

YANTAI CHANGYU PIONEER WINE
COMPANY LIMITED

Financial Statements and Auditor's Report
For the year ended 31 December 2018

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

FINANCIAL STATEMENTS AND AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

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AUDITOR'S REPORT

De Shi Bao (Shen) Zi (19) No. P02452

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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 2018, 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 2018, 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 year. 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

Impairment assessment of certain long-term assets

1. Item description

As stated in Note IV "Impairment of long-term assets", the Production of Yantai Changyu Pioneer Wine Company Limited Research and Development Co., Ltd. ("R&D Centre"), subsidiary of the Company as well as a new main production base of the Company, accounts for more than 60% of the Group's production in 2018. As at 31 December 2018, the book values of long-term assets including fixed assets, construction in progress and intangible of "R&D Centre" amounted to RMB 3.5 billion, accounting for 26.6% of the total assets in the consolidated financial statements, which exerts significant influence on the consolidated financial statements. As there is little space for the development of the domestic wine market, the management of the Company faces great operating pressures with certain risks of impairment of related long-term assets. The management performs the impairment test by determining if the recoverable amount is less than the book value of long-term assets and determines the recoverable amount based on the present value of expected future cash flows. In the estimate of the present value of future cash flows, the management is required to make significant judgements in the assumptions including the sales growth rate, future selling price, production cost, operating expenses and discount rate. For the above reasons, we identified the valuation of the impairment of long-term assets 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) Test and evaluate the effectiveness of the design and implementation of the internal control related to the valuation of the impairment of long-term assets;
- (2) Review and evaluate the reasonableness of key assumptions and judgements used in the estimate of the present value of expected future cash flows in the impairment test based on the historical records of the Company and our understanding of the business and industry in which the Company operates.
- (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.

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 2018 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 (19) No. P02452

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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.

AUDITORS' REPORT - continued

De Shi Bao (Shen) Zi (19) No. P02452

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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 year 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: Xie Yanfeng
(Engagement partner)

Chinese Certified Public Accountant: Li Yangang

18 April 2019

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
YEAR ENDED 31 DECEMBER 2018

<u>ASSETS</u>	<u>Notes</u>	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
CURRENT ASSETS			
Cash and bank	VI-1	1,475,700,477	1,402,522,509
Notes and accounts receivable	VI-2	530,821,071	508,593,173
Including: Notes receivable	VI-2.2	288,667,988	244,796,818
Accounts receivable	VI-2.3	242,153,083	263,796,355
Prepayments	VI-3	4,219,949	2,417,931
Other receivables	VI-4	22,636,086	18,978,422
Including: Interest receivable	VI-4.2	1,332,681	240,968
Inventories	VI-5	2,724,591,457	2,473,614,046
Non-current assets held for sale		-	2,000,197
Other current assets	VI-6	258,676,396	230,822,759
Total current assets		<u>5,016,645,436</u>	<u>4,638,949,037</u>
NON-CURRENT ASSETS			
Available-for-sale financial assets	VI-7	467,251	467,251
Investment properties	VI-8	31,572,489	18,467,989
Fixed assets	VI-9	5,749,731,667	5,329,083,969
Construction in progress	VI-10	759,296,591	1,026,141,569
Bearer biological assets	VI-11	209,266,373	201,929,888
Intangible assets	VI-12	655,473,459	655,448,897
Goodwill	VI-13	165,199,111	128,135,981
Long-term prepaid expenses	VI-14	244,640,416	230,009,231
Deferred tax assets	VI-15	285,436,259	308,121,396
Total non-current assets		<u>8,101,083,616</u>	<u>7,897,806,171</u>
Total assets		<u><u>13,117,729,052</u></u>	<u><u>12,536,755,208</u></u>

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
YEAR ENDED 31 DECEMBER 2018 - continued

<u>LIABILITIES AND EQUITY</u>	<u>Notes</u>	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
CURRENT LIABILITIES			
Short-term borrowings	VI-16	688,002,410	714,434,286
Notes and accounts payable	VI-17	713,572,881	666,442,879
Receipts in advance	VI-18	226,075,244	350,894,156
Employee benefits payable	VI-19	212,304,217	210,824,234
Taxes payable	VI-20	128,912,790	145,094,156
Other payables	VI-21	608,479,890	603,735,569
Including: Interest payable		712,826	771,250
Other payables	VI-21.2	607,767,064	602,964,319
Deferred income	VI-22	15,860,254	16,878,199
Non-current liabilities due within one year	VI-23	152,940,788	110,954,827
Total current liabilities		<u>2,746,148,474</u>	<u>2,819,258,306</u>
NON-CURRENT LIABILITIES			
Long-term borrowings	VI-24	156,480,662	156,125,854
Long-term payables	VI-25	225,000,000	259,000,000
Deferred income	VI-22	70,367,039	92,918,855
Deferred tax liabilities	VI-15	22,010,647	24,264,203
Other non-current liabilities	VI-26	7,234,853	7,209,312
Total non-current liabilities		<u>481,093,201</u>	<u>539,518,224</u>
Total liabilities		<u>3,227,241,675</u>	<u>3,358,776,530</u>

