receivables by categories- continued

The aging analysis is as follows:

	Closing balance			Opening balance				
	Amount		Bad debts provision	Carrying amount	Amount		Bad debts provision	Carrying amount
	Amount	Proportion	Amount	Amount	Amount	Proportion	Amount	Amount
	RMB	%	RMB	RMB	RMB	%	RMB	RMB
Within 1 year	13,214,301	70.5	-	13,214,301	8,204,303	43.5	-	8,204,303
1 to 2 years	1,937,961	10.3	-	1,937,961	7,715,992	40.8	-	7,715,992
2 to 3 years	2,273,591	12.2	-	2,273,591	1,929,613	10.2	-	1,929,613
Over 3 years	1,311,601	7.0	-	1,311,601	1,030,892	5.5	-	1,030,892
Total	18,737,454	100.0	-	18,737,454	18,880,800	100.0	-	18,880,800

(2) Accrual, reversal and written-off during the current period

The Group accrued bad provisions RMB 354,805 for 2017 (2016: bad debt was reversed RMB: Nil).

(3) Other receivables written off in the reporting period

Other receivables were written off RMB 354,805 in 2017. (2016: RMB 7,199,521)。

(4) Disclosure of other receivables by categories

	<u>Closing balance</u>	<u>Opening balance</u>
	RMB	RMB
Deposit	10,075,901	13,191,851
Petty cash receivable	2,215,146	2,934,424
Investment fund	2,050,000	2,050,000
Refund of consumption tax, real estate tax	2,451,188	573,586
Others	1,945,219	130,939
	<u>18,737,454</u>	<u>18,880,800</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

6. Other receivables - continued

(5) Five entities with the largest balances of other receivables

As at 31 December 2017, the top 5 of other receivables are as follows:

	<u>Nature</u>	<u>Amount</u> RMB	<u>Aging</u>	<u>Percentage of total</u> <u>other receivables</u> %	<u>Bad debt</u> <u>Amount</u> RMB
Yantai Development Zone Construction Industry Association	Construction deposit	7,709,477	Within 2 years	41.1	-
Canada Oros Ice-wine Co., Ltd	Foreign investment fund	2,050,000	2-3years	10.9	-
Yantai Economic and Technological Development Zone Thermal Co., Ltd	Deposit	630,000	Within 1 year	3.4	-
Beijing Shanshui Decoration Engineering Co.,Ltd.	Receivables on behalf of others' electricity fee	465,460	Within 1 year	2.5	-
Shanxi Fangyuan Jiangong Group Limited	Receivables on behalf of others' electricity fee	449,337	Within 1 year	2.4	-
		<u>11,304,274</u>		<u>60.3</u>	<u>-</u>

7. Inventories

(1) Disclosure of inventories by categories

	<u>Closing balance</u>			<u>Opening balance</u>		
	<u>Balance</u> RMB	<u>Provision</u> RMB	<u>Net carrying amount</u> RMB	<u>Balance</u> RMB	<u>Provision</u> RMB	<u>Net carrying amount</u> RMB
Raw material	66,881,090	-	66,881,090	72,011,633	-	72,011,633
Work in progress	1,568,230,851	-	1,568,230,851	1,253,218,347	-	1,253,218,347
Finished goods	864,097,497	(25,595,392)	838,502,105	944,806,516	(21,426,756)	923,379,760
	<u>2,499,209,438</u>	<u>(25,595,392)</u>	<u>2,473,614,046</u>	<u>2,270,036,496</u>	<u>(21,426,756)</u>	<u>2,248,609,740</u>

(2) Inventory provision

	<u>Opening balance</u> RMB	<u>Recognized</u> RMB	<u>Reversal</u> RMB	<u>Written off</u> RMB	<u>Closing balance</u> RMB
Provision for decline in value of inventories	<u>21,426,756</u>	<u>8,215,578</u>	<u>(276,830)</u>	<u>(3,770,112)</u>	<u>25,595,392</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

8. Non-current assets held for sale

	<u>Closing balance</u> RMB	<u>Fair value</u> RMB	<u>Expected disposal fees</u> RMB	<u>Expected disposal time</u>
Zhen Shan Tun Department	2,000,197	16,282,224	3,878,560	2018年

Note: The Company has signed an irrevocable agreement for disposal of fixed assets, with the amount of RMB 16,282,224. Because the property rights hadn't been changed, the disposal didn't finish by the end of 2017, and the disposal is expected to be completed by 2018.

9. Other current assets

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Prepaid taxes	22,911,298	26,238,092
Pending deduct VAT on purchase	206,529,504	135,316,274
Prepaid rent	1,381,957	7,967,876
	<u>230,822,759</u>	<u>169,522,242</u>

10. Available-for-sale financial assets

(1) Available-for-sale financial assets

	<u>Closing balance</u>			<u>Opening balance</u>		
	<u>Amount</u> RMB	<u>Impairment</u> RMB	<u>Carrying amount</u> RMB	<u>Amount</u> RMB	<u>Impairment</u> RMB	<u>Carrying amount</u> RMB
Available-for-sale equity instruments measured at cost	467,251	-	467,251	10,340,263	(10,000,000)	340,263

(2) Available-for-sale financial assets measured at cost

Investee	<u>Carrying amount</u>				<u>Provision for impairment losses</u>				Proportion of voting power in the investee (%)	Cash dividend for the period
	<u>Opening</u> RMB	<u>Increase</u> RMB	<u>Decrease</u>	<u>Closing</u> RMB	<u>Opening</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing</u> RMB		
Yantai Ding Tao Construction and Development Co., Ltd (Note 1).										
Other(Note 2)	10,000,000	-	(10,000,000)	-	10,000,000	-	(10,000,000)	-	18.0	-
Investee	340,263	129,216	(2,228)	467,251	-	-	-	-	Less than 1%	-
	<u>10,340,263</u>	<u>129,216</u>	<u>(10,002,228)</u>	<u>467,251</u>	<u>10,000,000</u>	<u>-</u>	<u>(10,000,000)</u>	<u>-</u>		

Note 1: An impairment provision amounting to RMB 10,000,000 has been made by the Company for the balance of the carrying amount of the equity investment in Yantai Dingtao Construction and Development Co., Ltd, the fair value of the investee which is an unlisted company cannot be measured reliably, the Company measured such available-for-sale financial asset at cost. The Company has accrued the impairment of RMB 10,000,000 in the previous year, and the Company write off the equity investment this year.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

10. Available-for-sale financial assets - continued

(2) Available-for-sale financial assets measured at cost - continued

Note 2: The Group holding equity ratios of investment companies are less than 1%. Investment companies are all unlisted companies, and their fair value cannot be measured reliably, therefore, the Group uses cost method to measure these available-for-sale financial assets.

11. Investment properties

Investment properties measured by cost method

	<u>Buildings</u> RMB
I. Total original carrying amount	
1. Opening balance	-
2. Increase	
Transfer from fixed assets	<u>38,347,283</u>
3. Closing balance	<u>38,347,283</u>
II. Total accumulated depreciation	
1. Opening balance	-
2. Increase	
(1) Transfer from fixed assets	19,288,684
(2) Additions	<u>590,610</u>
3. Closing balance	<u>19,879,294</u>
III. Total carrying amount	
1. Closing carrying amount	<u>18,467,989</u>
2. Opening carrying amount	<u>-</u>

As at 1 July 2017, the Group changed the own used properties to rent, from then the fixed assets recognized as investment properties measured by cost method.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

12. Fixed assets

(1) Details of fixed assets

	<u>Buildings</u> RMB	<u>Machinery</u> RMB	<u>Motor Vehicles</u> RMB	<u>Total</u> RMB
I. Total original carrying amount				
1. Opening balance	3,956,177,208	1,969,135,575	29,329,141	5,954,641,924
2. Increase				
(1)Purchase	8,762,218	36,809,492	2,867,768	48,439,478
(2)Transfer from CIP	545,584,623	239,819,904	105,602	785,510,129
(3)Acquisition increase (VII-1)	37,209,412	51,877,050	-	89,086,462
3. Decrease				
(1) Disposal	(517,494)	(50,291,728)	(3,613,096)	(54,422,318)
(2) Transfer to Investment properties (VI-11)	(38,347,283)	-	-	(38,347,283)
4. Closing balance	<u>4,508,868,684</u>	<u>2,247,350,293</u>	<u>28,689,415</u>	<u>6,784,908,392</u>
II. Total accumulated depreciation				
1. Opening balance	410,161,600	840,158,129	21,134,702	1,271,454,431
2. Increase				
(1)Additions	122,262,189	125,609,728	2,392,486	250,264,403
3. Decrease				
(1) Disposal	(491,619)	(42,823,337)	(3,290,771)	(46,605,727)
(2)Transfer to Investment properties (VI-11)	(19,288,684)	-	-	(19,288,684)
4. Closing balance	<u>512,643,486</u>	<u>922,944,520</u>	<u>20,236,417</u>	<u>1,455,824,423</u>
III. Total carrying amount				
1. Closing carrying amount	<u>3,996,225,198</u>	<u>1,324,405,773</u>	<u>8,452,998</u>	<u>5,329,083,969</u>
2. Opening carrying amount	<u>3,546,015,608</u>	<u>1,128,977,446</u>	<u>8,194,439</u>	<u>4,683,187,493</u>

As at 31 December 2017, fixed assets with ownership restricted are RMB 145,009,923 (31 December 2016: RMB 68,658,094). Please refer to Notes VI-50 in detail.

As at 31 December 2017, Classified as available for sale assets are RMB 2,000,197 (31 December 2016: RMB 2,000,197), there was no temporary idle fixed assets, no fixed assets acquired under finance leases, at the end of the period.

(2) Fixed assets through operating lease

	<u>Amount</u> RMB
Machinery	<u>265,471</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

12. Fixed assets - continued

(3) Fixed assets of which certificates of title have not been obtained

As at 31 December 2016, buildings without property certificate are as follows:

	<u>Amount</u> RMB	<u>Reasons why certificates of title have not been obtained</u>
Research and Development Co, Ltd		
Industry Production Centre	1,643,057,463	Processing
Changan Chateau Dormitory building, main building	357,956,446	Processing
Beijing Chateau European town, main, service building	193,321,864	Processing
Ding Luo Te Chateau main building	86,444,831	Processing
Xinjiang Tianzhu fermentations and storage warehouse	18,413,198	Processing
Ice Wine Chateau office building and packing workshop	9,506,188	Processing
Jingyang factory fermentation building	4,481,717	Processing
Fermentation centre office, experiment building and workshop	3,824,105	Processing
Kylin Packaging finished goods warehouse and workshop	2,487,528	Processing
Sales Company office buildings	2,045,603	Processing
	<u>2,321,538,943</u>	

- (4) By the end of 31 December 2017, some subsidiaries of the Company are sustained loss and the cash flow from operating activities are net out and the related assets existed an indication of impairment. As at 31 December 2017, the book values of fixed assets, which exists an indication of impairment, are RMB 928,058,429. The management performs impairment testing for fixed assets, which exists an indication of impairment, of the above subsidiaries based on the assets belonged group of assets. The recoverable amount of the group of assets is determined by the present value of its future cash flows. Future cash flow projections are made based on the recently financial budgets for the future 5 years period (projecting period) and the projecting period (subsequent period) of 15 years, which are prepared by the management. Discount rate used in calculating the use value of the group of assets in future is 12.6%. Other key assumptions include the result of operations' forecast of the projecting period, which was estimated according to such subsidiaries' growth rate of sales, average gross rate, other operating expenses based on historical experience and future trends. The management believes that any reasonable change of the above assumptions will not result in the total book value of fixed assets of those subsidiaries exceeding its recoverable amount. By the end of 31 December 2017, the management believes there is no impairment loss on those fixed assets of the Group.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

13. Construction in progress

(1) Construction in progress:

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
R&D Centre ("Changyu Wine integrational Construction") Project	883,731,540	1,227,968,480
Xiayang Chateau Construction Project	53,290,036	10,346,598
Ningxia Chateau Construction Project	35,711,269	36,717,169
Shihezi Chateau Construction Project	25,463,724	30,600,684
Sales Company construction project	11,355,685	26,011,600
Ding Luo Te Chateau Project	5,819,246	4,871,422
Other companies construction Project	10,770,069	9,765,784
	<u>1,026,141,569</u>	<u>1,346,281,737</u>

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

13. Construction in progress- continued

(2) Changes in significant construction in progress:

	<u>Budge</u> RMB	<u>Opening balance</u> RMB	<u>Addition</u> RMB	<u>Transfer to</u> <u>PPE</u> RMB	<u>Transfer to</u> <u>intangible</u> <u>assets</u> RMB	<u>Transfer to</u> <u>Lone-term</u> <u>prepaid</u> <u>expense</u> RMB	<u>Closing</u> <u>balance</u> RMB	<u>Status</u> <u>Status</u>	<u>Total accumulat</u> <u>Capitalizing</u> <u>interest</u> RMB	<u>Capitalizing</u> <u>interest</u> <u>for this period</u> RMB	<u>Interest</u> <u>capitalizat</u> <u>ion</u> <u>rate</u> %	<u>Financed by</u>
Changyu Wine integrational Construction"	4,505,780,000	1,227,968,480	425,697,814	(689,475,320)	-	(80,459,434)	883,731,540	71.6	8,427,965	6,138,242	1.2&&4.3	Loans from financial institutions and Self-raised
Changan Chateau Construction Project	620,740,000	10,346,598	73,012,018	(30,068,580)	-	-	53,290,036	106.8	-	-	-	Self-raised
Shihezi Chateau Construction Project	780,000,000	30,600,684	27,980,421	(33,117,381)	-	-	25,463,724	91.5	-	-	-	Self-raised
Sales Company construction project	161,350,000	26,011,600	5,486,264	-	(20,142,179)	-	11,355,685	93.4	-	-	-	Self-raised
Ningxia Chateau Construction Project	414,150,000	36,717,169	15,097,212	(16,103,112)	-	-	35,711,269	98.6	-	-	-	Self-raised
Ding Luo Te Chateau project	192,400,000	4,871,422	1,212,824	(265,000)	-	-	5,819,246	96.3	-	-	-	Self-raised
		<u>1,336,515,953</u>	<u>548,486,553</u>	<u>(769,029,393)</u>	<u>(20,142,179)</u>	<u>(80,459,434)</u>	<u>1,015,371,500</u>		<u>8,427,965</u>	<u>6,138,242</u>		

The interest capitalized in construction in progress is RMB 6,138,242 in 2017(2016: RMB 2,289,723).

- (3) By the end of 31 December 2017, some subsidiaries of the Company are sustained loss and the cash flow from operating activities are net out and the related assets existed an indication of impairment. As at 31 December 2017, the book values of construction in progress ("CIP"), which exists an indication of impairment, are RMB 89,001,307. The management performs impairment testing for CIP, which exists an indication of impairment, of the above subsidiaries based on the assets belonged group of assets. The key assumptions used by the management during the assessment refer to Note VI-12. By the end of 31 December 2017, the management believes there is no impairment loss on those CIP of the Group.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

14. Bearer biological assets

Bearer biological assets are Vines, which measured in cost method

	<u>Immature biological assets</u> RMB	<u>Mature biological assets</u> RMB	<u>Total</u> RMB
I. Total original carrying amount			
1. Opening balance	77,841,960	141,208,504	219,050,464
2. Increase			
(1) Cultivated increase	9,248,294	-	9,248,294
(2) Acquisition increase (VII-1)	-	1,413,595	1,413,595
(3) Transfer to mature assets from immature assets	<u>(74,915,254)</u>	<u>74,915,254</u>	<u>-</u>
3. Closing balance	<u>12,175,000</u>	<u>217,537,353</u>	<u>229,712,353</u>
II. Total accumulated depreciation			
1. Opening balance	-	17,621,484	17,621,484
2. Increase			
(1) Additions	<u>-</u>	<u>10,160,981</u>	<u>10,160,981</u>
3. Closing balance	<u>-</u>	<u>27,782,465</u>	<u>27,782,465</u>
III. Total net carrying amount			
1. Closing net carrying amount	<u>12,175,000</u>	<u>189,754,888</u>	<u>201,929,888</u>
2. Opening net carrying amount	<u>77,841,960</u>	<u>123,587,020</u>	<u>201,428,980</u>

As at 31 December 2017, there is no biological asset with ownership restricted. (31 December 2016: Nil)

As at 31 December 2017, there is no indication that biological assets may be impaired, and no provision is made. (31 December 2016: Nil)

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

15. Intangible assets

(1) Intangible assets

	<u>Land use rights</u> RMB	<u>Software use rights</u> RMB	<u>Trademark</u> RMB	<u>Total</u> RMB
I. Total original carrying amount				
1. Opening balance	491,490,069	52,435,669	15,442,065	559,367,803
2. Increase				
(1)Purchase	4,284,653	330,511	369,910	4,985,074
(2) Transfer from CIP	-	20,142,179	-	20,142,179
(3)Acquisition increase(VII-1)	25,956,417	758,395	143,890,533	170,605,345
3. Closing balance	<u>521,731,139</u>	<u>73,666,754</u>	<u>159,702,508</u>	<u>755,100,401</u>
II. Total accumulated depreciation				
1. Opening balance	56,803,430	12,548,283	6,201,010	75,552,723
2. Increase				
(1) Additions	10,744,342	8,968,458	4,385,981	24,098,781
3. Closing balance	<u>67,547,772</u>	<u>21,516,741</u>	<u>10,586,991</u>	<u>99,651,504</u>
III. Total carrying amount				
1. Closing carrying amount	<u>454,183,367</u>	<u>52,150,013</u>	<u>149,115,517</u>	<u>655,448,897</u>
2. Opening carrying amount	<u>434,686,639</u>	<u>39,887,386</u>	<u>9,241,055</u>	<u>483,815,080</u>

(2) Land use right's location and years are as follows:

Item	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
In the PRC(within 50 years)	428,226,950	434,686,639
Out of the PRC (more than 50 years)	25,956,417	-
	<u>454,183,367</u>	<u>434,686,639</u>

As at 31 December 2017, land use right with infinite useful lives of the Group, which is a permanent ownership and holds by the Indomita Wine according to the relatively Chilean law is RMB 25,956,417 (31 December 2016: Nil), therefore there is no amortization.