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CONSOLIDATED BALANCE SHEETS
YEAR ENDED 31 DECEMBER 2018 - continued

<u>LIABILITIES AND EQUITY</u>	<u>Notes</u>	<u>31/12/2018</u>	<u>31/12/2017</u>
		RMB	RMB
EQUITY			
Share capital	VI-27	685,464,000	685,464,000
Capital reserve	VI-28	565,955,441	565,955,441
Other comprehensive income	VI-29	2,965,377	3,109,240
Surplus reserve	VI-30	342,732,000	342,732,000
Retained earnings	VI-31	8,008,982,547	7,309,081,618
Equity attributable to shareholders of the Company		9,606,099,365	8,906,342,299
Non-controlling interests		284,388,012	271,636,379
Total equity		9,890,487,377	9,177,978,678
Total liabilities and equity		13,117,729,052	12,536,755,208

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

The financial statements on pages 6 to 107 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 2018

<u>ASSETS</u>	<u>Notes</u>	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
CURRENT ASSETS			
Cash and bank	XIV-1	624,588,809	559,174,466
Notes and accounts receivable	XIV-2	41,333,227	49,450,536
Including: Notes receivable	XIV-2.2	39,885,254	41,645,203
Accounts receivable	XIV-2.3	1,447,973	7,805,333
Prepayments		227	99,673
Other receivables	XIV-3	1,025,643,356	999,846,643
Including: Interest receivable		254,088	76,646
Dividend receivables	XIV-3.2	500,000,000	407,495,922
Inventories	XIV-4	385,154,740	348,042,053
Non-current assets held for sale		-	2,000,197
Other current assets		24,704,844	29,706,058
Total current assets		<u>2,101,425,203</u>	<u>1,988,319,626</u>
NON-CURRENT ASSETS			
Long-term equity investments	XIV-5	7,420,803,069	4,511,202,204
Investment properties	VI-8	31,572,489	18,467,989
Fixed assets	XIV-6	265,311,274	288,150,901
Construction in progress	XIV-7	6,311,701	6,756,349
Construction in progress	XIV-8	125,002,793	119,572,539
Intangible assets	XIV-9	67,244,066	69,623,219
Deferred tax assets	XIV-10	24,194,967	28,787,907
Other non-current assets	XIV-11	972,700,000	3,718,674,166
Total non-current assets		<u>8,913,140,359</u>	<u>8,761,235,274</u>
Total assets		<u><u>11,014,565,562</u></u>	<u><u>10,749,554,900</u></u>

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

BALANCE SHEET OF THE COMPANY
YEAR ENDED 31 DECEMBER 2018 - continued

<u>LIABILITIES AND EQUITY</u>	<u>Notes</u>	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
CURRENT LIABILITIES			
Short-term borrowings	XIV- 12	150,000,000	600,000,000
Notes and accounts payable	XIV- 13	132,704,304	97,833,124
Advances from customers		-	6,000,000
Employee benefits payable	XIV- 14	72,345,179	70,108,076
Taxes payable	XIV- 15	13,111,431	14,569,690
Other payables	XIV- 16	607,974,519	545,365,672
Including: Interest payable		181,250	652,500
Other payables	XIV- 16.2	607,793,269	544,713,172
Deferred income		3,433,054	3,953,054
Total current liabilities		<u>979,568,487</u>	<u>1,337,829,616</u>
NON-CURRENT LIABILITIES			
Deferred income		8,910,918	12,628,573
Other non-current liabilities	XIV- 14	2,710,575	2,577,702
Total non-current liabilities		<u>11,621,493</u>	<u>15,206,275</u>
Total liability		<u>991,189,980</u>	<u>1,353,035,891</u>
EQUITY			
Share capital	VI-27	685,464,000	685,464,000
Capital reserve	XIV- 17	557,222,454	557,222,454
Surplus reserve	VI-30	342,732,000	342,732,000
Retained earnings		8,437,957,128	7,811,100,555
Total equity		<u>10,023,375,582</u>	<u>9,396,519,009</u>
Total liabilities and equity		<u><u>11,014,565,562</u></u>	<u><u>10,749,554,900</u></u>

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 DECEMBER 2018

	<u>Notes</u>	<u>2018</u> RMB	<u>2017</u> RMB
I. Revenue	VI-32	5,142,244,740	4,932,545,229
Less: Cost of sales	VI-32	1,901,611,507	1,671,592,279
Taxes and surcharges	VI-33	276,491,674	310,252,023
Selling expenses	VI-34	1,274,599,146	1,272,522,443
Administrative expenses	VI-35	343,580,651	336,461,133
Research and development expenses		4,784,118	4,320,825
Financial expenses	VI-36	35,945,302	18,590,259
Including: Interest income		12,086,007	9,168,772
Interest expenses		46,354,902	26,095,487
(Reversal of) Impairment loss of assets	VI-37	(912,166)	8,293,553
Add: Income (loss) from disposal of assets		11,368,355	(222,586)
Other income	VI-38	87,281,434	46,038,384
II. Operating profit		1,404,794,297	1,356,328,512
Add: Non-operating income	VI-39	7,353,309	17,230,727
Less: Non-operating expenses	VI-40	3,535,908	1,631,476
III. Profit before tax		1,408,611,698	1,371,927,763
Less: Income tax	VI-41	367,127,522	338,134,245
IV. Profit for the year		1,041,484,176	1,033,793,518
(I) Categorized by the nature of continuing operation			
1. Net profit from continuing operations		1,041,484,176	1,033,793,518
(II) Categorized by ownership:			
1. Profit or loss attributable to non-controlling interests		(1,148,753)	2,098,462
2. Net profit attributable to owners of the Company		1,042,632,929	1,031,695,056
V. Other comprehensive income (post-tax)		(376,524)	9,863,872
Other comprehensive income attributable to shareholders of the Company			
Other comprehensive income to be reclassified to profit and loss			
Foreign currency statement translation difference		(143,863)	8,368,254
Other comprehensive income attributable to non-controlling interest		(232,661)	1,495,618
VI. Total comprehensive income		1,041,107,652	1,043,657,390
Attribute to shareholders of the Company		1,042,489,066	1,040,063,310
Attribute to non-controlling interest of the Company		(1,381,414)	3,594,080
VII. Earnings per share			
(I) Basic earnings per share	VI-42	1.52	1.51
(II) Diluted earnings per share	VI-42	N/A	N/A

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

INCOME STATEMENT OF THE COMPANY
YEAR ENDED 31 DECEMBER 2018

	<u>Notes</u>	<u>2018</u> RMB	<u>2017</u> RMB
I. Revenue	XIV-18	876,447,070	1,311,256,854
Less: Cost of sales	XIV-18	774,487,031	1,165,953,408
Taxes and surcharges	XIV-19	38,346,761	76,570,225
Administrative expenses	XIV-20	90,505,208	79,119,135
Research and development expenses		887,355	1,573,909
Financial expenses	XIV-21	(20,292,737)	637,568
Including: Interest income		41,821,372	18,602,199
Interest expenses		16,075,353	17,414,181
Add: Investment income	XIV-22	964,128,659	798,877,905
Income (loss) from disposal of assets		12,411,962	(29,625)
Other income		4,237,655	5,219,126
II. Operating Profit		973,291,728	791,470,015
Add: Non-operating income		1,483,478	686,646
Less: Non-operating expenses		593,694	335,237
III. Profit before tax		974,181,512	791,821,424
Less: Income tax		4,592,939	(1,776,586)
IV. Profit for the year		969,588,573	793,598,010
Net profit from continuing operations		969,588,573	793,598,010
V. Total comprehensive income		969,588,573	793,598,010