By the end of 31 December 2017, trademark with infinite useful lives of the Group is RMB 143,890,533 (31 December 2016: Nil), which is held by the Indomita Wine. The recoverable amount of trademark is determined based on the present value of the expected future cash flows generated by group of assets owns by individual trademark. Future cash flow projections are made based on the recently financial budgets for the future 5 years period (projecting period) and presume that cash flows after the projecting period (subsequent period). Discount rate used in calculating the recoverable amounts is 9.6%. One key assumption in projecting future cash flows is the growth rate in projecting period, which is computed based on the expected growth rate of the industry and Indomita Wine. Growth rate of sales in subsequent period are 3%. The Group recognizes the trademark with infinite useful lives as intangible assets, the impairment assessment of which is made at the end of each reporting year.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

15. Intangible assets - continued

The management believes that any reasonable change of the above assumptions will not result in the total book value of fixed assets of those subsidiaries exceeding its recoverable amount.

According to the result of impairment assessment, by the end of 31 December 2017, the management believes there is no impairment loss on those trademark with infinite useful lives of the Group.

As at 31 December 2017, the intangible asset with restricted ownership is RMB 164,051,996(December 31, 2016:RMB 145,937,719), Please refer to Note VI-50 in detail.

16. Goodwill

<u>Investee</u>	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Etablissements Roulet Fransac (“Fransac Sales”)	13,112,525	-	-	13,112,525
Dicot Partners, S.L (“Dicot”)	92,391,901	-	-	92,391,901
Societe Civile Agricole Du Chateau De Mirefleurs (“Mirefleurs”)	15,761,440	-	-	15,761,440
Indomita Wine	-	6,870,115	-	6,870,115
Total	<u>121,265,866</u>	<u>6,870,115</u>	<u>-</u>	<u>128,135,981</u>

The Group acquired Fransac Sales, Dicot and Mirefleurs and Chile Indomita Wine Group in December 2013, September 2015 January 2016 and January 2017 respectively, resulting in respective goodwill amounting to RMB 13,112,525,RMB 92,391,901, RMB 15,761,440 and RMB 6,870,115, which have been allocated to corresponding asset groups for impairment testing.

The recoverable amount of the group of assets is determined by the present value of its future cash flows. Future cash flow projections are made based on the recently financial budgets for the future 5 years period (projecting period) and presume that cash flows after the projecting period (subsequent period). Discount rate used in calculating the recoverable amounts of Fransac Sales, Dicot Mirefleurs and Indomita Wine are 10.3%, 8.5% ,10.3% and9.6% (2016:10.3%,8.5%,10.3%,N/A) respectively. One key assumption in projecting future cash flows is the growth rate of sales in projecting period, which is computed based on the expected growth rate of the industry and each group of assets. Growth rate of sales in subsequent period of Fransac Sales, Dicot, Mirefleurs and Indomita Wine is 2%, 2%, 2% and 3% (2016: 2%, 2%, 2% and N/A) respectively. Management of the Group believes that any reasonable changes in the above assumptions will not cause book values of these subsidiaries exceeds their recoverable amounts.

According to the assessment, the Group believes that no impairment provision need to be made for goodwill in the reporting period.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

17. Long-term prepaid expenses

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Amortization</u> RMB	<u>Closing balance</u> RMB
Land lease prepayments	57,846,986	-	(1,481,601)	56,365,385
Land requisition fee	45,192,900	-	(1,216,864)	43,976,036
Greening fee	54,460,971	80,459,434	(9,292,071)	125,628,334
Leasehold improvement	1,091,579	244,847	(463,163)	873,263
Others	3,613,793	1,010,302	(1,457,882)	3,166,213
	<u>162,206,229</u>	<u>81,714,583</u>	<u>(13,911,581)</u>	<u>230,009,231</u>

Note: Greening fee for the period increased due to RMB 80,459,434 transfer from CIP. Please refer to Notes VI-13 in detail.

18. Deferred tax assets/liabilities

Deferred tax assets and deferred tax liabilities are not related to income tax of the same tax authorities of the same tax subjects, thus not presented with the net amount after netting.

(1) Deferred tax assets:

	<u>Closing balance</u>		<u>Opening balance</u>	
	<u>Temporary differences</u> RMB	<u>Deferred tax assets</u> RMB	<u>Temporary differences</u> RMB	<u>Deferred tax assets</u> RMB
Unrealized profit from intra - company transactions	618,591,681	154,647,920	676,375,006	169,093,751
Unpaid bonus	94,462,722	23,671,611	154,895,784	38,723,946
Retirement benefit	27,980,857	6,995,214	13,115,948	3,278,987
Asset impairment provision	25,595,392	6,398,848	31,426,756	7,856,689
Deductible losses	345,639,059	88,584,337	176,273,380	44,068,345
Deferred income	109,797,054	24,285,203	112,939,126	25,230,521
Assets impairment loss	684,622	184,848	-	-
Accrued rebate	13,413,655	3,353,415	30,739,192	7,684,798
	<u>1,236,165,042</u>	<u>308,121,396</u>	<u>1,195,765,192</u>	<u>295,937,037</u>

(2) Deferred tax liabilities

<u>Item</u>	<u>Closing balance</u>		<u>Opening balance</u>	
	<u>Taxable temporary difference</u> RMB	<u>Deferred tax liability</u> RMB	<u>Taxable temporary difference</u> RMB	<u>Deferred tax liability</u> RMB
Revaluation surplus in business combination not under common control	89,316,823	24,264,203	90,877,162	24,908,410

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

18. Deferred tax assets/liabilities - continued

(3) Deferred tax assets and liabilities not recognized

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Deductible losses	<u>150,320,039</u>	<u>135,957,252</u>

(4) Deductible losses not recognized as deferred tax assets will expire in:

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
2019	7,311,273	7,311,273
2020	45,960,766	45,960,766
2021	82,685,213	82,685,213
2022	<u>14,362,787</u>	<u>-</u>
	<u>150,320,039</u>	<u>135,957,252</u>

19. Other non-current assets

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Receivable from transfer of biological assets	<u>-</u>	<u>17,352,239</u>

20. Short-term borrowings

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Credit loans	648,494,624	631,655,938
Mortgaged loans	<u>65,939,662</u>	<u>30,732,944</u>
	<u>714,434,286</u>	<u>662,388,882</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

20. Short-term borrowings - continued

As at 31 December 2017, short-term borrowings detail were as follows:

	<u>Loans amount</u>	<u>Exchange rate</u>	<u>RMB</u>	<u>Nature of interest</u>	<u>Interest rate in contract</u> %	<u>Year ended Interest rate</u> %
Credit loans (RMB)	600,000,000	1.0000	600,000,000	Floating	1 year LPR- 0.39(Note 1)	3.92
Credit loans (EUR))	991,759	7.8023	7,738,003	Fixed	1.00~4.42	1.00~4.42
Credit loans (EUR)	198,841	7.8023	1,551,421	Floating	2.10 + Euribor(Note 2)	1.77
Credit loans (USD)	6,000,000	6.5342	39,205,200	Fixed	3.00	3.00
Mortgaged loans (EUR)	5,938,898	7.8023	46,337,062	Fixed	0.50~0.95	0.50~0.95
Mortgaged loans (USD)	3,000,000	6.5342	19,602,600	Fixed	3.50~3.64	3.50~3.64
			714,434,286			

Note 1:LPR is the basic interest rate of the People's Bank of China.

Note 2:Euribor is Euro Interbank Offered Rate

As at 31 December 2017, mortgaged loans were Hacienda y Vinedos Marques del Atrio, S.L.U ("Atrio ") factoring of accounts receivable from Banco de Sabadell, S.A. etc. EUR 5,938,898 (translated as RMB 46,337,062)(31 December 2016:RMB 30,732,944). Mortgaged loans were Indomita Wine mortgaged Peso 3,242,627,000 (translated as RMB 34,390,191) fixed assets from BBVA bank USD 3,000,000(translated as RMB 19,602,600)(December 31, 2016:Nil)

21. Notes payable

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Bank acceptances	-	38,900,000

As at 31 December 2017, there is no due notes payable unpaid (31 December 2016: Nil).

22. Accounts payable

The aging analysis of accounts payable are as follows

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Within 1 year	664,020,176	544,128,280
1 to 2 years	2,051,592	1,103,039
2 to 3 years	371,111	-
	666,442,879	545,231,319

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

23. Advances from customers

The aging analysis of advances from customers are as follows

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Within 1 year	340,025,690	419,382,071
1 to 2 years	7,072,254	2,046,166
2 to 3 years	381,463	108,748
Over 3 years	3,414,749	3,709,436
	<u>350,894,156</u>	<u>425,246,421</u>

24. Employee benefits payable

(1) Employee benefits payable as follows:

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Short-term payroll	193,300,619	439,517,529	(450,272,864)	182,545,284
Post-demission benefits				
- predetermined provision plan	15,167	49,975,671	(49,692,745)	298,093
Termination benefits	<u>13,115,948</u>	<u>27,677,115</u>	<u>(12,812,206)</u>	<u>27,980,857</u>
	<u>206,431,734</u>	<u>517,170,315</u>	<u>(512,777,815)</u>	<u>210,824,234</u>

(2) Employee benefits payable:

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Salaries and bonus	197,486,176	390,256,786	(402,728,644)	185,014,318
Staff benefit	622,735	14,139,321	(12,645,581)	2,116,475
Staff welfare	257,249	20,336,922	(20,069,855)	524,316
Includes:				
Medical insurance	257,249	18,018,716	(17,751,649)	524,316
Injury insurance	-	1,499,042	(1,499,042)	-
Maternity insurance	-	819,164	(819,164)	-
Housing fund	37,672	10,993,230	(10,991,646)	39,256
Union fee and education fee	<u>2,593,009</u>	<u>3,304,360</u>	<u>(3,837,138)</u>	<u>2,060,231</u>
Total	<u>200,996,841</u>	<u>439,030,619</u>	<u>(450,272,864)</u>	<u>189,754,596</u>
Less: Non-current liabilities	<u>7,696,222</u>			<u>7,209,312</u>
Short-term payroll	<u>193,300,619</u>			<u>182,545,284</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

24. Employee benefits payable - continued

(3) Predetermined provision plan

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Pension	14,978	48,834,066	(48,551,453)	297,591
Unemployment insurance	189	1,141,605	(1,141,292)	502
	<u>15,167</u>	<u>49,975,671</u>	<u>(49,692,745)</u>	<u>298,093</u>

The Group participates in pension insurance and unemployment insurance plans established by government institution. According to those plans, the Group pays pension and unemployment insurance each month on the basis of 12%-32% and 0.5%-3% last period salary respectively. Apart from these monthly expenses, the Group does not bear any further payment obligation. This year the Group should pay RMB 48,834,066 and RMB 1,141,605 (2016: RMB 38,404,278 and RMB 1,663,062) respectively into pension insurance and unemployment insurance. As at 31 December 2017, the Group has unpaid pension and unemployment insurance of RMB 297,591 and RMB 502 respectively (31 December 2016: RMB 14,978 and RMB 189), which is due to the pension insurance and unemployment insurance plan at the end of the reporting period. These payments have been paid after the end of the reporting period.

25. Taxes payable

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Value added tax	35,681,696	23,496,328
Consumption tax	44,961,022	30,361,471
Corporation income tax	38,834,293	69,388,730
Urban land use tax	2,645,687	2,651,262
Individual income tax	7,805,917	7,811,301
City construction tax	5,669,280	4,248,115
Property tax	4,647,644	1,071,223
Others	4,848,617	5,014,170
	<u>145,094,156</u>	<u>144,042,600</u>

26. Deferred income

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Government grants		
Current liabilities	16,878,199	11,163,883
Non-current liabilities	92,918,855	101,775,243
	<u>109,797,054</u>	<u>112,939,126</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

26. Deferred income - continued

Government grants:

	Opening	Addition	Recognized in non-operating income /other income	Closing	Related to Assets/Income
	RMB	RMB	RMB	RMB	RMB
Wine base liquor brewage project	6,174,300	-	(1,434,900)	4,739,400	Assets
Shihezi chateau project funds	11,556,600	-	(2,280,000)	9,276,600	Assets
Xinjiang Industrial Rejuvenation and Technological Reconstruction Project	18,486,000	-	(1,422,000)	17,064,000	Assets
Special support for infrastructure facilities	-	5,300,000	-	5,300,000	Assets
Ningxia industry revitalization and technology reconstruction funds	4,381,000	-	(3,295,000)	1,086,000	Assets
Wine grape subsidies	376,000	-	(376,000)	-	Income
Modern agriculture grape production development subsidies	259,200	-	(259,200)	-	Income
Tourism Promotion Project	-	600,000	(600,000)	-	Income
Modern service industry special	-	500,000	(500,000)	-	Income
Tourism Development Fund Subsidy Project	-	500,000	-	500,000	Income
Marketing reward	-	500,000	(500,000)	-	Income
Support enterprise development special funds	-	10,200,000	-	10,200,000	Income
(Huanren) wine production construction funds	4,000,000	-	(400,000)	3,600,000	Assets
Wine electronic tracking system specific funds	3,859,365	-	(667,054)	3,192,311	Assets
Miyun Propaganda Department transfer	1,777,890	-	(888,945)	888,945	Assets
Wine industry specific funds	930,000	-	(186,000)	744,000	Assets
Shandong Peninsula Blue Economic Area construction funds	10,000,000	-	(2,000,000)	8,000,000	Assets
863 Program subsidy funds for scientific research	343,090	-	(343,090)	-	Income
Information system construction project technology funds	4,060,000	-	(580,000)	3,480,000	Assets
Integration projects subsidies	28,800	-	(28,800)	-	Income
Cross-border e-Business projects subsidies	1,485,797	-	(783,182)	702,615	Income
Red wine phenolics research projects funds	295,601	-	(11,000)	284,601	Income
Grape base construction project	1,040,000	-	(520,000)	520,000	Assets
Water pollution abatement project	133,733	300,000	(113,601)	320,132	Income
Infrastructure construction project	1,468,750	500,000	(125,000)	1,843,750	Assets
Industrial development support project	41,000,000	-	(4,100,000)	36,900,000	Assets
Subsidy for updating of economic and energy-saving technology	1,283,000	-	(128,300)	1,154,700	Assets
Total	112,939,126	18,400,000	(21,542,072)	109,797,054	
Less: Non-current liabilities due within one year	11,163,883			16,878,199	
Other non-current liabilities	101,775,243			92,918,855	

As at 31 December 2017, the Group recognise current liability for deferred income to be accounted in profit or loss within one year, and recognise non-current liability for deferred income to be accounted in profit or loss over one year.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

27. Other payables

(1) Natures of other payables are as follows

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Payable to dealer deposit	139,710,963	128,539,352
Payables for equipment and construction	130,706,777	77,261,072
Payables for transportation	27,847,092	36,690,764
Royalty fee	77,208,929	78,572,540
Advertising costs	118,834,960	79,414,075
Withholding promotion costs	13,413,655	30,739,192
Capital increment from minority interest	-	29,847,320
Employee deposit	13,327,132	16,296,186
Deposits from suppliers	3,082,595	2,206,379
Payables for contracting fee	38,070,571	31,011,929
Others	40,761,645	35,726,501
	<u>602,964,319</u>	<u>546,305,310</u>

(2) Description of significant other payables aged more than one year

<u>Company</u>	<u>Amount</u> RMB	<u>Reasons</u>
Beijing Qinglang agriculture science and technology development limited company ("Beijing Qinglang")	16,461,930	Payables for contracting fee
Yantai De'an Investment Company Limited ("Yantai De'an")	6,708,174	Payables for contracting fee
	<u>23,170,104</u>	

28. Non-current liabilities due within one year

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Long-term borrowings due within one year	76,954,827	59,799,093
Long-term payables due within one year	34,000,000	12,000,000
	<u>110,954,827</u>	<u>71,799,093</u>

As at 31 December 2017, Long-term borrowings due within one year refers to Note VI-29, Long-term payables due within one year refers to Note VI-30.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

29. Long-term borrowings

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Credit loan	68,182,310	40,304,811
Mortgaged loan	6,693,544	8,835,744
Guaranteed loan	81,250,000	-
	<u>156,125,854</u>	<u>49,140,555</u>

As at 31 December 2017, loans detail is as follows:

	<u>Loans amount</u>	<u>Exchange rate</u>	<u>Amount</u> RMB	<u>Nature</u> <u>of interest</u>	<u>Interest rate</u> %	<u>Year-end</u> <u>borrowing rate</u> %	<u>Due within</u> <u>one year</u>	<u>Due over</u> <u>one year</u>
Guaranteed loan (RMB) (Note)	100,000,000	1.0000	100,000,000	Floating	5 year LPR- 0.9	4.28	18,750,000	81,250,000
Credit loan (EUR)	15,838,703	7.8023	123,578,309	Fixed	1.00-2.53	1.00-2.53	55,395,999	68,182,310
Mortgaged loan (EUR)(Note)	1,217,894	7.8023	9,502,372	Fixed	1.80	1.80	2,808,828	6,693,544
			<u>233,080,681</u>				<u>76,954,827</u>	<u>156,125,854</u>

Note: As at 31 December 2017, The secured loan is the long-term loan borrowed by the company for R&D Centre credit guarantee, RMB 100,000,000 (31 December 2016: Nil), mortgaged loans were Atrio using fixed assets EUR 4,264,170 (translated as RMB 33,270,334) as collateral for loans from Popular Español, EUR 1,217,894 (translated as RMB 9,502,372), (31 December 2016: RMB 27,517,168).

30. Long-term payables

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Agricultural Development Fund of China("CADF")	<u>259,000,000</u>	<u>293,000,000</u>

In 2016, RMB 305,000,000 from CADF was invested in R&D Centre, CADF accounted for 37.9% of the registered capital. According to the investment agreement, CADF will recovery investment funds over 10 years, the investment income received equal to 1.2% of the remaining unpaid principal per annum. In addition to the fixed income, CADF will no longer enjoy other profits or bear the loss of R&D Centre .Therefore although the investment in R&D Centre, nominally equity investment, is actually a debt investment(Financial discount loan). The group take this investment as long-term payables, which measured in amortized cost. The Group repays the principal of RMB12,000,000 in 2017. Refer to Note VI-50 for details of mortgaged and pledged assets.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

30. Long-term payables - continued

<u>Long-term payables</u> RMB	<u>Yield rate</u>	<u>Investment date</u>	<u>Termination date</u> <u>of repayment</u>	<u>Due within 1 year</u> RMB	<u>Due after 1 year</u> RMB	<u>Mortgaged and pledged assets</u>
77,000,000	1.2%	12 January 2016	24 December 2025	10,000,000	67,000,000	Cash and bank and intangible assets
198,000,000	1.2%	29 February 2016	28 February 2026	22,000,000	176,000,000	Cash and bank fixed assets and intangible assets
<u>18,000,000</u>	1.2%	16 June 2016	22 May 2026	<u>2,000,000</u>	<u>16,000,000</u>	Cash and bank
<u>293,000,000</u>				<u>34,000,000</u>	<u>259,000,000</u>	

31. Other non-current liabilities

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Employee benefit	<u>7,209,312</u>	<u>7,696,222</u>

As at 31 December 2017, employee benefit represents deposit from bonus accrued for managers and above. According to the bonus payment schedule of 2017, the bonus is expected to be paid during 2019 to 2021.

32. Share capital

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Unrestricted shares				
A shares	453,460,800	-	-	453,460,800
B shares	<u>232,003,200</u>	<u>-</u>	<u>-</u>	<u>232,003,200</u>
Total of unrestricted shares and total shares	<u>685,464,000</u>	<u>-</u>	<u>-</u>	<u>685,464,000</u>

33. Capital reserve

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Share premium	560,038,853	-	-	560,038,853
Other	<u>5,916,588</u>	<u>-</u>	<u>-</u>	<u>5,916,588</u>
Total	<u>565,955,441</u>	<u>-</u>	<u>-</u>	<u>565,955,441</u>

34. Other comprehensive income

<u>2017</u>	<u>2017</u>						<u>Closing balance</u>
	<u>Opening balance</u>	<u>Before-tax</u> <u>amount</u>	<u>Less: last year other</u> <u>comprehensive income</u> <u>in P/L current year</u>	<u>Less:</u> <u>tax expense</u>	<u>Post-tax</u> <u>attributable</u> <u>to parent</u>	<u>Post-tax</u> <u>attributable</u> <u>to NCI</u>	
Other comprehensive income to be reclassified to profit and loss	(5,259,014)	9,863,872	-	-	8,368,254	1,495,618	3,109,240
Foreign currency statement translation difference	<u>(5,259,014)</u>	<u>9,863,872</u>	<u>-</u>	<u>-</u>	<u>8,368,254</u>	<u>1,495,618</u>	<u>3,109,240</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

35. Surplus reserve

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Statutory surplus reserve	342,732,000	-	-	342,732,000

In accordance with the Company Law of the People's Republic of China and the Articles of Association of the Company, the Company is required to appropriate 10% of the net profit to the statutory surplus reserve until the accumulated balance of the statutory surplus reserve reaches 50% of the registered share capital. The Company does not appropriate net profit to the surplus reserve in 2017.

The Company can appropriate discretionary surplus reserve after appropriation of the statutory surplus reserve. Discretionary surplus reserve can be utilized to offset the deficit or increase the share capital after approval.

36. Retained earnings

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Retained earnings brought forward	6,620,118,562	5,980,390,074
Profit attributable to shareholders of the Company	1,031,695,056	982,460,488
Less: Dividends paid in respect prior year's profit	<u>(342,732,000)</u>	<u>(342,732,000)</u>
Retained earnings carried forward	<u>7,309,081,618</u>	<u>6,620,118,562</u>

(1) Appropriation to surplus reserve by subsidiaries

As at 31 December 2017, the balance of the Group's unappropriated profits include appropriation to surplus reserve by subsidiaries amounting to RMB 51,994,942 (31 December 2016: RMB 71,360,640).

(2) Cash dividends approved by general meeting

According to the annual general meeting on 15 June 2017, dividends distribution plan has been made. On the basis of 685,464,000 issued share capital, RMB 5.0 (including taxes) for every 10 shares was distributed to shareholders, in total RMB 342,732,000 cash dividends.

(3) Profit distribution decided after the balance sheet date

According to a proposal of the board of directors approved on 19 April 2018, on the basis of 685,464,000 issued shares in 2017, cash dividends of RMB 5.0 (including taxes) for every 10 share will be distributed to all the shareholders. The aggregate amount of cash dividend is RMB 342,732,000. The above proposal regarding dividends distribution is yet to be approved in a shareholders' meeting.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

37. Operating income and costs

Operating income is analysed as follows:

	<u>2017</u> RMB	<u>2016</u> RMB
Principal operating income	4,856,168,699	4,646,909,704
Other operating income	76,376,530	70,686,768
	<u>4,932,545,229</u>	<u>4,717,596,472</u>

Operating cost is analysed as follows:

	<u>2017</u> RMB	<u>2016</u> RMB
Principal operating cost	1,645,690,616	1,552,022,043
Other operating cost	25,901,663	23,748,936
	<u>1,671,592,279</u>	<u>1,575,770,979</u>

The operating income for the Group is mainly from the sales of wine, brandy and sparkling wine. In 2017, Over 91% (2016: over 94%) of the sales generated in PRC.

38. Taxes and surcharges

	<u>2017</u> RMB	<u>2016</u> RMB
Consumption tax	177,879,324	161,411,393
Business Tax	-	1,358,414
City construction tax	52,247,915	46,375,109
Education fee and surcharges	35,831,575	33,975,886
Property tax	23,113,211	8,221,152
Land use tax	11,874,984	9,146,595
Stamp tax	3,945,731	2,659,421
Others	5,359,283	6,568,676
	<u>310,252,023</u>	<u>269,716,646</u>

For detail standards of tax rate please refer to Notes V.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

39. Selling expenses

	<u>2017</u> RMB	<u>2016</u> RMB
Advertising costs	560,533,714	536,552,061
Salary and employee benefit	272,148,620	258,845,366
Freight	139,218,637	135,375,515
Trademark fee	72,838,612	74,125,038
Warehouse leasing expenses	53,075,132	73,141,275
Depreciation cost	34,963,089	29,477,270
Labor fee	29,744,563	29,411,296
Travelling expenses	27,709,534	27,589,397
Water and electricity fee	11,247,163	8,160,610
Security and sanitation fee	9,020,885	4,244,698
Packing cost	7,163,930	5,651,814
Taxes	6,771,337	4,418,811
Office allowance	6,165,561	6,166,163
Business entertainment	4,403,750	3,871,778
Amortization of low-value consumables	4,028,573	2,039,574
Renovation costs	463,163	25,292,999
Others	33,026,180	28,897,003
	<u>1,272,522,443</u>	<u>1,253,260,668</u>

40. Administrative expense

	<u>2017</u> RMB	<u>2016</u> RMB
Salary and employee benefit	106,342,126	98,464,931
Depreciation	71,558,307	45,605,723
Contracting fee	21,162,623	20,635,049
Maintenance fee	21,665,024	18,625,443
Administrative expenses	22,173,925	15,829,574
Amortization	22,438,364	14,795,181
Rental fees	12,414,249	10,702,734
Service fee	12,118,257	5,194,426
Greening fee	10,667,941	11,509,618
Security and sanitation fee	6,317,723	5,889,095
Entertainment fee	5,470,001	7,253,858
Travelling expenses	4,747,256	4,961,661
Other taxes	288,907	10,169,607
Fire charge	-	10,923,600
Others	23,417,255	29,223,048
	<u>340,781,958</u>	<u>309,783,548</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

41.	Financial income			
		<u>2017</u>	<u>2016</u>	
		RMB	RMB	
	Interest income	(9,168,772)	(15,397,901)	
	Exchange loss (income)	(182,610)	7,632,532	
	Interest expenses	32,233,729	30,120,902	
	Less: Capitalization of interests	6,138,242	2,289,723	
	Bank charges	1,846,154	1,903,049	
		<u>18,590,259</u>	<u>21,968,859</u>	
42.	Impairment loss of assets			
		<u>2017</u>	<u>2016</u>	
		RMB	RMB	
	Inventory impairment	7,938,748	3,279,266	
	Impairment losses from other receivables	354,805	-	
		<u>8,293,553</u>	<u>3,279,266</u>	
43.	Other income			
		<u>2017</u>	<u>2016</u>	<u>Assets/income related</u>
		RMB	RMB	
	Industrial development support project	4,100,000	-	Assets
	Ningxia industry revitalization and			
	technology reconstruction funds	3,295,000	-	Assets
	Project funds	2,280,000	-	Assets
	Shandong Peninsula Blue Economic			
	Area construction funds	2,000,000	-	Assets
	Others	6,352,199	-	Assets
	Tax refund	17,765,560	-	Income
	Others	10,245,625	-	Income
		<u>46,038,384</u>	<u>-</u>	

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

44. Non-operation income

	<u>2017</u> RMB	<u>2016</u> RMB	Recognized in extraordinary profit and loss RMB
Government grants	1,600,000	49,130,643	1,600,000
Penalty income	7,993,571	2,617,684	7,993,571
Others	<u>7,637,156</u>	<u>3,265,987</u>	<u>7,637,156</u>
	<u>17,230,727</u>	<u>55,014,314</u>	<u>17,230,727</u>

Government grants recognized in the income statement is as follows:

	<u>2017</u> RMB	<u>2016</u> RMB	Assets/income related
Major projects support fund	-	7,040,888	Assets
Small and medium enterprises support fund	-	4,138,304	Assets
Tax refund	-	17,860,500	Income
Others	<u>1,600,000</u>	<u>20,090,951</u>	Income
	<u>1,600,000</u>	<u>49,130,643</u>	

45. Non-operation expenses

	<u>2017</u> RMB	<u>2016</u> RMB	Recognized in extraordinary profit and loss RMB
Compensation and penalty loss	347,528	618,190	347,528
Donation	294,899	305,080	294,899
Others	<u>989,049</u>	<u>303,429</u>	<u>989,049</u>
	<u>1,631,476</u>	<u>1,226,699</u>	<u>1,631,476</u>

46. Income tax

	<u>2017</u> RMB	<u>2016</u> RMB
Current income tax	330,784,002	360,001,766
Deferred income tax	<u>7,350,2433</u>	<u>(2,972,320)</u>
	<u>338,134,245</u>	<u>357,029,446</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

46. Income tax - continued

Reconciliation between income tax expenses and profits is as follows:

	<u>2017</u> RMB	<u>2016</u> RMB
Profit before tax	1,371,927,763	1,337,618,840
Income tax expense at statutory tax rate 25% (2016:25%)	342,981,941	334,404,710
Effect of different tax rates applied by certain subsidiaries	(9,459,223)	(7,350,239)
Impact of tax exemptions	(141,598)	-
Changes in opening balances of deferred tax liabilities due to tax rate adjustment	(1,342,916)	(1,992,564)
Unrecognised deductible loss	3,590,697	20,671,303
Utilisation of deductible losses which were not recognised previously	(6,157,735)	-
Reversal of recognized deductible losses	-	2,895,497
Non-deductible expenses	7,550,095	6,892,488
Others	1,112,984	1,508,251
Income tax expenses at the Group's effective tax rate	<u>338,134,245</u>	<u>357,029,446</u>

47. Basic and dilutive earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to ordinary shareholders of the Company during the year and the weighted average number of outstanding ordinary shares.

	<u>2017</u> RMB	<u>2016</u> RMB
Earnings		
Consolidated profit attributable to ordinary shareholders of the Company	<u>1,031,695,056</u>	<u>982,460,488</u>
Shares		
Weighted average number of outstanding ordinary shares	<u>685,464,000</u>	<u>685,464,000</u>
Basic earnings per share	<u>1.51</u>	<u>1.43</u>

The Company does not have potential dilutive ordinary shares.

From the balance sheet date to the date of approval of this report, there are no subsequent events which would affect the numbers of the weighted average number of outstanding of ordinary shares.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

48. Notes to consolidated cash flow statement

(1) Cash received relating to other operating activities:

	<u>2017</u> RMB	<u>2016</u> RMB
Government grants	20,930,752	19,347,985
Interest income	3,839,079	2,808,735
Penalty income	7,993,571	2,617,684
Refundable deposits of notes payable	46,900,000	38,130,000
Others	5,573,503	3,803,461
	<u>85,236,905</u>	<u>66,707,865</u>

(2) Cash paid relating to other operating activities:

	<u>2017</u> RMB	<u>2016</u> RMB
Selling expenses	956,902,163	942,936,949
General and administrative expenses	107,905,766	113,297,901
Refundable deposits of notes payable	8,000,000	47,030,000
Others	2,103,059	2,449,673
	<u>1,074,910,988</u>	<u>1,105,714,523</u>

(3) Cash paid for the purchase subsidiaries and other equity:

	<u>2017</u> RMB	<u>2016</u> RMB
Cash paid for acquisition of Indomita Wine	318,867,650	-
Less: cash and cash equivalents for Indomita Wine at acquisition date	15,071,107	-
Cash paid investment fund for Mirefleurs	-	3,540,923
Less: cash and cash equivalents for Mirefleurs at acquisition date	-	1,779
	<u>303,796,543</u>	<u>3,539,144</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

48. Notes to consolidated cash flow statement - continued

(4) Cash received relating to other financing activities:

	<u>2017</u> RMB	<u>2016</u> RMB
Pledged borrowing deposits and interest	-	135,584,347
Received government grants related to assets	5,800,000	43,783,000
R&D Centre long-term loan pledged time deposit	46,100,000	-
Interest income from restricted deposits of R&D Centre	<u>1,030,804</u>	<u>1,110,240</u>
	<u>52,930,804</u>	<u>180,477,587</u>

(5) Cash paid relating to other financing activities:

	<u>2017</u> RMB	<u>2016</u> RMB
R&D Centre long-term loan pledged time deposit	<u>61,700,000</u>	<u>20,000,000</u>

49. Supplementary information to consolidated cash flow statement

(1) Supplementary information to consolidated cash flow statement

	<u>2017</u> RMB	<u>2016</u> RMB
Cash flows from operating activities calculated by adjusting the net profit:		
Net profit	1,033,793,518	980,589,394
Add: Loss for impairment of assets	8,293,553	3,279,266
Depreciation of investment properties	590,610	-
Depreciation of fixed assets	250,264,403	197,779,010
Amortization of intangible assets	24,098,781	18,955,762
Amortization of biological assets	10,160,981	6,251,910
Amortization of long-term prepaid expenses	13,911,581	41,685,937
Loss(gains) on disposal of property plant and equipment	222,586	(14,719)
Finance expense	22,381,504	25,919,561
Decrease in deferred tax assets	13,315,979	6,469,619
Decrease in deferred tax liabilities	(5,965,736)	(9,441,939)
Decrease(increase) in inventories	(138,995,031)	18,897,985
Increase in operating receivables	(180,593,570)	(737,321,198)
Decrease(increase) in operating payables	<u>(78,236,132)</u>	<u>336,861,382</u>
Net cash flows from operating activities	<u>973,243,027</u>	<u>889,911,970</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

49. Supplementary information to consolidated cash flow statement- continued

(2) Significant investing and financing activities not involving cash receipts and payments.