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2018

	<u>Notes</u>	<u>2018</u> RMB	<u>2017</u> RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from the sale of goods and the rendering of services		4,950,603,207	4,827,152,526
Receipts of tax refunds		57,056,690	53,196,910
Other cash receipts relating to operating activities	VI-43(1)	72,703,872	85,236,905
Sub-total of cash inflows from operating activities		<u>5,080,363,769</u>	<u>4,965,586,341</u>
Cash payments for goods purchased and services received		1,383,945,233	1,143,840,915
Cash payments to and on behalf of employees		544,742,974	512,777,815
Payment of various types of taxes		1,111,980,499	1,260,813,596
Other cash payments relating to operating activities	VI-43(2)	1,063,716,317	1,074,910,988
Sub-total of cash outflows from operating activities		<u>4,104,385,023</u>	<u>3,992,343,314</u>
Net cash flows from operating activities	VI-44(1)	<u>975,978,746</u>	<u>973,243,027</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash receipts from disposals and recovery of investments		400,000,000	205,000,000
Proceeds from return on investments		3,445,895	4,084,350
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		19,967,431	7,594,005
Sub-total of cash inflows from investing activities		<u>423,413,326</u>	<u>216,678,355</u>
Cash paid for acquisition of properties, plants and equipment, intangible assets and other long-term assets		347,384,820	435,960,357
Cash payments to acquire investments		478,042,400	297,129,216
Cash paid for the purchase subsidiaries and other equity	VI-43(3)	105,834,655	303,796,543
Sub-total of cash outflows from investing activities		<u>931,261,875</u>	<u>1,036,886,116</u>
Net cash flows from investing activities		<u>(507,848,549)</u>	<u>(820,207,761)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from capital contributions		2,050,000	48,396,726
Including: cash receipts from capital contributions from non-controlling owners of subsidiaries		2,050,000	48,396,726
Cash receipts from borrowings		1,049,815,411	963,564,600
Other cash received from financing activities	VI-43(4)	62,468,259	52,930,804
Sub-total of cash inflows from financing activities		<u>1,114,333,670</u>	<u>1,064,892,130</u>
Cash paid for borrowings		1,103,189,409	876,502,273
Cash paid for dividends, profits and interests		397,351,813	369,791,284
Cash paid for other financing activities	VI-43(5)	46,100,000	61,700,000
Sub-total of cash outflows from financing activities		<u>1,546,641,222</u>	<u>1,307,993,557</u>
Net cash flows from financing activities		<u>(432,307,552)</u>	<u>(243,101,427)</u>
Effect of foreign exchange rate changes on cash and cash equivalents		(9,851,585)	14,013,131
NET INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS		<u>25,971,060</u>	<u>(76,053,030)</u>
Add: cash and cash equivalents at beginning of the year	VI-44(3)	1,180,889,274	1,256,942,304
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	VI-44(3)	<u><u>1,206,860,334</u></u>	<u><u>1,180,889,274</u></u>

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

**CASH FLOW STATEMENT OF THE COMPANY
YEAR ENDED 31 DECEMBER 2018**

	<u>Notes</u>	<u>2018</u> RMB	<u>2017</u> RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from the sale of goods and the rendering of services		817,341,175	984,103,489
Other cash receipts relating to operating activities		177,786,322	431,983,092
Sub-total of cash inflows from operating activities		<u>995,127,497</u>	<u>1,416,086,581</u>
Cash payments for goods purchased and services received		608,241,452	398,827,772
Cash payments to and on behalf of employees		107,256,441	89,894,049
Payment of various types of taxes		62,066,449	207,917,864
Other cash payments relating to operating activities		74,357,324	121,377,127
Sub-total of cash outflows from operating activities		<u>851,921,666</u>	<u>818,016,812</u>
Net cash flows from operating activities	XIV-23(1)	<u>143,205,831</u>	<u>598,069,769</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash receipts from disposals and recovery of investments		370,000,000	103,000,000
Proceeds from return on investments		874,520,633	827,218,467
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		11,212,195	26,760,929
Sub-total of cash inflows from investing activities		<u>1,255,732,828</u>	<u>956,979,396</u>
Cash paid for acquisition of properties, plants and equipment, intangible assets and other long-term assets		28,842,911	22,527,073
Cash payments to acquire investments		410,000,000	105,000,000
Cash paid for the purchase subsidiaries and other equity		107,194,420	881,056,220
Sub-total of cash outflows from investing activities		<u>546,037,331</u>	<u>1,008,583,293</u>
Net cash flows from investing activities		<u>709,695,497</u>	<u>(51,603,897)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from borrowings		200,000,000	600,000,000
Sub-total of cash inflows from financing activities		<u>200,000,000</u>	<u>600,000,000</u>
Cash paid for borrowings		650,000,000	530,339,600
Cash paid for dividends, profits and interests		364,085,312	360,560,604
Sub-total of cash outflows from financing activities		<u>1,014,085,312</u>	<u>890,900,204</u>
Net cash flows from financing activities		<u>(814,085,312)</u>	<u>(290,900,204)</u>
NET INCREASE OF CASH AND CASH EQUIVALENTS			
Add: cash and cash equivalents at beginning of the year	XIV-24	38,816,016	255,565,668
		<u>493,568,866</u>	<u>238,003,198</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	XIV-24	<u><u>532,384,882</u></u>	<u><u>493,568,866</u></u>