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Payment of intangible assets and other long-term assets by bank acceptances	140,493,507	503,817,808

(3) Cash and cash equivalent

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Closing balance of cash and bank	1,402,522,509	1,391,517,607
Less:		
Restricted bank deposits	2,645,410	2,711,926
Restricted other monetary funds	123,987,825	128,863,377
Deposit with a period of over three months	95,000,000	3,000,000
Closing balance of cash and cash equivalents	1,180,889,274	1,256,942,304

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Cash	1,180,889,274	1,256,942,304
Including: Cash on hand	136,973	117,507
Bank deposits on demand	1,180,752,301	1,256,824,797
Closing balance of cash and cash equivalents	1,180,889,274	1,256,942,304

50. Assets with restriction of ownership

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Cash and bank	126,633,235	131,575,303
Account receivable	46,337,062	30,732,944
Fixed assets	145,009,923	68,658,094
Intangible assets	164,051,996	145,937,719

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

50. Assets with restriction of ownership - continued

As at 31 December 2017, cash and bank balances with restriction of ownership as follows:

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Pledged time deposits for R&D Centre	61,700,000	46,100,000
Refundable deposits of notes payable	-	38,900,000
Refundable deposits of letter of credit	57,946,190	25,694,735
Balance in Alipay account	4,317,635	18,118,441
The Company's housing fund	2,645,410	2,711,926
Margin for entity card	14,000	50,201
Deposit for ICBC platform	10,000	-
Total	<u>126,633,235</u>	<u>131,575,303</u>

Among the aforementioned items, the amount of RMB 4,317,635 which is the blocked balances of goods payment in Alipay account can be unlocked after 15 days.

As at 31 December 2017, the amount of accounts receivable with restricted ownership is EUR 5,938,898 (translated as RMB 46,337,062), which refers to accounts receivable Atrio conducted for factoring from Banco de Sabadell, S.A. etc.

As at 31 December 2017, fixed assets with restriction of ownership as follows:

Company	<u>Restricted reasons</u>	<u>Closing balance</u> RMB
The Company	Long-term payable collateral	36,349,289
Sales Company	Long-term payable collateral	41,000,106
Atrio	Long-term borrowings collateral	33,270,337
Indomita Wine	Short-term borrowings collateral	34,390,191
Total		<u>145,009,923</u>

As at 31 December 2017, Intangible assets with restriction of ownership as follows:

Company	<u>Restricted reasons</u>	<u>Closing balance</u> RMB
The Company	Long-term payable collateral	52,720,912
R&D Centre	Long-term payable collateral	111,331,084
Total		<u>164,051,996</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

51. Foreign monetary items

(1) Foreign monetary items

The foreign monetary items located within China are as follows:

	<u>Closing foreign currency balance</u>	<u>Exchange rate</u>	<u>Closing translated RMB balance</u>
Cash and bank			
EUR	127	7.8023	991
HKD	219	0.8359	183
USD	<u>4,458,159</u>	<u>6.5342</u>	<u>29,130,503</u>

(2) Overseas business entities

The Company's overseas subsidiaries determine bookkeeping currency based on the primary economic environment. The bookkeeping base currency of Atrio and Francs Champs Participations SAS ("Francs Champs") are all in Euro, and the bookkeeping base currency of Indomita Wine is Chilean peso. The foreign monetary assets and liabilities of the overseas subsidiaries are as follows:

	<u>Closing foreign currency balance</u>	<u>Exchange rate</u>	<u>Closing translated RMB balance</u>
Cash and bank			
EUR	152,451	7.8023	1,189,468
USD	874,394	6.5342	5,713,465
Short-term borrowings			
USD	<u>9,000,000</u>	<u>6.5342</u>	<u>58,807,800</u>

VII. CHANGE IN CONSOLIDATION SCOPE

1. Business combination under different control

(1) Business combination under different control in current period

Name of acquisition company	Equity acquisition date	Equity acquisition cost	Equity acquisition ratio (%)	Equity acquisition method	Acquisition date	Basis of acquisition date	Revenue from acquisition date to year end	Net profit from acquisition date to year end
Viña Indómita, S.A. Viña Dos Andes, S.A. Bodegas Santa Alicia SpA	1 July 2017	USD 40,110,000	100% 100% 100%	Purchase	1 July 2017	Finish payment and acquire equity	RMB 157,953,467	RMB 28,791,684

Other detail information:

According to <Sharehold agreement> and <Price adjustment agreement> signed between the Company and LAMBO SpA ("Chile Bethwines") on 11 May 2017, both will join contribute USD 47,190,000 (translated as RMB 322,644,840) to set up Indomita Wine Company Chile, SpA (Chinese name:智利魔獅葡萄酒筒式股份公司, "IWCC"). USD 40,110,000 (translated as RMB 274,248,114) was paid by the Company and hold for 85% of the IWCC's share. IWCC as the transferee, contributed USD 47,190,000 (translated as RMB 318,867,650) to acquire Indomita Wine, 100% shares hold by Chile Bethwines. The Group had completed the prerequisite for the transfer of all shares, and get the control over financial and operating decisions of Indomita Wine.

(2) Consideration and Goodwill

Consideration

	Indomita Wine RMB
Cash	318,867,650
Total consideration	318,867,650
Less: acquired provisional value of net assets	311,997,535
Goodwill	<u>6,870,115</u>

VII. CHANGE IN CONSOLIDATION SCOPE - continued

1. Business combination under different control - continued

(3) Recognised assets and liabilities of mergee at acquisition date

	<u>Chile Indomita Wine Group</u>	
	<u>Fair value</u>	<u>Book value</u>
	<u>at acquisition date</u>	<u>at acquisition date</u>
	RMB	RMB
Assets		
Cash and bank	15,071,107	15,071,107
Accounts receivable	77,173,885	77,173,885
Other receivables	12,149,546	12,149,546
Inventories	93,948,023	93,948,023
Fixed assets	89,086,462	69,377,096
Intangible assets	170,605,345	27,264,647
Bearer biological assets	1,413,595	2,109,821
Deferred tax assets	25,500,338	25,312,357
Total assets	<u>484,948,301</u>	<u>322,406,482</u>
Liabilities		
Short-term borrowings	61,998,579	61,998,579
Accounts payable	89,556,186	89,556,186
Other payables	8,750,612	8,750,612
Taxes payable	1,969,430	1,969,430
Employee benefits payable	5,354,430	5,354,430
Deferred tax liabilities	5,321,529	-
Total liabilities	<u>172,950,766</u>	<u>167,629,237</u>
Net assets	<u>311,997,535</u>	<u>154,777,245</u>
Less: Non-controlling interests	-	-
Acquired net assets	<u>311,997,535</u>	<u>154,777,245</u>

2. Change in consolidation scope due to other reasons (new established subsidiaries)

<u>Name</u>	<u>Place and date of registration</u>	<u>Legal representative</u>	<u>Business nature</u>	<u>Registered capital</u>	<u>Principal activities</u>	<u>Incorporate code</u>
Yantai Changyu Pioneer Grape Wine Marketing Ltd ("Grape Wine Marketing Ltd.")*	18 January 2017 Yantai Shandong, China	Zhou Hongjiang	Sales	RMB 5,000,000	Retail and Sales	91370600MA3D591TXW

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

VIII. INTERESTS IN OTHER ENTITIES

1. Structure of the Group

Name	Address	Place of registration	Nature	Equity interest owned by the company		Acquisition method
				Direct	Indirect	
Xinjiang Tianzhu (a)	Shihezi, Xinjiang, China	Shihezi, Xinjiang, China	Manufacturing	60%	-	Subsidiary acquired in business combination under non-common control
Fransac Sales	Cognac, France	Cognac, France	Trading	-	100%	Subsidiary acquired in business combination under non-common control
Mirefleurs	Bordeaux, France	Bordeaux, France	Trading	-	100%	Subsidiary acquired in business combination under non-common control
Atrio (b)	Navarra, Spain	Navarra, Spain	Sales	75%	-	Subsidiary acquired in business combination under non-common control
IWCC (c)	Santiago, Chile	Santiago, Chile	Sales	85%	-	Subsidiaries acquired by establishment
Beijing Changyu Sales and distribution Co., Ltd ("Beijing Sales")	Beijing, China	Beijing, China	Sales	100%	-	Subsidiaries acquired by establishment
Yantai Kylin Packaging Co., Ltd. ("Kylin Packaging")	Yantai, Shandong, China	Yantai, Shandong, China	Manufacturing	100%	-	Subsidiaries acquired by establishment
Yantai Changyu-Castel Wine Chateau Co., Ltd ("Changyu Chateau") (d)	Yantai, Shandong, China	Yantai, Shandong, China	Manufacturing	70%	-	Subsidiaries acquired by establishment
Changyu (Jingyang) Wine Co., Ltd. ("Jingyang Wine")	Xianyang, Shanxi, China	Xianyang, Shanxi, China	Manufacturing	90%	10%	Subsidiaries acquired by establishment
Yantai Changyu Pioneer Wine Sales Co., Ltd. ("Sales Company")	Yantai, Shandong, China	Yantai, Shandong, China	Sales	100%	-	Subsidiaries acquired by establishment
Langfang Development Zone Castel-Changyu Wine Co., Ltd ("Langfang Castel") (e)	Langfang, Hebei, China	Langfang, Hebei, China	Manufacturing	39%	10%	Subsidiaries acquired by establishment
Changyu (Jingyang) Wine Sales Co., Ltd. ("Jingyang Sales")	Xianyang, Shanxi, China	Xianyang, Shanxi, China	Sales	10%	90%	Subsidiaries acquired by establishment
Langfang Changyu Pioneer Wine Sales Co., Ltd ("Langfang Sales")	Langfang, Hebei, China	Langfang, Hebei, China	Sales	10%	90%	Subsidiaries acquired by establishment
Shanghai Changyu Sales and distribution Co., Ltd. ("Shanghai Sales")	Shanghai, China	Shanghai, China	Sales	30%	70%	Subsidiaries acquired by establishment
Beijing Changyu AFIP Agriculture development Co., Ltd ("Agriculture Development")	Miyun, Beijing, China	Miyun, Beijing, China	Sales	-	100%	Subsidiaries acquired by establishment
Beijing Chateau (f)	Beijing, China	Beijing, China	Manufacturing	90%	-	Subsidiaries acquired by establishment
Yantai ("Beijing Chateau") Changyu Wine Sales Co., Ltd. ("Wines Sales")	Yantai, Shandong, China	Yantai, Shandong, China	Sales	90%	10%	Subsidiaries acquired by establishment
Yantai Changyu Pioneer International Co., Ltd. ("Pioneer International")	Yantai, Shandong, China	Yantai, Shandong, China	Sales	70%	30%	Subsidiaries acquired by establishment
Hangzhou Changyu Wine Sales Co., Ltd. ("Hangzhou Changyu")	Hangzhou, Zhejiang, China	Hangzhou, Zhejiang, China	Sales	-	100%	Subsidiaries acquired by establishment
Ningxia Growing	Yinchuan, Ningxia, China	Yinchuan, Ningxia, China	Planting	100%	-	Subsidiaries acquired by establishment
Huanren Changyu National Wines Sales Co., Ltd. ("National Wines")	Benxi, Liaoning, China	Benxi, Liaoning, China	Sales	100%	-	Subsidiaries acquired by establishment
Liaoning Changyu Ice Wine Chateau Co., Ltd. ("Ice Chateau") (g)	Benxi, Liaoning, China	Benxi, Liaoning, China	Manufacturing	51%	-	Subsidiaries acquired by establishment
Yantai Development Zone Changyu Trading Co., Ltd ("Development Zone Trading")	Yantai, Shandong, China	Yantai, Shandong, China	Sales	-	100%	Subsidiaries acquired by establishment
Shenzhen Changyu Wine Marketing Ltd. ("Shenzhen Marketing")	Shenzhen, Guangdong, China	Shenzhen, Guangdong, China	Sales	-	100%	Subsidiaries acquired by establishment
Yantai Changyu Fushan Trading Company ("Fushan Trading")	Yantai, Shandong, China	Yantai, Shandong, China	Sales	-	100%	Subsidiaries acquired by establishment
Beijing AFIP Meeting Center ("Meeting Center")	Miyun, Beijing, China	Miyun, Beijing, China	Service	-	100%	Subsidiaries acquired by establishment
Beijing AFIP Tourism and Culture ("AFIP Tourism")	Miyun, Beijing, China	Miyun, Beijing, China	Tourism	-	100%	Subsidiaries acquired by establishment
Ningxia Wine Co.Ltd. ("Ningxia Wine").	Yinchuan, Ningxia, China	Yinchuan, Ningxia, China	Manufacturing	100%	-	Subsidiaries acquired by establishment
Yantai Changyu DingLuoTe Chateau. ("Ding Luo Te Chateau")	Yantai, Shandong, China	Yantai, Shandong, China	Retail and Sales	65%	35%	Subsidiaries acquired by establishment
Qing Tong Xia Changyu Wine Marketing Ltd ("Qing Tong Xia Sales")	Qing Tong Xia, Ningxia, China	Qing Tong Xia, Ningxia, China	Sales	-	100%	Subsidiaries acquired by establishment
Shihezi Chateau	Shihezi, Xinjiang, China	Shihezi, Xinjiang, China	Manufacturing	100%	-	Subsidiaries acquired by establishment
Ningxia Moser 15th Changyu Wine Chateau Co., Ltd. ("Ningxia Chateau")	Yinchuan, Ningxia, China	Yinchuan, Ningxia, China	Manufacturing	100%	-	Subsidiaries acquired by establishment
Shanxi Changyu Rina Castle Chateau Co., Ltd. ("Chang'an Chateau")	Xianyang, Shanxi, China	Xianyang, Shanxi, China	Manufacturing	100%	-	Subsidiaries acquired by establishment
R&D Centre (g)	Yantai, Shandong, China	Yantai, Shandong, China	Manufacturing	63%	-	Subsidiaries acquired by establishment
Changyu (HuanRen) Wine Co., Ltd ("Huan Ren Wine")	Benxi Liaoning, China	Benxi Liaoning, China	Wine production	100%	-	Subsidiaries acquired by establishment
Xinjiang Sales	Shihezi Xinjiang, China	Shihezi Xinjiang, China	Projecting Sales	-	100%	Subsidiaries acquired by establishment
Xinjiang Changyu Winery Co., Ltd ("Xinjiang Winery")	Shihezi Xinjiang, China	Shihezi Xinjiang, China	Manufacturing	-	100%	Subsidiaries acquired by establishment
Ningxia Changyu Trading Co., Ltd ("Ningxia Trading")	Yinchuan Ningxia, China	Yinchuan Ningxia, China	Sales	-	100%	Subsidiaries acquired by establishment
Shanxi Changyu Rina Wine Sales Co., Ltd ("Shanxi Sales")	Xianyang Shanxi, China	Xianyang Shanxi, China	Sales	-	100%	Subsidiaries acquired by establishment
Penglai Changyu Wine Sales Co., Ltd ("Penglai Sales")	Penglai Shandong, China	Penglai Shandong, China	Sales	-	100%	Subsidiaries acquired by establishment
Laizhou Changyu Wine Sales Co., Ltd ("Laizhou Sales")	Laizhou Shandong, China	Laizhou Shandong, China	Sales	-	100%	Subsidiaries acquired by establishment
Fransac Champs	Cognac, France	Cognac, France	Investment and trading	100%	-	Subsidiaries acquired by establishment
Lanzhou Changyu Wine Sales Co., Ltd ("Lanzhou Sales")	Lanzhou Gansu, China	Lanzhou Gansu, China	Sales	-	100%	Subsidiaries acquired by establishment
Beijing Retailing Co. Ltd ("Beijing Retailing")	Beijing, China	Beijing, China	Sales	-	100%	Subsidiaries acquired by establishment
Tianjin Changyu Pioneer Sales Co., Ltd ("Tianjin Pioneer")	Tianjin, China	Tianjin, China	Sales	-	100%	Subsidiaries acquired by establishment
Fuzhou Changyu Pioneer Sales Co., Ltd ("Fuzhou Pioneer")	Fuzhou Fujian, China	Fuzhou Fujian, China	Sales	-	100%	Subsidiaries acquired by establishment
Nanjing Changyu Pioneer Sales Co., Ltd ("Nanjing Pioneer")	Nanjing, Jiangsu, China	Nanjing, Jiangsu, China	Sales	-	100%	Subsidiaries acquired by establishment
Xianyang Changyu Pioneer Sales Co., Ltd ("Xianyang Pioneer")	Xianyang, Shanxi, China	Xianyang, Shanxi, China	Sales	-	100%	Subsidiaries acquired by establishment
Shenyang Changyu Pioneer Sales Co., Ltd ("Shenyang Pioneer")	Shenyang, Liaoning, China	Shenyang, Liaoning, China	Sales	-	100%	Subsidiaries acquired by establishment
Jinan Changyu Pioneer Sales Co., Ltd ("Jinan Pioneer")	Jinan, Shandong, China	Jinan, Shandong, China	Sales	-	100%	Subsidiaries acquired by establishment
Shanghai Changyu Pioneer Sales Co., Ltd ("Shanghai Pioneer")	Shanghai, China	Shanghai, China	Sales	-	100%	Subsidiaries acquired by establishment
Fuzhou Changyu Pioneer Sales Co., Ltd ("Fuzhou Pioneer")	Fuzhou, Jiangxi, China	Fuzhou, Jiangxi, China	Sales	-	100%	Subsidiaries acquired by establishment
Shijiazhuang Changyu Pioneer Sales Co., Ltd ("Shijiazhuang Pioneer")	Shijiazhuang, Hebei, China	Shijiazhuang, Hebei, China	Sales	-	100%	Subsidiaries acquired by establishment
Hangzhou Yuzefeng Sales Co., Ltd ("Hangzhou Yuzefeng")	Hangzhou, Zhejiang, China	Hangzhou, Zhejiang, China	Sales	-	100%	Subsidiaries acquired by establishment