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2018**

	2018						
	Attributable to shareholders of the Company					Non-controlling interests	Total
	Issued capital	Capital surplus	Other comprehensive income	Surplus reserve	Retained earnings		
RMB	RMB	RMB	RMB	RMB	RMB	RMB	
I. 1/1/2018	685,464,000	565,955,441	3,109,240	342,732,000	7,309,081,618	271,636,379	9,177,978,678
II. Changes for the year							
(I) Total comprehensive income	-	-	(143,863)	-	1,042,632,929	(1,381,414)	1,041,107,652
(II) Owners' contributions and reduction in capital							
Acquisition of subsidiaries (VIII-2)	-	-	-	-	-	17,532,823	17,532,823
(III) Profit distribution							
Distributions to shareholders (VI-31, VIII-2)	-	-	-	-	(342,732,000)	(3,399,776)	(346,131,776)
III. 31/12/2018	685,464,000	565,955,441	2,965,377	342,732,000	8,008,982,547	284,388,012	9,890,487,377
	2017						
	Attributable to shareholders of the Company					Non-controlling interests	Total
	Issued capital	Capital surplus	Other comprehensive income	Surplus reserve	Retained earnings		
RMB	RMB	RMB	RMB	RMB	RMB	RMB	
I. 1/1/2017	685,464,000	565,955,441	(5,259,014)	342,732,000	6,620,118,562	190,473,697	8,399,484,686
II. Changes for the year							
(I) Total comprehensive income	-	-	8,368,254	-	1,031,695,056	3,594,080	1,043,657,390
(II) Owners' contributions and reduction in capital							
Non-controlling interests' capital contribution	-	-	-	-	-	78,236,726	78,236,726
(III) Profit distribution							
Distributions to shareholders (VI-31)	-	-	-	-	(342,732,000)	(668,124)	(343,400,124)
III. 31/12/2017	685,464,000	565,955,441	3,109,240	342,732,000	7,309,081,618	271,636,379	9,177,978,678

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY OF THE COMPANY
YEAR ENDED 31 DECEMBER 2018

	2018				
	<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. 1/1/2018	685,464,000	557,222,454	342,732,000	7,811,100,555	9,396,519,009
II. Changes for the year					
(I) Total comprehensive income	-	-	-	969,588,573	969,588,573
(II) Profit distribution					
Distributions to shareholders (VI-31)	-	-	-	(342,732,000)	(342,732,000)
III. 31/12/2018	<u>685,464,000</u>	<u>557,222,454</u>	<u>342,732,000</u>	<u>8,437,957,128</u>	<u>10,023,375,582</u>
	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. 1/1/2017	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-31)	-	-	-	(342,732,000)	(342,732,000)
III. 31/12/2017	<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>

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 2018 the total shares issued by the Company amounts to 685,464,000 shares. Please refer to Note VI-27 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 18 April 2019. 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 Note VIII "Equity in other entities" in detail. For detail of changes in consolidation scope of the year, please refer to Note 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 value of cash and cash equivalents or the fair value of consideration paid 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.

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

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 2018, 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 2018, financial performance and cash flow in 2018 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. Overseas subsidiaries of the Company adopt Currency Euro, Chilean Peso and Australian Dollar as their functional currencies on the basis of the primary economic environment in which they operate. 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 recognized 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 recognizes 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.

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 - continued

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

8.2 Translation of financial statements denominated in foreign currencies - continued

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.

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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING

- continued

9. Financial instruments - continued

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. The Group's financial assets are bought in a conventional way, and recognized and terminated according to the accounting transaction date. 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 cash and bank, notes and accounts receivable and other receivables, etc.

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.

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;

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING

- continued

9. Financial instruments - continued

9.3 Impairment of financial assets - continued

- (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; namely, at the balance sheet date, if the initial cost of an equity instrument investment is more than 50%(inclusive) in excess of the fair value of such investment, or the period in which the initial cost of an equity instrument investment exceeds the fair value of such investment is over 12 months(inclusive);
- (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.

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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING

- continued

9. Financial instruments - continued

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, 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.

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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING

- continued

9. Financial instruments - continued

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.

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.

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

11.2 Valuation method of inventories upon delivery

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

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 based on categories of inventories.

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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING

- continued

11. Inventories - continued

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.

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

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

investing enterprises or other parties that are currently exercisable or convertible shall be considered.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING

- continued

13. Long term equity investments - continued

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.

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 recognized 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 amortization 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 recognizes the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING

- continued

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.

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 are 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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING

- continued

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.

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. 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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING

- continued

18. Biological assets - continued

18.1 Bearer biological assets - continued

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.

19. Intangible assets

Intangible assets include land use rights, software and trademark, 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 intangible assets with infinite useful lives including the land use right and trademark. Land use rights with infinite useful lives are permanent land use rights with permanent ownership held by the Group under the relevant Chile and Australian laws arising from the Group's acquisition of Viña Indómita, S.A., Viña Dos Andes, S.A., and Bodegas Santa Alicia SPA. (collectively referred to as the "Chile Indomita Wine Group"), and the acquisition of Kilikanoon Estate Pty Ltd.(hereinafter referred to as the "Australia Kilikanoon Estate"), therefore there was no amortization. The right to use trademark refers to the trademark held by the Group arising from the acquisition of the Chile Indomita Wine Group and the Australia Kilikanoon Estate with infinite 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 an uncertain period. The useful life is indefinite as it was hard to predict the period that the trademark would bring economic benefits to the Group.

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING

- continued

20. Impairment of long-term assets

The Group and the Company review the impairment status of long-term equity investments, fixed assets, investment properties, construction in progress, bearer biological asset and intangible assets with finite useful life at the end of each year. If there is any indication for impairment, the Group estimates the recoverable amount of the asset. Intangible assets with indefinite useful life and goodwill 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.

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 are amortized equally over the period of projected earnings. The amortization period are as follows:

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING

- continued

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.

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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING

- continued

23. Revenue - continued

23.2 Revenue from rendering of services - continued

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.

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 amortised to profit or loss over the useful life of the related asset on a straight line basis.

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.

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.

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

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 recognized 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 recognized 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 capitalized when incurred, and are recognized 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 has adopted the *Notice of the Revised Format of Financial Statements for General Business Enterprise in 2018* (Cai Kuai (2018) No. 15, hereinafter referred to as the "Cai Kuai No.15 Document") released by the MoF on 15 June 2018 since the preparation of the financial statements for 2018.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING

- continued

27. Changes in accounting policies - continued

Cai Kuai No.15 Document revised the presentation items on the balance sheet and the income statement, which are as follows: add the line items of "notes and accounts receivable", "notes and accounts payable", "research and development expenses"; revise the presentation of "other payables", "fixed assets", "construction in progress", "other payables", "long-term payables" and "administrative expenses"; less the line items of "notes receivable", "accounts receivable", "dividends receivable" and "interest receivable", "disposal of fixed assets", "materials for construction of fixed assets", "notes payable", "accounts payable", "dividends payable", and "special payables", add the line items of "including: interest expenses" and "interest income" under the item of "financial expenses"; and adjust the presentation location of certain items in the income statements.

For changes of the presentation items stated above, the Group has applied retrospectively for accounting treatments and adjusted the comparable data of the prior year for comparable periods.

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.

Key assumptions and uncertainties in accounting estimates

The following are the key assumptions and uncertainties in accounting estimates at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the future period.

Deferred tax assets recognized for deductible losses

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 of fixed assets

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.

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 the fair value of a long-term asset less costs of disposal and the present value of the future cash flows expected to be derived from the asset. As it is difficult for the Group to obtain the quoted market price of the long-term assets concerned, the fair value of the assets cannot be reliably estimated. In assessing the present value of future cash flows, the management of the Group is required to make significant judgements on the assumptions including sales growth rate, future selling price, production cost, operating expenses and discount rate, which are of high uncertainty.

Yantai Changyu Pioneer Wine Company Limited Research and Development Co., Ltd. ("R&D Centre"), subsidiary of the Company started production at the end of 2017 being as a new main production base of the Company. In 2018, the production of R&D Centre accounts for more than 60% of the Group's production. R&D Centre's total investment budget in its long-term assets approximates RMB 4.5 billion, which is a large-scale investment. As at 31 December 2018, the book values of relevant long-term assets including fixed assets, construction in progress and intangible amounted to RMB 3.5 billion, accounting for 26.6% of the total assets in the consolidated financial statements, which exerts significant influence on the consolidated financial statements. As there is little space for the development of the domestic wine market, the management of the Company faces great operating pressures to apply the off-take potential of the new production base in an efficient way. In addition, there are certain risks of impairment for such long-term assets. The management performs the impairment test by determining if the recoverable amount is less than the book value of long-term assets and determines the recoverable amount based on the present value of expected future cash flows. In the assessment of the future cash flows, the management is required to, based on a reasonable and supportable basis, assess the cash flows for the future 5 years ("projecting period") and cash flows after the projecting period ("subsequent period") and make significant judgements and accounting estimates in the discount rate, sales growth rate, future selling price, production cost, operating expenses and other key assumptions.

According to the result of the impairment test, the management believes that as at 31 December 2018, the above long-term assets of the Group were not impaired. Therefore, no impairment provision is made.

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%, 10%, 11%, 16% 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 20% on the invoiced amount after deduction of eligible input VAT.
Corporate income tax	The Group is subject to a corporate income tax rate of 33.3% 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.