VIII. INTERESTS IN OTHER ENTITIES - continued

1. Structure of the Group - continued

Name	Address	Place of registration	Nature	Equity interest owned by the company		Acquisition method
				Direct	Indirect	
Jilin Changyu Pioneer Sales Co., Ltd ("Jilin Pioneer")	Changchun, Jilin, China	Changchun, Jilin, China	Sales	-	100%	Subsidiaries acquired by establishment
Beijing Changyu Pioneer Sales Co., Ltd ("Beijing Pioneer")	Beijing, China	Beijing, China	Sales	-	100%	Subsidiaries acquired by establishment
Haerbin Changyu Pioneer Sales Co., Ltd ("Haerbin Pioneer")	Haerbin, Heilongjiang, China	Haerbin, Heilongjiang, China	Sales	-	100%	Subsidiaries acquired by establishment
Hunan Changyu Pioneer Sales Co., Ltd ("Hunan Pioneer")	Changsha, Hunan, China	Changsha, Hunan, China	Sales	-	100%	Subsidiaries acquired by establishment
Yinchuan Changyu Pioneer Sales Co., Ltd ("Yinchuan Pioneer")	Yinchuan, Ningxia, China	Yinchuan, Ningxia, China	Sales	-	100%	Subsidiaries acquired by establishment
Kunming Changyu Pioneer Sales Co., Ltd ("Kunming Pioneer")	Kunming, Yunnan, China	Kunming, Yunnan, China	Sales	-	100%	Subsidiaries acquired by establishment
Chongqing Changyu Pioneer Sales Co., Ltd ("Chongqing Pioneer")	Chongqing, China	Chongqing, China	Sales	-	100%	Subsidiaries acquired by establishment
Zhengzhou Changyu Pioneer Sales Co., Ltd ("Zhengzhou Pioneer")	Zhengzhou, Henan, China	Zhengzhou, Henan, China	Sales	-	100%	Subsidiaries acquired by establishment
Wuhan Changyu Pioneer Sales Co., Ltd ("Wuhan Pioneer")	Wuhan, Hubei, China	Wuhan, Hubei, China	Sales	-	100%	Subsidiaries acquired by establishment
Taiyuan Changyu Pioneer Sales Co., Ltd ("Taiyuan Pioneer")	Taiyuan, Shanxi, China	Taiyuan, Shanxi, China	Sales	-	100%	Subsidiaries acquired by establishment
Huhehaote Changyu Pioneer Sales Co., Ltd ("Huhehaote Pioneer")	Huhehaote Inner Mongolia, China	Huhehaote Inner Mongolia, China	Sales	-	100%	Subsidiaries acquired by establishment
Chengdu Changyu Pioneer Sales Co., Ltd ("Chengdu Pioneer")	Chengdu, Sichuan, China	Chengdu, Sichuan, China	Sales	-	100%	Subsidiaries acquired by establishment
Nanning Changyu Pioneer Sales Co., Ltd ("Nanning Pioneer")	Nanning, Guangxi, China	Nanning, Guangxi, China	Sales	-	100%	Subsidiaries acquired by establishment
Lanzhou Pioneer	Lanzhou Gansu, China	Lanzhou Gansu, China	Sales	-	100%	Subsidiaries acquired by establishment
Yantai Fulangduo	Yantai Shandong, China	Yantai Shandong, China	Sales	-	100%	Subsidiaries acquired by establishment
Hefei Pioneer	Hefei, Anhui, China	Hefei, Anhui, China	Sales	-	100%	Subsidiaries acquired by establishment
Urumchi Pioneer	Urumchi Xinjiang, China	Urumchi Xinjiang, China	Sales	-	100%	Subsidiaries acquired by establishment
Guizhou Pioneer	Guiyang Guizhou, China	Guiyang Guizhou, China	Sales	-	100%	Subsidiaries acquired by establishment
Guangzhou Changyu Pioneer Sales Co. Ltd ("Guangzhou Pioneer")	Guangzhou Guangdong China	Guangzhou Guangdong China	Sales	-	100%	Subsidiaries acquired by establishment
Grape Wine Marketing Ltd.	Yantai Shandong China	Yantai Shandong China	Sales	100	-	Subsidiaries acquired by establishment

Explanation in difference between holding interests and voting rights in subsidiaries:

- (a) Xinjiang Tianzhu was acquired by the Company, accounting for 60% of Xinjiang Tianzhu's equity interest. Through agreement arrangement, the Company has the full power to control Xinjiang Tianzhu's strategic operating, investing and financing policies. The agreement arrangement will be terminated on 6 August 2017. Upon the expiry of the agreement arrangement, the non-controlling interests of Xinjiang Tianzhu will normally enjoy/commit all the rights and obligations of the shareholders as stipulated in the Articles of Association.
- (b) As at 12 September 2016, Dicot has completed an internal reorganization. Atrio, consolidated Enotec S.L, Hostaler I S.L., Faustino Rivero Ulecia S.L. by absorption merger. After the completion of the reorganization, Atrio became the only surviving company.
- (c) IWCC is a Sino-foreign joint venture established by the Company and Chile Bethwines, accounting for 85% of Indomita Wine's equity interest, and the capital contribution of USD 40,110,000 (translated as RMB 274,248,114) was paid by the Company, and USD7,080,000 (translated as RMB 48,396,726) was paid by the Chile Bethwines and accounting for 15% of Indomita Wine's equity interest.
- (d) Changyu Chateau is a Sino-foreign joint venture established by the Company and a foreign investor, accounting for 70% of Changyu Chateau's equity interest. Through agreement arrangement, the Company has the full power to control Changyu Chateau's strategic operating, investing and financing policies. The agreement arrangement will be terminated on 31 December 2022.

VIII. INTERESTS IN OTHER ENTITIES - continued

1. Structure of the Group - continued

- (e) Langfang Chateau is a Sino-foreign joint venture established by the Company and a foreign investor, accounting for 49% of Langfang Chateau's equity interest by the Company and subsidiaries. Through agreement arrangement, the Company has the full power to control Langfang Chateau's strategic operating, investing and financing policies. The agreement arrangement will be terminated on 31 December 2022.
- (f) Beijing Chateau is a joint venture established by the Company, Yantai De'an and Beijing Qinglang, and the Company increases the capital contribution RMB502,910,000 in this period, Yantai De'an and Beijing Qinglang together increase the capital contribution RMB29,840,000. Beijing Chateau has completed the business registration on 22 December 2017. After capital contribution increased, the Company is accounting for 90% of Beijing Chateau's equity interest. The Company gets the control over operation, investment, and financial decision of Beijing Chateau through agreement arrangement, which will terminate on 2 September 2019.
- (g) Ice Chateau is a Sino-foreign joint venture established by the Company and a foreign investor, accounting for 51% of Ice Chateau's equity interest. Through agreement arrangement, the Company has the full power to control Ice Chateau's strategic operating, investing and financing policies. The agreement arrangement will be terminated on 31 December 2021.
- (h) R&D Centre is a joint venture established by the Company and CADF, accounting for 63.1% of R&D Centre's equity interest at 31 December 2017. As mentioned in Note VI-30, in 2016, RMB 305,000,000 from CADF was invested in R&D Centre's, CADF accounted for 37.9% of the registered capital. According to the investment agreement, CADF will recovery investment funds over 10 years, the investment income received equal to 1.2% of the remaining unpaid principal per annum. In addition to the fixed income, CADF will no longer enjoy other profits or bear the loss of R&D Centre. Therefore although the investment in R&D Centre, nominally equity investment, is actually a debt investment. The group take this investment as long-term payables, which measured in amortized cost. The company is fully responsible for the operation, investment and financial policies of the R&D Centre in the form of such agreements. The agreement will expire on 22 May 2026.

2. Non-wholly owned subsidiaries

<u>Name interest</u>	<u>Minority shareholder ratio</u>	<u>Profit and loss belongs to non-controlling interest</u>	<u>Distributions to shareholders</u>	<u>Assimilate non-controlling interest</u>	<u>Closing balance of non-controlling</u>
Xinjiang Tianzhu	40%	(2,720,460)	-	-	53,373,452
Atrio	25%	1,595,697	(668,124)	-	31,626,890
Changyu Chateau	30%	-	-	-	12,365,016
Langfang Castel	51%	-	-	-	22,702,522
Beijing Chateau	10%	-	-	29,840,000	65,133,868
Ice Chateau	49%	-	-	-	33,319,062
IWCC	15%	4,718,843	-	48,396,726	53,115,569
		<u>3,594,080</u>	<u>(668,124)</u>	<u>78,236,726</u>	<u>271,636,379</u>

Explanation in difference between share percentage and voting power of non-controlling interests:
Please see Note VIII-1.

VIII. INTERESTS IN OTHER ENTITIES - continued

3. Key financial information of important non-wholly owned subsidiaries

Name	Closing balance						Opening balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Xinjiang Tianzhu Changyu Chateau Langfang Castel Beijing Chateau Ice Chateau Atrio IWCC	30,264,441	71,323,940	101,588,381	809,080	5,336,114	6,145,194	80,126,247	77,008,886	157,135,133	23,266,974	5,336,114	28,603,088
Chateau Langfang Castel Beijing Chateau Ice Chateau Atrio IWCC	140,038,021	115,435,985	255,474,006	175,061,601	-	175,061,601	173,934,285	116,396,690	290,330,975	210,904,481	-	210,904,481
Chateau Ice Chateau Atrio IWCC	22,728,536	17,973,719	40,702,255	6,133,909	-	6,133,909	26,528,622	19,890,293	46,418,915	10,233,932	-	10,233,932
Chateau Ice Chateau Atrio IWCC	214,079,274	481,668,050	695,747,324	73,963,043	-	73,963,043	88,294,417	502,368,404	590,662,821	431,222,472	888,945	432,111,417
Chateau Ice Chateau Atrio IWCC	38,657,358	25,484,359	64,141,717	10,871,695	100,000	10,971,695	38,239,653	27,545,615	65,785,268	13,756,944	100,000	13,856,944
Chateau Ice Chateau Atrio IWCC	398,835,959	116,299,504	515,135,463	299,030,002	89,336,338	388,366,340	333,455,551	131,921,130	465,376,681	272,843,155	69,572,335	342,415,490
Chateau Ice Chateau Atrio IWCC	175,669,256	305,664,706	481,333,962	122,023,764	5,206,406	127,230,170	N/A	N/A	N/A	N/A	N/A	N/A

Name	2017				2016			
	Revenue	Net profit (loss)	Total comprehensive income	Operating activities cash flows	Revenue	Net profit (loss)	Total comprehensive income	Operating activities cash flows
Xinjiang Tianzhu Changyu Chateau Langfang Castel Beijing Chateau Ice Chateau Atrio IWCC*	116,555,588	15,531,513	15,531,513	32,224,800	118,253,496	11,561,969	11,561,969	5,647,080
Chateau Langfang Castel Beijing Chateau Ice Chateau Atrio IWCC*	68,964,230	985,910	985,910	19,629,212	102,588,593	13,184,637	13,184,637	16,751,337
Chateau Langfang Castel Beijing Chateau Ice Chateau Atrio IWCC*	39,165,527	(1,616,638)	(1,616,638)	(1,554,380)	41,948,391	731,204	731,204	8,681,926
Chateau Ice Chateau Atrio IWCC*	145,103,200	17,475,647	17,475,647	49,964,881	178,662,315	29,417,483	29,417,483	55,561,102
Chateau Ice Chateau Atrio IWCC*	49,643,396	1,241,699	1,241,699	(1,748,535)	43,742,412	(5,895,304)	(5,895,304)	4,922,305
Chateau Ice Chateau Atrio IWCC*	281,007,167	2,000,682	7,701,416	(32,148,326)	281,328,100	(7,484,378)	(8,473,348)	(28,411,777)
Chateau Ice Chateau Atrio IWCC*	157,953,467	28,791,684	31,458,952	16,482,765	N/A	N/A	N/A	N/A

* This is amount incurred in the period between acquisition date and 31 December 2017.

IX. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

The Group's major financial instruments include cash and bank, notes receivable, accounts receivable, interest receivables, other receivables, available-for-sale financial assets, other non-current assets, short-term borrowings, accounts payable, other payables, interest payables, and long-term borrowings. Details of these financial instruments are disclosed in Note VI. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure the risks are monitored at a certain level.

The Group adopts sensitivity analysis technique to analyse how the profit and loss for the period and shareholders' equity would have been affected by reasonably possible changes in the relevant risk variables. As it is unlikely that risk variables will change in an isolated manner, and the interdependence among risk variables will have significant effect on the amount ultimately influenced by the changes in a single risk variable, the following are based on the assumption that the change in each risk variable is on a stand-alone basis.

The Group's risk management objectives are to achieve a proper balance between risks and yield, minimise the adverse impacts of risks on the Group's operation performance, and maximise the benefits of the shareholders and other stakeholders. Based on these risk management objectives, the Group's basic risk management strategy is to identify and analyse the Group's exposure to various risks, establish an appropriate maximum tolerance to risk, implement risk management, and monitors regularly and effectively these exposures to ensure the risks are monitored at a certain level.

IX. FINANCIAL INSTRUMENT AND RISK MANAGEMENT - continued

1. Risk management objectives and policies

1.1 Market risk

1.1.1 Currency risk

Currency risk is the risk that losses will occur because of changes in foreign exchange rates. . The Group's exposure to the currency risk is primarily associated with EUR and USD. Several of the Group's subsidiaries have purchases and sales denominated in EUR and Chilean peso, borrowing denominated in USD, while the Group's other principal activities are denominated and settled in RMB. As at 31 December 2017, except that the assets and liabilities stated in the table below are foreign currency deposits or excess of borrowings, the assets and liabilities of each entity of the Group are settled in their respective functional currencies.

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Bank and cash (EUR)	1,190,459	566,182
Bank and cash (USD)	34,843,968	-
Non-current liabilities due within one year (EUR)	-	29,227,200
Short-term borrowings (USD)	58,807,800	-

Currency risk arising from the assets and liabilities denominated in foreign currencies may have impact on the Group's performance. The Group closely monitors the effects of changes in the foreign exchange rates on the Group's currency risk exposures. The Group currently does not take any measures to hedge currency risk exposures.

Sensitivity analysis on currency risk

Where all other variables are held constant, the reasonably possible changes in the foreign exchange rate may have the following pre-tax effect on the profit or loss for the period and shareholders' equity:

Domestic entities:

	<u>Change in exchange rate</u>	<u>Current year</u>		<u>Prior year</u>	
		<u>Effect on profit</u> RMB	<u>Effect on</u> <u>shareholders'</u> <u>equity</u> RMB	<u>Effect on profit</u> RMB	<u>Effect on</u> <u>shareholders'</u> <u>equity</u> RMB
EUR	5% increase against RMB	50	50	(1,433,051)	(1,433,051)
EUR	5% decrease against RMB	(50)	(50)	1,433,051	1,433,051
USD	5% increase against RMB	1,456,525	1,456,525	-	-
USD	5% decrease against RMB	(1,456,525)	(1,456,525)	-	-

IX. FINANCIAL INSTRUMENT AND RISK MANAGEMENT - continued

1. Risk management objectives and policies - continued

1.1 Market risk - continued

1.1.1 Currency risk - continued

Sensitivity analysis on currency risk - continued

Overseas entities:

		Current year		Prior year	
		Effect on profit	Effect on shareholders' equity	Effect on profit	Effect on shareholders' equity
<u>Change in exchange rate</u>		<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
USD	5% increase against EUR	52,695	52,695	-	-
USD	5% decrease against EUR	(52,695)	(52,695)	-	-
USD	10% increase against Chile Peso	(5,275,651)	(5,275,651)	-	-
USD	10% decrease against Chile Peso	5,275,651	5,275,651	-	-
EUR	5% increase against Chile Peso	58,350	58,350	-	-
EUR	5% decrease against Chile Peso	(58,350)	(58,350)	-	-

Note: As at 31 December 2017, the Group's management anticipated a change of 5% in exchange rate for Euro, USD to RMB, Euro to USD, Euro to Chilean Peso and anticipated a change of 10% in exchange rate for USD to Chilean Peso.

1.1.2 Interest rate risk - risk of changes in cash flows

The Group's cash flow interest rate risk of financial instruments relates primarily to variable-rate bank borrowings (Refer to Note VI-1, Note VI-20, Note VI-28 and Note VI-29 for details). It is the Group's policy to keep its borrowings at floating rate of interests so as to eliminate the fair value interest rate risk.

The sensitivity analysis on interest rate risk

The sensitivity analysis on interest rate risk is based on the changes in the market interest rate may influence the interest income or expense of the variable rate financial instruments.

Management of the Group believes interest rate risk on bank deposit is not significant, therefore does not disclose sensitivity analysis for interest rate risk.

1.1.2 Interest rate risk - risk of changes in cash flows - continued

Where all other variables are held constant, the reasonably possible changes in the interest rate may have the following pre-tax effect on the profit or loss for the period and shareholders' equity

		Current year		Prior year	
		Effect on profit	Effect on shareholders' equity	Effect on profit	Effect on shareholders' equity
<u>Change in interest rate</u>		<u>RMB</u>	<u>RMB</u>	<u>RMB</u>	<u>RMB</u>
Bank borrowings	50% increase	(2,046,646)	(2,046,646)	(1,774,725)	(1,774,725)
Bank borrowings	50% decrease	2,046,646	2,046,646	1,774,725	1,774,725

Note: As at 13 December 2017, the Group's management anticipated a change of 50 basis points in the bank's variable interest rate.

IX. FINANCIAL INSTRUMENT AND RISK MANAGEMENT - continued

1. Risk management objectives and policies - continued

1.2 Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties.

In order to minimise the credit risk, the Group has adopted a policy to ensure that all sales customers have good credit records. The Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Department of Credit Control in the Group. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. As at 31 December 2017, 20.7% of the Group trade receivables are due from top 5 customers (31 December 2016: 26.3%). There is no collateral or other credit enhancement on the balance of the trade receivables of the Group.

1.3 Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following is the maturity analysis for financial assets and financial liabilities held by the Group which is based on undiscounted remaining contractual obligations:

Non-derivative financial liabilities

	<u>Less than one month</u>	<u>1-3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>More than five years</u>	<u>Total</u>
	RMB	RMB	RMB	RMB	RMB	RMB
Short-term borrowings	2,472,728	51,052,400	686,717,082	-	-	740,242,210
Accounts payable	153,234,366	306,468,734	206,739,779	-	-	666,442,879
Other payables	187,443,697	168,777,348	233,329,619	-	-	589,550,664
Interest payable	771,250	-	-	-	-	771,250
Long-term borrowings	9,110,307	15,315,648	54,449,723	168,580,979	-	247,456,657
Long-term payables	-	22,864,933	14,470,100	145,210,100	125,623,000	308,168,133
	<u>353,032,348</u>	<u>564,479,063</u>	<u>1,195,706,303</u>	<u>313,791,079</u>	<u>125,623,000</u>	<u>2,552,631,793</u>

IX. FINANCIAL INSTRUMENT AND RISK MANAGEMENT - continued

1. Risk management objectives and policies - continued

1.4 Fair value disclosure - Financial assets and liabilities not measured using fair value

	<u>Carrying amount</u>	<u>Fair value</u>			<u>Total</u>
		<u>Level 1</u> of fair value	<u>Level 2</u> of fair value	<u>Level 3</u> of fair value	
Long-term payables measured at amortized cost	293,000,000	-	248,598,557	-	248,598,557

As at 31 December 2017, The management of the Group believes that, apart from the aforementioned long-term payables, the carrying amounts of other financial assets and financial liabilities measured at amortised cost in the financial statements are close to the fair values of these assets and liabilities.

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS

1. Parent company

<u>Name of parent company</u>	<u>Relation</u>	<u>Type of enterprise</u>	<u>Place of registration</u>	<u>Legal representative</u>	<u>Scope of business</u>	<u>Registered capital RMB</u>	<u>Percentage of shares %</u>	<u>Percentage of voting rights %</u>	<u>Incorporate Code</u>
Controlling Company	Parent Company	Limited Company	Yantai	SunLiqiang	Manufacturing	50,000,000	50.4	50.4	265645824

During the year ended 31 December 2017, there is no change in parent company's registered capital, shares holding or voting power.

2. Subsidiaries: Please refer to Notes VIII.

3. Other related parties

<u>Name of related parties</u>	<u>Nature of related parties</u>	<u>Incorporate code</u>
Yantai Changyu Wine Culture Museum Co., Ltd.("Wine Culture Museum")	Company controlled by the same parent	913706007582586548
Yantai Changyu International Window of the Wine City Co., Ltd.("Window of the Wine City)	Company controlled by the same parent	91370600672208146X
Yantai ShenMa Packing Co., Ltd. ("ShenMa Packing")	Company controlled by the same parent	91370600553393350J
Yantai Zhongya Pharmaceutical Tonic Wine Co., Ltd.("Zhongya Pharmaceutical")	Company controlled by the same parent	91370600726203923M

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS - continued

4. Significant related party transactions

(1) Purchases from and sales to related parties

Purchase from related parties

	The content of related <u>party transactions</u>	<u>2017</u> RMB	<u>2016</u> RMB
ShenMa Packing	product purchase	145,872,001	150,590,287
Zhongya Pharmaceutical	product purchase	9,279,380	12,567,066
Wine Culture Museum	product purchase	6,336,832	10,210,089
Window of the Wine City	product purchase	<u>2,756,050</u>	<u>2,032,847</u>
		<u>164,244,263</u>	<u>175,400,289</u>

All related party transactions are based on the negotiated price.

In 2017, purchases from related parties accounted for 10.9% of the Group's total purchase (2016: 13.2%)

Sales to related parties

	The content of related <u>party transactions</u>	<u>2017</u> RMB	<u>2016</u> RMB
Wine Culture Museum	goods sales	8,235,520	15,670,982
Window of the Wine City	goods sales	12,205,247	10,945,578
Zhongya Pharmaceutical	goods sales	2,035,003	3,387,900
ShenMa Packing	goods sales	<u>1,634,883</u>	<u>1,496,669</u>
		<u>24,110,653</u>	<u>31,501,129</u>

All related party transactions are based on the negotiated price. In 2017, sales to related parties accounted for less than 1% of the Group's total sales (2016: less than 1%).

(2) Property leased from a related party

The Group as Lessee

<u>2017</u>	<u>Assets leased</u>	<u>Beginning date</u>	<u>Ending date</u>	<u>Rental expense</u> RMB
Changyu Group Company	office building	1 January 2016	31 December 2020	1,692,724
Changyu Group Company	office building and factory	1 January 2017	31 December 2021	1,464,500
Changyu Group Company	office building and factory	1 January 2017	31 December 2021	<u>4,393,500</u>
				<u>7,550,724</u>

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS - continued

4. Significant related party transactions - continued

The Group as Lessee - continued

(2) Property leased from a related party - continued

Pursuant to the lease agreement entered into between the Company and Changyu Group Company on 1 January 2016, starting from 1 January 2016, the Company rented properties from Changyu Group Company for operation purposes at annual rental of RMB 1,692,724, and till 31 December 2020. For the year ended 31 December 2017, the rental payable to Changyu Group Company amounted to RMB 1,692,724 (2016: RMB 1,692,724).

Pursuant to the lease agreement entered into between the Company and Changyu Group Company on 1 January 2017, starting from 1 January 2017, the Company rented properties from Changyu Group Company for operation purposes at annual rental of RMB 1,464,500, and till 31 December 2021. For the year ended 31 December 2017, the rental payable to Changyu Group Company amounted to RMB 1,464,500 (2016: RMB 1,464,500).

Pursuant to the lease agreement entered into between the Company and Changyu Group Company on 1 January 2017, starting from 1 January 2017, the Company rented properties from Changyu Group Company for operation purposes at annual rental of RMB 4,393,500, and till 31 December 2021. For the year ended 31 December 2017, the rental payable to Changyu Group Company amounted to RMB 4,393,500 (2016: RMB 4,393,500).

All related party transactions are based on the negotiated price.

The Group as lessor

<u>2017</u>	<u>Assets leased</u>	<u>Beginning date</u>	<u>Ending date</u>	<u>Rental expense</u> RMB
ShenMa Packing	office building and factory	1 July 2017	30 June 2022	<u>813,440</u>

Pursuant to the lease agreement entered into between the Company and ShenMa Packing on 1 July 2017, starting from 1 July 2017, the Company rented properties from ShenMa Packing for operation purposes at annual rental of RMB 1,626,880 and till 30 June 2022. For the year ended 31 December 2017, the rental payable to ShenMa Packing amounted to RMB 813,440 (2016: Nil).

All related party transactions are based on the negotiated price.

(3) Other significant related party transactions

	<u>The content of related party transactions</u>	<u>Note</u>	<u>2017</u> RMB	<u>2016</u> RMB
Changyu Group Company	Royalty fee	(a)	72,838,612	74,125,038
Changyu Group Company	Patents fee	(b)	50,000	50,000
Zhongya Pharmaceutical	Sales of fixed assets	(c)	<u>3,934,643</u>	<u>411,407</u>

All related party transactions are based on the negotiated price.

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS - continued

4. Significant related party transactions - continued

(3) Other significant related party transactions - continued

(a) Royalty fee

Pursuant to a royalty agreement dated 18 May 1997, starting from 18 September 1997, the Company may use certain trademarks of Changyu Group Company, which have been registered with the PRC Trademark Office. An annual royalty fee at 2% of the Group's annual sales is payable to Changyu Group Company. The license is effective until the expiry of the registration of the trademarks.

During 2017, royalty fee paid to related company accounted for 100% of the Group (2016: 100%).

(b) Patents fee

The Company renewed the contract on 20 August 2016 for 10 years. The annual patents usage fee payable by the Company to Changyu Group Company remained RMB 50,000. For the year ended 31 December 2017, the patents usage fee payable to Changyu Group Company is amounted to RMB 50,000 (2016: RMB 50,000).

During 2017, patent fee paid to related company accounted for 100% of the Group (2016: 100%).

(c) Sales of fixed assets

As at 28 December 2017, fixed assets sold by the Group to Zhongya Pharmaceutical amounted to RMB 3,934,643 (31 December 2016: 411,407), accounting for 54.0% (31 December 2016: 34.0%).

(4) Remuneration of the management

	<u>2017</u> RMB	<u>2016</u> RMB
Remuneration of the management	10,309,409	9,166,918

5. Balance due from/to related parties

(1) Balance due from related parties

<u>Accounts receivable</u>	<u>Closing balance</u>		<u>Opening balance</u>	
	<u>Balance</u> RMB	<u>Provision</u> RMB	<u>Balance</u> RMB	<u>Provision</u> RMB
Zhongya Pharmaceutical	8,134,150	-	3,913,997	-
Shen Ma Packing.	1,342,348	-	50,700	-
Window of the Wine City	3,196,095	-	1,833,273	-
Wine Culture Museum	34,280	-	876,724	-
	<u>12,706,873</u>	<u>-</u>	<u>6,674,694</u>	<u>-</u>

The above amounts due from related parties are unsecured and interest-free.

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS - continued

5. Balance due from/to related parties - continued

(2) Balance due to related parties

<u>Accounts payable</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Shen Ma Packing	52,403,056	59,058,023
Zhongya Pharmaceutical	2,051,991	4,328,184
Wine Culture Museum	2,040,860	3,038,520
Window of the Wine City	1,485,766	619,578
Total	<u>57,981,673</u>	<u>67,044,305</u>

<u>Other payable</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Royalty fee payable to parent company	<u>77,208,929</u>	<u>78,572,540</u>

The above amounts due to related parties are unsecured and interest-free.

XI. COMMITMENT

1. Important commitments

(1) Capital commitments

	<u>Closing balance</u> RMB'000	<u>Opening balance</u> RMB'000
Capital commitment for purchasing non-current assets	<u>1,246,506</u>	<u>1,508,310</u>

(2) Operating lease commitment

As lessee

Significant operating lease: Total future minimal lease payments under non-cancelable contract with lessor are as follow:

	<u>Closing balance</u> RMB'000	<u>Opening balance</u> RMB'000
Within 1 year	32,236	44,631
1 to 2 years	19,116	20,262
2 to 3 years	11,943	12,836
3 years and above	95,342	36,533
	<u>158,637</u>	<u>114,262</u>

XI. COMMITMENT - continued

1. Important commitments - continued
- (2) Operating lease commitment - continued

As lessor

	<u>Closing balance</u> RMB'000	<u>Opening balance</u> RMB'000
Within 1 year	1,627	-
1 to 2 years	1,627	-
2 to 3 years	1,627	-
3 years and above	2,440	-
	<u>7,321</u>	<u>-</u>

2. Contingent liability

The Group do not have any significant contingent liabilities as at balance sheet date.

XII. POST BALANCE SHEET DATE EVENT

1. Profit appropriation

According to the board of the director resolution raised on 19 April 2018, the Company proposed a cash dividend of RMB 5.0 (including taxes) for every 10 shares in respect of 2017 based on the issued shares of 685,464,000. The aggregate amount of cash dividend is RMB 342,732,000. The resolution is to be approved by the annual general meeting.

2. Description of other events after the balance sheet date

- (1) Business combinations not under common control

Name of acquiree	Timing of equity acquisition	acquisition cost	Proportion acquired (%)	Acquisition approach	Acquisition date	Determination basis of acquisition date
Kilikanoon Estate Pty Ltd ("Australia Kilikanoon Chateau")	18 January 2018	AUD 20,605,000	80%	purchase	18 January 2018	Finish payment and acquire equity

Other detail information:

The Company using AUD 20,605,000 (translated as RMB 105,926,184) to acquire the Australia Kilikanoon Chateau's 80% equity interest according to the < Equity settlement agreement > signed on 5 December 2017. The Company had completed the prerequisite for the transfer of all shares, and get the control over financial and operating decisions of Australia Kilikanoon Chateau.

XII. POST BALANCE SHEET DATE EVENT - continued

2. Description of other events after the balance sheet date - continued

(1) Business combinations not under common control- continued

Consideration and Goodwill

Consideration

	Australia Kilikanoon Chateau RMB
Cash	105,926,184
Total consideration	105,926,184
Less: acquired provisional value of net assets	<u>70,131,290</u>
The provisional goodwill	<u><u>35,794,894</u></u>

Recognised assets and liabilities of mergee at acquisition date

	<u>Australia Kilikanoon Chateau</u>	
	<u>Provisional value at acquisition date</u>	<u>Book value at acquisition date</u>
	RMB	RMB
Assets		
Cash and bank	1,359,765	1,359,765
Accounts receivable	10,366,281	10,366,281
Prepayments	237,174	237,174
Other receivables	182,667	182,667
Inventories	69,612,312	57,946,312
Available-for-sale financial assets	5,053	5,053
Fixed assets	49,029,999	38,696,709
Intangible assets	16,417,886	7,461,624
Total assets	<u><u>147,211,137</u></u>	<u><u>116,255,585</u></u>
Liabilities		
Short-term borrowings	1,282,550	1,282,550
Accounts payable	6,198,846	6,198,846
Employee benefits payable	876,987	876,987
Taxes payable	1,789,093	1,789,093
Long-term borrowings	43,497,119	43,497,119
Deferred tax liabilities	5,902,429	-
Total liabilities	<u><u>59,547,024</u></u>	<u><u>53,644,595</u></u>
Net assets	87,664,113	62,610,990
Less: Non-controlling interests	<u>17,532,823</u>	<u>12,522,198</u>
Acquired net assets	<u><u>70,131,290</u></u>	<u><u>50,088,792</u></u>

XII. POST BALANCE SHEET DATE EVENT - continued

2. Description of other events after the balance sheet date - continued

(1) Business combinations not under common control- continued

In order to calculate the fair value of Australia Kilikanoon Chateau's assets and liabilities, the Company has engaged asset appraisal agency to assess. Because as of this annual report issue date, the assessment works haven't finished, the fair value of Australia Kilikanoon Chateau's assets and liabilities are recognized as an estimated amount based on the management's booking value on the acquisition day. Accordingly, the Group recognized estimated goodwill RMB 35,794,894. The above asset appraisal work will be finished within 12 months after the acquisition date, and the above booking value of the above assets, liabilities and goodwill will be adjusted (if any) based on the appraisal result.

(2) External guarantee

A loan of AUD 12,000,000 (translated as RMB 71,000,000) for Australia Kilikanoon Chateau is guaranteed by the Company through offshore financing against domestic guarantee method and get a financing guarantee within the Company domestic bank's line of credit. The guarantee will be effective from 17 January 2018 and will expire on 15 January 2019.

XIII. OTHER SIGNIFICANT EVENTS

Segment report

The Group is principally engaged in the production and sales of wine, brandy, and champagne in China, France, Spain and Chile. In accordance with the Group's internal organization structure, management requirements and internal reporting system, the Group's operation is divided into four parts: China, Spain France and Chile. The management periodically evaluates segment results, in order to allocate resources and evaluate performances. In 2017, more than 91.2% revenue and more than 97.9% profit derived from China, and more than 92.5% non-current assets are located in China. Therefore the Group does not need to disclose additional segment report information.

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS

1. Cash and bank

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Cash	5,280	6,631
Bank balance	501,208,996	243,708,493
Other currency fund	<u>57,960,190</u>	<u>25,744,936</u>
Total	<u><u>559,174,466</u></u>	<u><u>269,460,060</u></u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

1. Cash and bank - continued

As at 31 December 2017, the balance of restricted cash of the Company is RMB 2,645,410 (31 December 2016: RMB 2,711,926), which is the Company's housing fund.

As at 31 December 2017, other currency fund of the Company include: deposit of RMB 57,946,190 for letter of credit (31 December 2016: RMB 25,694,735). and deposit of RMB 14,000 for entity card (31 December 2016: RMB 50,201).

As at 31 December 2017, the Company's term deposits with original maturity from three months to six months when acquired is RMB 5,000,000 (31 December 2016: RMB 3,000,000) with interest rate 1.95%.

2. Notes receivable

(1) Categories of notes receivable

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Bank acceptances	<u>41,645,203</u>	<u>1,114,200</u>

(2) Pledged notes receivable

As of 31 December 2017, there was no pledged notes receivable (31 December 2016: Nil).

(3) Notes endorsed by the Group to other parties which are not yet due at the end of the period

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Bank acceptances	<u>72,316,589</u>	<u>29,199,486</u>

As at 31 December 2017, notes endorsed by the Company to other parties which are not yet due at the end of the period is RMB 72,316,589 (31 December 2016: RMB 29,199,486). It is for the payment to suppliers. The Company believes that due to bank good reputation, the risk of maturity cannot be cashed is very low, these notes receivable ownership of the risks and rewards have been transferred to the supplier, therefore confirm the termination of the endorsement notes receivable. If bank is unable to settle the notes on maturity, according to the relevant laws and regulations of China, the Group would undertake limited liability for the notes.

(4) Notes receivable were reclassified as accounts receivable due to the default of drawer

As at 31 December 2017, there was no notes receivable were reclassified as accounts receivable due to the default of drawer (31 December 2016: Nil).

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

3. Accounts receivable

(1) Disclosure of accounts receivable by categories:

	Balance		Closing balance			Balance		Opening balance		
	Amount	Proportion	Amount	Proportion	Amount	Amount	Proportion	Amount	Proportion	Amount
	RMB	(%)				RMB	(%)			
Accounts receivable for which bad debt provision has been assessed individually	7,805,333	100.0	-	-	7,805,333	3,326,683	100.00	-	-	3,326,683

The normal credit term of trade receivables is one month. The trade receivables are interest free.

The aging analysis is as follows:

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Within 1 year	<u>7,805,333</u>	<u>3,326,683</u>

(2) Provision, reversals and collections during the current period:

As at 31 December 2017, there was no provision provided for trade receivables (31 December 2016: Nil). The Company did not provide, reverse or write off any provision during 2017 (31 December 2016: Nil).

(3) The balance of accounts receivable at the end of the year

	<u>Relationship with the Group</u>	<u>Amount</u>	<u>Aging</u>	<u>Proportion of total receivables</u>
Zhongya Pharmaceutical	Other related parties	6,752,890	Within 1 year	86.5
ShenMa Packing	Other related parties	<u>1,052,443</u>	Within 1 year	<u>13.5</u>
		<u>7,805,333</u>		<u>100.0</u>

4. Prepayments

(1) The aging analysis is as follows:

	Closing balance		Opening balance	
	<u>Amount</u> RMB	<u>Proportion</u> %	<u>Amount</u> RMB	<u>Proportion</u> %
Within 1 year	<u>99,673</u>	<u>100.0</u>	<u>702,647</u>	<u>100.0</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

4. Prepayments - continued

(2) Top three entities with the largest balances of prepayments:

	Relationship with the Group	Amount RMB	Aging	Reason for being outstanding	Percentage of total advances to suppliers %
Yantai Bohong Gongmao Co., Ltd.	Third party	50,000	Within 1 year	Goods not received	50.2
Xiangshan Jinxing Soft Machine Factory	Third party	39,880	Within 1 year	Goods not received	40.0
Shanghai Juwei Machinery Co.,Ltd.	Third party	9,793	Within 1 year	Goods not received	9.8
		<u>99,673</u>			<u>100.0</u>

5. Dividend receivables

(1) Dividend receivables

	Opening balance RMB	Increase RMB	Decrease RMB	Closing balance RMB
Within 1 year				
Including: Sales Company	402,666,078	577,813,022	(577,883,216)	402,595,884
Wines Sales	60,351,018	53,461,029	(113,812,047)	-
Xinjiang Tianzhu	-	48,620,373	(48,620,373)	-
Changyu Chateau	11,370,607	-	(11,370,607)	-
Beijing Chateau	-	87,000,000	(87,000,000)	-
Shihezi Chateau	5,842,003	24,076,746	(25,018,711)	4,900,038
Jingyang Sales	-	4,000,000	(4,000,000)	-
Jingyang Wine	-	2,000,000	(2,000,000)	-
Atrio	1,475,343	1,906,735	(3,382,078)	-
More than 1 year				
Including: Pioneer International	50,114,064	-	(50,114,064)	-
Total	<u>531,819,113</u>	<u>798,877,905</u>	<u>(923,201,096)</u>	<u>407,495,922</u>

6. Other receivables

(1) Disclosure of other receivables by categories:

	Closing balance					Opening balance				
	Balance		Bad debts provisions		Carrying Amount	Balance		Bad debts provisions		Carrying Amount
	Amount RMB	Proportion (%)	Amount RMB	Proportion (%)	Amount RMB	Amount RMB	Proportion (%)	Amount RMB	Proportion (%)	Amount RMB
Other receivables for which bad debt provision has been assessed individually	592,274,075	100.0	-	-	592,274,075	3,582,532,862	100.0	-	-	3,582,532,862

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

6. Other receivables - continued

(1) Disclosure of other receivables by categories: - continued

The aging analysis is as follows:

	Closing balance			Opening balance				
	Balance		Bad debts provision	Carrying amount	Balance		Bad debts provision	Carrying amount
	Amount	Proportion	Amount	Amount	Amount	Proportion	Amount	Amount
	RMB	%	RMB	RMB	RMB	%	RMB	RMB
Within 1 year	589,011,103	99.5	-	589,011,103	2,138,473,742	59.7	-	2,138,473,742
1 to 2 years	3,006,488	0.5	-	3,006,488	1,443,856,430	40.3	-	1,443,856,430
2 to 3 years	53,794	-	-	53,794	37,123	-	-	37,123
Over 3 years	202,690	-	-	202,690	165,567	-	-	165,567
	<u>592,274,075</u>	<u>100.0</u>	<u>-</u>	<u>592,274,075</u>	<u>3,582,532,862</u>	<u>100.0</u>	<u>-</u>	<u>3,582,532,862</u>

(2) Accrual, reversal and written-off during the current period

No bad debt accrued or reversed in 2017 (2016:Nil.).

(3) Other receivables written off current year

No other receivables written in 2017 (2016: RMB 7,199,521).

(4) Disclosure of other receivables by nature

	Closing balance	Opening balance
	RMB	RMB
Receivable from subsidiary	589,897,407	3,580,805,532
Receivable deposit	2,500	8,000
Others	<u>2,374,168</u>	<u>1,719,330</u>
	<u>592,274,075</u>	<u>3,582,532,862</u>

(5) Top five entities with the largest balances of other receivables

As at 31 December 2017, the particulars of top five other receivables are as follows:

	Nature	Amount	Aging	Proportion of total prepayments
		RMB		%
Sales Company	Internal balance	342,506,785	Within 1 year	57.8
R&D Centre	Internal balance	182,570,758	Within 1 year	30.8
Pioneer International	Internal balance	13,162,463	Within 1 year	2.2
Ding Luo Te Chateau	Internal balance	11,426,640	Within 1 year	1.9
Kylin Packaging	Internal balance	<u>7,873,409</u>	Within 1 year	<u>1.3</u>
		<u>557,540,055</u>		<u>94.0</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

7. Inventories

	Closing balance			Opening balance		
	Balance RMB	Provision RMB	Net carrying amount RMB	Balance RMB	Provision RMB	Net carrying amount RMB
Raw material	1,841,216	-	1,841,216	4,190,928	-	4,190,928
Work in progress	307,104,357	-	307,104,357	747,521,822	-	747,521,822
Finished goods	39,096,480	-	39,096,480	41,019,668	-	41,019,668
	<u>348,042,053</u>	<u>-</u>	<u>348,042,053</u>	<u>792,732,418</u>	<u>-</u>	<u>792,732,418</u>

8. Long-term equity investments

2017	Cost RMB	Opening balance RMB	for the year RMB	Closing balance RMB	Share holding %	Voting power %	for the year RMB
Cost Method							
Xinjiang Tianzhu (a)	60,000,000	60,000,000	-	60,000,000	60	100	48,620,373
Kylin Packaging	23,176,063	23,176,063	-	23,176,063	100	100	-
Changyu Chateau (a)	28,968,100	28,968,100	-	28,968,100	70	100	-
Pioneer International (b)	3,500,000	3,500,000	-	3,500,000	70	100	-
Ningxia Growing	36,573,247	1,000,000	35,573,247	36,573,247	100	100	-
National Wines	2,000,000	2,000,000	-	2,000,000	100	100	-
Ice Chateau (a)	30,440,500	30,440,500	-	30,440,500	51	100	-
Beijing Chateau (a)	579,910,000	77,000,000	502,910,000	579,910,000	90	100	87,000,000
Sales Company	7,200,000	7,200,000	-	7,200,000	100	100	577,813,022
Langfang Sales (b)	100,000	100,000	-	100,000	10	100	-
Langfang Castel (a)	19,835,730	19,835,730	-	19,835,730	39	100	-
Wine Sales	4,500,000	4,500,000	-	4,500,000	100	100	53,461,029
Shanghai Sales(b)	300,000	300,000	-	300,000	30	100	-
Beijing Sales	850,000	850,000	-	850,000	100	100	-
Jingyang Sales (b)	100,000	100,000	-	100,000	10	100	4,000,000
Jingyang Wine (b)	900,000	900,000	-	900,000	90	100	2,000,000
Ningxia Wine	222,309,388	1,000,000	221,309,388	222,309,388	100	100	-
Ningxia Chateau	443,463,500	2,000,000	441,463,500	443,463,500	100	100	-
Dingluote Chateau (b)	212,039,586	80,000,000	132,039,586	212,039,586	65	100	-
Shihezi Chateau	809,019,770	550,000,000	259,019,770	809,019,770	100	100	24,076,746
Changan Chateau	803,892,258	20,000,000	783,892,258	803,892,258	100	100	-
R&D Centre (a)	500,000,000	500,000,000	-	500,000,000	63	100	-
Huanren Wine	21,700,000	11,000,000	10,700,000	21,700,000	100	100	-
Grape Wine Sales Co.,	5,000,000	-	-	-	100	100	-
Francs Champs	236,025,404	220,320,604	15,704,800	236,025,404	100	100	-
Atrio	190,150,544	190,150,544	-	190,150,544	75	75	1,906,735
IWCC	274,248,114	-	274,248,114	274,248,114	85	85	-
	<u>4,516,202,204</u>	<u>1,834,341,541</u>	<u>2,676,860,663</u>	<u>4,511,202,204</u>			<u>798,877,905</u>

(a) The Company has 100% voting power of those subsidiaries by the way of indirect controlling, referring to Note VIII-1.

(b) The Company has 100% voting power of these subsidiaries by the way of indirect controlling through wholly owned subsidiaries.

During 2017, there was no significant restriction on the remittance of fund from the investees to the Company.

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

9. Fixed assets

(1) Fixed assets

	<u>Buildings</u> RMB	<u>Machinery</u> RMB	<u>Motor vehicles</u> RMB	<u>Total</u> RMB
I. Total original carrying amount				
1. Opening balance	302,370,711	577,087,188	12,762,342	892,220,241
2. Increase				
(1) Purchase	1,316,621	15,819,684	1,083,509	18,219,814
(2) CIP transfer	-	500,000	-	500,000
3. Decrease				
(1) Disposal	-	(117,837,238)	(3,716,538)	(121,553,776)
(2) Transfer to Investment property (VI-11)	(38,347,283)	-	-	(38,347,283)
4. Closing balance	<u>265,340,049</u>	<u>475,569,634</u>	<u>10,129,313</u>	<u>751,038,996</u>
II. Total accumulated depreciation				
1. Opening balance	121,589,403	415,743,718	7,405,703	544,738,824
2. Increase				
(1) Additions	9,306,775	22,095,168	799,234	32,201,177
3. Decrease				
(1) Disposal	-	(91,425,354)	(3,337,868)	(94,763,222)
(2) Transfer to Investment property (VI-11)	(19,288,684)	-	-	(19,288,684)
4. Closing balance	<u>111,607,494</u>	<u>346,413,532</u>	<u>4,867,069</u>	<u>462,888,095</u>
III. Total net carrying amount				
1. Closing net carrying amount	<u>153,732,555</u>	<u>129,156,102</u>	<u>5,262,244</u>	<u>288,150,901</u>
2. Opening net carrying amount	<u>180,781,308</u>	<u>161,343,470</u>	<u>5,356,639</u>	<u>347,481,417</u>

As at 31 December 2017, fixed assets with restricted ownership is RMB 36,349,289(December 31, 2016:RMB 27,145,520), referring to Note VI-50 for details.

As at 31 December 2017, net amount of fixed assets classified as non-current assets held for sale was RMB 2,000,197, and the Company has no temporary idle fixed assets and fixed assets leased in under finance leases.

(2) Fixed assets through operating lease

	<u>Amount</u> RMB
Machinery	<u>265,471</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

9. Fixed assets - continued

(3) Fixed assets of which certificates of title have not been obtained

As at 31 December 2017, buildings without property certificate are as follows:

	<u>Amount</u> RMB	<u>Reasons why</u> certificates of title have <u>not been obtained</u>
Fermentation centre office, experiment building and workshop	<u>3,824,105</u>	Processing

10. Construction in progress

(1) Construction in progress

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Reconstruction of boiler heating systems	3,556,349	500,000
Drainage project	<u>3,200,000</u>	<u>-</u>
	<u>6,756,349</u>	<u>500,000</u>

(2) Current year movement on important construction:

	Budget	Opening balance	Addition	Transfer to PPE	Closing balance	Accumulated expenditure/ budget	The progress of construction	Financed by
	RMB	RMB	RMB	RMB	RMB	%		
Reconstruction of boiler heating systems	13,000,000	500,000	3,556,349	(500,000)	3,556,349	88.8	95.0	Self-raised
Drainage project	3,200,000	-	3,200,000	-	3,200,000	100.0	90.0	Self-raised
		500,000	6,756,349	(500,000)	6,756,349			

There was no interest capitalized in construction in progress in 2017.

(3) As at 31 December 2017, there was no provision was made for the construction in process, and no provision was made (December 31, 2016:Nil).

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

11. Bearer biological assets

Bearer biological assets are grape trees, which measured in cost method.

	<u>Immature biological assets</u> RMB	<u>Mature biological assets</u> RMB	<u>Total</u> RMB
I. Total original carrying amount			
1. Opening balance	54,866,214	79,052,580	133,918,794
2. Increase			
(1) Cultivated increase	3,317,293	-	3,317,293
(2) Transfer to mature assets from immature assets	<u>(51,876,544)</u>	<u>51,876,544</u>	<u>-</u>
3. Closing balance	<u>6,306,963</u>	<u>130,929,124</u>	<u>137,236,087</u>
II. Total accumulated depreciation			
1. Opening balance	-	10,882,101	10,882,101
2. Increase			
(1) Additions	<u>-</u>	<u>6,781,447</u>	<u>6,781,447</u>
3. Closing balance	<u>-</u>	<u>17,663,548</u>	<u>17,663,548</u>
III. Total net carrying amount			
1. Closing net carrying amount	<u>6,306,963</u>	<u>113,265,576</u>	<u>119,572,539</u>
2. Opening net carrying amount	<u>54,866,214</u>	<u>68,170,479</u>	<u>123,036,693</u>

As at 31 December 2017, there is no biological asset with ownership restricted(December 31, 2016:Nil).

As at 31 December 2017, there is no indication that biological assets may be impaired, and no provision was made. (December 31, 2016:Nil).

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

12. Intangible assets

Intangible assets

	<u>Land use right</u> RMB
I. Total original carrying amount	
Opening and closing balance	<u>96,594,766</u>
II. Total accumulated depreciation	
1. Opening balance	24,592,394
2. Increase	
Additions	<u>2,379,153</u>
3. Closing balance	<u>26,971,547</u>
III. Total net carrying amount	
1. Closing net carrying amount	<u>69,623,219</u>
2. Opening net carrying amount	<u>72,002,372</u>

As at 31 December 2017, Intangible assets with restricted ownership are RMB 52,720,912 (December 31, 2016:RMB 11,220,838), Please refer to Note VI-50 in detail.

13. Deferred tax assets

Recognised deferred tax assets not presented at the net amount after offset

<u>Item</u>	<u>Closing balance</u>		<u>Opening balance</u>	
	<u>Deductible</u>	<u>Deferred</u>	<u>Deductible</u>	<u>Deferred</u>
	<u>temporary difference</u>	<u>tax assets</u>	<u>temporary difference</u>	<u>tax assets</u>
	RMB	RMB	RMB	RMB
Unrealized profit from intra - company transactions	7,163,828	1,790,957	5,333,339	1,333,335
Unpaid bonus	35,822,735	8,955,683	35,607,406	8,901,851
Retirement benefit	10,057,113	2,514,278	10,754,547	2,688,637
Asset impairment provision	-	-	10,000,000	2,500,000
Deductible losses	45,526,327	11,381,582	24,544,964	6,136,241
Deferred income	16,581,627	4,145,407	21,700,753	5,425,188
	<u>115,151,630</u>	<u>28,787,907</u>	<u>107,941,009</u>	<u>26,985,252</u>

14. Other non-current assets

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Receivables from subsidiaries	<u>3,718,674,166</u>	<u>2,617,457,460</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

15. Short-term borrowings

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Credit loans	<u>600,000,000</u>	<u>500,000,000</u>

As at 31 December 2017, credit loans detail are as follows:

<u>Loan bank</u>	<u>Loans amount</u> RMB	<u>Loan term</u>	<u>Interest rate in contract</u> %	<u>Interest rat</u> %
ICBC Yantai branch	200,000,000	13 June 2017 – 25 May 2018	1 year LPR-0.39	3.92
ICBC Yantai branch	200,000,000	22 June 2017 – 08 June 2018	1 year LPR-0.39	3.92
ICBC Yantai branch	200,000,000	22 June 2017 – 20 June 2018	1 year LPR-0.39	3.92
	<u>600,000,000</u>			

16. Accounts payable

The aging analysis of accounts payable are as follows

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Within 1 year	97,036,146	246,743,228
1 to 2 years	556,883	825,629
2 to 3 years	240,095	-
	<u>97,833,124</u>	<u>247,568,857</u>

17. Advances from customers

The aging analysis of advances from customers are as follows

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Within 1 year	-	6,000,000
1 to 2 years	6,000,000	-
	<u>6,000,000</u>	<u>6,000,000</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

18. Employee benefits payable

(1) Employee benefits payable

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Short-term salaries and welfare	60,058,214	75,267,441	(75,274,692)	60,050,963
Post-demission benefits				
- predetermined provision plan	-	8,919,067	(8,919,067)	-
Termination benefit	<u>10,754,547</u>	<u>5,002,856</u>	<u>(5,700,290)</u>	<u>10,057,113</u>
	<u>70,812,761</u>	<u>89,189,364</u>	<u>(89,894,049)</u>	<u>70,108,076</u>

(2) Short-term salaries and welfare

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Salaries and bonus	59,990,567	60,428,268	(59,724,215)	60,694,620
Staff benefit	193,400	6,898,548	(7,054,775)	37,173
Staff welfare	-	4,553,096	(4,553,096)	-
Includes:				
Medical insurance	-	3,362,111	(3,362,111)	-
Injury insurance	-	842,385	(842,385)	-
Maternity insurance	-	348,600	(348,600)	-
Housing fund	-	3,082,393	(3,082,393)	-
Union fee and education fee	<u>2,373,650</u>	<u>383,435</u>	<u>(860,213)</u>	<u>1,896,872</u>
Total	<u>62,557,617</u>	<u>75,345,740</u>	<u>(75,274,692)</u>	<u>62,628,665</u>
Less: Non-current liabilities	<u>2,499,403</u>			<u>2,577,702</u>
Short-term salaries and welfare	<u>60,058,214</u>			<u>60,050,963</u>

(3) Predetermined provision plan

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Pension	-	8,595,215	(8,595,215)	-
Unemployment insurance	<u>-</u>	<u>323,852</u>	<u>(323,852)</u>	<u>-</u>
	<u>-</u>	<u>8,919,067</u>	<u>(8,919,067)</u>	<u>-</u>

The Company participates in pension insurance and unemployment insurance plans established by government institution. According to those plans, the Company pays pension and unemployment insurance each month on the basis of 18% and 0.7% last period salary respectively. Apart from these monthly expenses, the Company does not bear any further payment obligation. This year the Company should pay RMB 8,595,215 and RMB 323,852 (2016: RMB 9,488,517 and RMB 738,525) respectively into pension insurance and unemployment insurance. As at 31 December 2017, the Company does not have unpaid pension and unemployment insurance (31 December 2016: Nil) which is due to the pension insurance and unemployment insurance plan and not paid at the end of the reporting period.

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

19. Taxes payable

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Value added tax	-	2,199,892
Consumption tax	6,450,962	18,887,846
Corporation income tax	26,069	211,105
Urban land use tax	784,627	802,207
Individual income tax	6,630,393	7,289,253
City construction tax	345,138	1,941,063
Property tax	82,669	270,492
Others	249,832	1,664,367
	<u>14,569,690</u>	<u>33,266,225</u>

20. Other payables

(1) Natures of other payables are as follows

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Payable to subsidiaries	534,530,323	359,161,772
Payables for equipment and construction	8,538,687	2,772,304
Deposits from suppliers	183,000	589,300
Others	1,461,162	5,786,986
	<u>544,713,172</u>	<u>368,310,362</u>

(2) As at 31 December 2017, there were no significant outstanding balance aged over than one year.

21. Non-current liabilities due within one year

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Long-term borrowings due within one year	<u>-</u>	<u>29,227,200</u>

22. Capital reserve

<u>2017</u>	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Share premium	<u>557,222,454</u>	<u>-</u>	<u>-</u>	<u>557,222,454</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

23. Operating income and costs

Operating income is analysed as follows:

	<u>2017</u> RMB	<u>2016</u> RMB
Principal operating income	1,310,443,414	1,415,104,946
Other operating income	813,440	-
	<u>1,311,256,854</u>	<u>1,415,104,946</u>

Operating cost is analysed as follows:

	<u>2017</u> RMB	<u>2016</u> RMB
Principal operating cost	1,165,362,798	1,152,076,500
Other operating cost	590,610	-
	<u>1,165,953,408</u>	<u>1,152,076,500</u>

24. Taxes and surcharges

	<u>2017</u> RMB	<u>2016</u> RMB
Consumption tax	53,236,697	86,244,674
City construction tax	10,190,867	8,665,672
Education fee and surcharges	5,817,116	6,189,856
Property tax	2,267,901	1,229,545
Land use tax	3,168,559	2,534,985
Stamp tax	603,461	315,520
Others	1,285,624	1,288,965
	<u>76,570,225</u>	<u>106,469,217</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

25. General and administrative expense

	<u>2017</u> RMB	<u>2016</u> RMB
Salary and employee benefit	38,430,904	34,475,802
Maintenance fee	6,192,525	8,755,646
Leasing expenses	2,276,896	6,525,996
Leasing expenses	3,881,091	5,041,108
Depreciation	4,286,164	4,266,502
Property insurance fees	3,080,521	3,594,451
Greening fee	394,604	2,779,497
Amortization	2,695,110	2,333,153
Service fee	9,194,005	2,008,619
Other taxes	39,285	1,952,995
Shuttle bus	1,719,660	1,914,130
Security and sanitation fee	941,434	1,727,077
Postal charges	74,354	1,689,281
Travelling expenses	527,464	1,657,767
Others	6,959,027	7,240,113
	<u>80,693,044</u>	<u>85,962,137</u>

26. Financial Expense

	<u>2017</u> RMB	<u>2016</u> RMB
Interest expense from occupation of funds	(14,912,649)	-
Interest income	(3,689,550)	(3,704,355)
Exchange loss	1,040,832	10,474,409
Interest expenses	17,414,181	26,658,795
Bank charges	784,754	797,603
	<u>637,568</u>	<u>34,226,452</u>

27. Investment income

	<u>2017</u> RMB	<u>2016</u> RMB
Long-term equity investment income accounted for by using the cost method	<u>798,877,905</u>	<u>1,798,129,418</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

27. Investment income - continued

Among the long-term equity investment income accounted for by using cost method, the investees with investment income accounting for more than 5% of the Company's total profit before tax are as follows:

<u>Investees</u>	<u>2017</u> RMB	<u>2016</u> RMB
Sales Company	577,813,022	1,515,829,419
Beijing Chateau	87,000,000	20,000,000
Wine Sales	53,461,029	82,388,043
Xinjiang Tianzhu	48,620,373	46,502,728
	<u>766,894,424</u>	<u>1,664,720,190</u>

As at 31 December 2017 and at 31 December 2016, there are no significant restriction on the remittance of investment income to the Company.

28. Supplement to cash flow statement

(1) Cash flows from operating activities calculated by adjusting the net profit:

	<u>2017</u> RMB	<u>2016</u> RMB
Net profit	793,598,010	1,830,574,470
Add: Depreciation of investment properties	590,610	-
Depreciation of fixed assets	32,201,177	35,112,571
Amortization of intangible assets	2,379,153	2,379,153
Amortization of biological assets	6,781,447	3,257,386
Loss(Gains)on disposal of property, plant and equipment	29,625	(111,362)
Finance expenses	18,614,396	34,300,141
Investment income	(798,877,905)	(1,798,129,418)
Decrease/(increase) in deferred tax assets	(1,802,655)	10,953,440
Decrease/(increase) in inventories	444,690,365	(64,559,311)
Increase in trade receivables	103,406,898	130,012,325
Decrease in trade payables	(3,541,352)	(637,852,493)
Net cash flows from operating activities	<u>598,069,769</u>	<u>(454,063,098)</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

28. Supplement to cash flow statement - continued

(2) Significant investing and financing activities not involving cash receipts and payments

	<u>2017</u> RMB	<u>2016</u> RMB
Change the claim on subsidiaries into Long-term equity investments	2,386,907,749	400,000,000
Increase the investment in subsidiaries with bank acceptances	96,345,678	523,977,060
Recover the investment in subsidiaries with bank acceptances	<u>(96,345,678)</u>	<u>(523,977,060)</u>
	<u>2,386,907,749</u>	<u>400,000,000</u>

29. Cash and cash equivalents

	<u>2017</u> RMB	<u>2016</u> RMB
Closing balance of cash and bank	559,174,466	269,460,060
Less:		
Restricted bank deposits	2,645,410	2,711,926
Restricted other monetary assets	57,960,190	25,744,936
Deposit with a period of over three months	<u>5,000,000</u>	<u>3,000,000</u>
Closing balance of cash and cash equivalents	<u>493,568,866</u>	<u>238,003,198</u>

	<u>2017</u> RMB	<u>2016</u> RMB
Cash and bank	493,568,866	238,003,198
Including: Cash and bank	5,280	6,631
Bank deposits on demand	<u>493,563,586</u>	<u>237,996,567</u>
Closing balance of cash and cash equivalents	<u>493,568,866</u>	<u>238,003,198</u>

30. Related party transactions

(1) Purchase of materials

	<u>2017</u> RMB	<u>2016</u> RMB
Subsidiaries	352,495,622	397,141,028
Other related parties	<u>82,394,392</u>	<u>109,448,605</u>
	<u>434,890,014</u>	<u>506,589,633</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

30. Related party transactions - continued

(2) Sales of goods

	<u>2017</u> RMB	<u>2016</u> RMB
Subsidiaries	1,302,056,254	1,399,002,536
Other related parties	<u>9,200,600</u>	<u>16,102,410</u>
	<u>1,311,256,854</u>	<u>1,415,104,946</u>

(3) Sales of Fixed assets

	<u>2017</u> RMB	<u>2016</u> RMB
Subsidiaries	47,843,203	2,971,880
Other related parties	<u>3,934,643</u>	<u>411,407</u>
	<u>51,777,846</u>	<u>3,383,287</u>

(4) Interest income from occupation of funds

	<u>2017</u> RMB	<u>2016</u> RMB
Subsidiaries	<u>14,912,649</u>	<u>-</u>

(5) Lease income

	<u>2017</u> RMB	<u>2016</u> RMB
Subsidiaries	<u>813,440</u>	<u>-</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

31. Receivables and payables to related parties

(1) Trade receivables

<u>Trade receivables</u>	<u>Closing balance</u>		<u>Opening balance</u>	
	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB
Other related parties	<u>7,805,333</u>	<u>-</u>	<u>3,326,683</u>	<u>-</u>
 <u>Other receivables</u>	 <u>Closing balance</u>		 <u>Opening balance</u>	
	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB
Subsidiaries	<u>589,897,407</u>	<u>-</u>	<u>3,580,805,532</u>	<u>-</u>
 <u>Other non-current assets</u>	 <u>Closing balance</u>		 <u>Opening balance</u>	
	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB
Subsidiaries	<u>3,718,674,166</u>	<u>-</u>	<u>2,617,457,460</u>	<u>-</u>

The above receivables due from related parties are unsecured, have no interest or fixed date of repayment.

(2) Trade payables

<u>Trade Payables</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Other related parties	<u>29,145,914</u>	<u>46,834,283</u>
 <u>Other payables</u>	 <u>Closing balance</u> RMB	 <u>Opening balance</u> RMB
Subsidiaries	<u>534,530,323</u>	<u>359,161,772</u>

The above payables due to related parties are unsecured, have no interest or fixed date of repayment.

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

APPENDIX I SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2017

I. DETAILS OF EXTRAORDINARY PROFIT AND LOSS

	<u>2017</u> RMB
Corporate income tax effect	(222,586)
Government grants credited in profit and loss (except for those recurring government grants that are closely related to the Group's operation and have proper basis of calculation)	47,638,384
Other non-operating income and expense	13,999,251
Corporate income tax effect	(15,523,424)
The impact of non-controlling interests' equity	<u>(292,441)</u>
	<u>45,599,184</u>

The Company's extraordinary profit and loss items are recognized in accordance with the regulations of the "public offering of securities of the Company Disclosure Explanatory Notice No. 1 - non-recurring profit and losses" (SFC [2008] No. 43).

All non-operation income and non-operation expenses are non-operating profit in 2017. Please refer to Note VI-44 and VI-45.

II. RETRUN ON EQUITY ("ROE") AND EARNINGS PRE SHARE ("EPS")

The Company's ROE and EPS are calculated in accordance with the CSRC regulations of the "Information Preparing and Disclosure Rules of Public Company No. 9 - calculation and disclosure of ROE and EPS" (Revised 2010).

<u>2017</u>	Weighted average <u>ROE</u> %	<u>Basic EPS</u> RMB
Net profit attributable to shareholders of the Company	12.14	1.51
Net profit attributable to shareholders of the Company deducting extraordinary profit and loss	<u>11.60</u>	<u>1.44</u>

The Company did not have any potential dilutive shares.

<u>2016</u>	Weighted average <u>ROE</u> %	<u>Basic EPS</u> RMB
Net profit attributable to shareholders of the Company	12.55	1.43
Net profit attributable to shareholders of the Company deducting extraordinary profit and loss	<u>12.03</u>	<u>1.37</u>

The Company did not have any potential dilutive shares.