(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 27% on its taxable income.

(5) Australia

Value added tax	VAT is levied at 10% on the invoiced amount after deduction of eligible input VAT.
Corporate income tax	The Group is subject to a corporate income tax rate of 30% on its taxable income.

Other than tax incentives stated in Note V-2, applicable tax rates of the Group in 2018 and 2017 are all stated as above.

V. TAXES - continued

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 Hui 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 Weizhu 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 Weizhu 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>31/12/2018</u>	<u>31/12/2017</u>
	RMB	RMB
Cash	114,335	136,973
Bank balance	1,382,399,749	1,278,397,711
Other currency fund	93,186,393	123,987,825
Total	<u>1,475,700,477</u>	<u>1,402,522,509</u>

At 31 December 2018, the balance of restricted cash of the Group is as follows:

	<u>31/12/2018</u>	<u>31/12/2017</u>
	RMB	RMB
Home maintenance funds	<u>2,611,350</u>	<u>2,645,410</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

1. Cash and bank - continued

As at 31 December 2018, the Group's other monetary assets is as follows:

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Research and Development Co., Ltd ("R&D Centre")		
pledged deposit for long-term payables	46,100,000	61,700,000
Deposit for letter of credit	44,540,850	57,946,190
Alipay account balance	2,483,816	4,317,635
Deposit for Company cards	51,727	14,000
Deposit for ICBC platform	10,000	10,000
	<u>93,186,393</u>	<u>123,987,825</u>

As at 31 December 2018, the Group's term deposits with original maturity of more than three months when acquired is RMB 173,042,400 with interest rate 1.50%-3.80% (31 December 2017:RMB 95,000,000).

2. Notes and accounts receivable

2.1 Presented by categories

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Notes receivable	288,667,988	244,796,818
Accounts receivable	242,153,083	263,796,355
Total	<u>530,821,071</u>	<u>508,593,173</u>

2.2 Notes receivable

(1) Categories of notes receivable

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Bank acceptances	<u>288,667,988</u>	<u>244,796,818</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

2. Notes and accounts receivable - continued

2.2 Notes receivable- continued

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

As at 31 December 2018, there was no pledged notes receivable (31 December 2017: Nil).

(3) Notes receivable endorsed but are not yet due at the balance sheet date

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Bank acceptances	<u>182,829,674</u>	<u>188,855,843</u>

As at 31 December 2018, notes endorsed by the Group to other parties which are not yet due at the end of the period is RMB 182,829,674 (31 December 2017: RMB 188,855,843). 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, 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 2018, no notes receivable were reclassified as accounts receivable due to the default of drawer (31 December 2017: Nil).

2.3 Accounts receivable

(1) Disclosure of accounts receivable by categories:

	31/12/2018					31/12/2017				
	Amount		Bad debts provision		Carrying amount	Amount		Bad debts provision		Carrying amount
	Amount	Proportion	Amount	Ratio		Amount	Proportion	Amount	Ratio	
	RMB	%	RMB	%	RMB	RMB	%	RMB	%	RMB
Accounts receivable for which bad debt provision has been assessed individually	<u>242,153,083</u>	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>242,153,083</u>	<u>263,796,355</u>	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>263,796,355</u>

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

As at 31 December 2018, ownership restricted accounts receivable is RMB 52,015,032 (31 December 2017: RMB 46,337,062), referring to Note VI-45.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

2. Notes and accounts receivable - continued

2.3 Accounts receivable - continued

(1) Disclosure of accounts receivable by categories - continued

The aging analysis is as follows:

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Within 1 year	240,312,773	263,112,714
1 to 2 years	1,566,622	683,641
2 to 3 years	273,688	-
	<u>242,153,083</u>	<u>263,796,355</u>

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

As at 31 December 2018, there was no bad debt provision for accounts receivable (31 December 2017: Nil). There was no bad debt provision made, reversed or written-off by management in 2018 (2017: 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> %
Sainsbury's supermarkets Ltd	Third party	17,428,889	Within 1 year	7.2
Nongongshang Supermarket (Group) Co., Ltd	Third party	10,928,458	Within 1 year	4.5
SLIGRO B.V.	Third party	6,732,175	Within 1 year	2.8
Viñedos y Bodegas Las Pircas	Third party	6,430,387	Within 1 year	2.7
Suguo Supermarket Co., Ltd.	Third party	6,415,505	Within 1 year	2.6
		<u>47,935,414</u>		<u>19.8</u>

3. Prepayments

(1) The aging analysis is as follows:

	<u>31/12/2018</u>		<u>31/12/2017</u>	
	<u>Amount</u> RMB	<u>Ratio</u> %	<u>Amount</u> RMB	<u>Ratio</u> %
Within 1 year	<u>4,219,949</u>	<u>100.0</u>	<u>2,417,931</u>	<u>100.0</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

3. Prepayments - continued

(2) As at 31 December 2018, the top five of prepayments were as follows:

	<u>Relationship with the Group</u>	<u>Amount RMB</u>	<u>Aging</u>	<u>Reason for being outstanding</u>	<u>Percentage of total advances to suppliers %</u>
Shanghai Benchu Trade&Development Co., Ltd.	Third party	345,600	Within 1 year	Goods not received	8.2
Carrington Estate T/A Karikari Esta	Third party	340,498	Within 1 year	Goods not received	8.1
DONELLI VINI S.P.A.	Third party	304,204	Within 1 year	Goods not received	7.2
Yantai Economic and Technological Development Zone Thermal Co., Ltd	Third party	250,000	Within 1 year	Prepaid heating fees	5.9
Yantai Cihang International Freight Agent Co., Ltd.	Third party	186,392	Within 1 year	Prepaid agency fees	4.4
		<u>1,426,694</u>			<u>33.8</u>

4. Other receivables

4.1 Presented by categories

	<u>31/12/2018 RMB</u>	<u>31/12/2017 RMB</u>
Interest receivable	1,332,681	240,968
Other receivables	21,303,405	18,737,454
Total	<u>22,636,086</u>	<u>18,978,422</u>

(1) Categories of interest receivable

	<u>31/12/2018 RMB</u>	<u>31/12/2017 RMB</u>
Interest receivable on bank deposits	<u>1,332,681</u>	<u>240,968</u>

(2) Overdue interest

As at 31 December 2018, there was no overdue interest receivable (31 December 2017: Nil).

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

4. Other receivables- continued

4.2 Other receivables

(1) Disclosure of other receivables by categories

	31/12/2018					31/12/2017				
	Amount		Bad debts provision		Carrying amount	Amount		Bad debts provision		Carrying amount
	Amount RMB	Proportion %	Amount RMB	Ratio %		Amount RMB	Proportion %	Amount RMB	Ratio %	
Other receivable for which bad debt provision has been assessed individually	21,303,405	100.0	-	-	21,303,405	18,737,454	100.0	-	-	18,737,454

The aging analysis is as follows:

	31/12/2018				31/12/2017			
	Amount		Bad debts provision	Carrying amount	Amount		Bad debts provision	Carrying amount
	Amount RMB	Proportion %			Amount RMB	Proportion %		
Within 1 year	11,293,908	53.0	-	11,293,908	13,214,301	70.5	-	13,214,301
1 to 2 years	6,693,702	31.5	-	6,693,702	1,937,961	10.3	-	1,937,961
2 to 3 years	1,922,998	9.0	-	1,922,998	2,273,591	12.2	-	2,273,591
Over 3 years	1,392,797	6.5	-	1,392,797	1,311,601	7.0	-	1,311,601
	21,303,405	100.0	-	21,303,405	18,737,454	100.0	-	18,737,454

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

As at 31 December 2018, no bad debt provision was made for other receivables (2017: RMB 354,805).

(3) Other receivables written off in the current year

As at 31 December 2018, the Group has no other receivables written off (31 December 2017: RMB 354,805).

(4) Disclosure of other receivables by categories

	31/12/2018	31/12/2017
	RMB	RMB
Deposit	10,453,624	10,075,901
Petty cash receivable	2,274,038	2,215,146
Investment fund	-	2,050,000
Refund of consumption tax, real estate tax	6,273,882	2,451,188
Others	2,301,861	1,945,219
	21,303,405	18,737,454

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

4. Other receivables- continued

4.2 Other receivables- continued

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

As at 31 December 2018, the top five of other receivables are as follows:

	<u>Nature</u>	<u>Amount</u> RMB	<u>Aging</u>	Percentage of total <u>other receivables</u> %	<u>Bad debt</u> <u>Closing balance</u> RMB
Yantai Development Zone Construction Industry Association	Construction deposit	7,709,477	Within 3 years	36.1	-
Zhejiang Tmall Technology Co., Ltd.	Shop deposits	867,426	Within 1 year	4.1	-
Yantai Shenma Packaging Co., Ltd. ("Shenma Packaging")	Lease receivables	813,440	Within 1 year	3.8	-
Yantai Development Zone Power Company	Deposit	140,000	Within 3 years	0.7	-
Yantai Development Zone Heat Company	Deposit	130,000	Within 3 years	0.6	-
		<u>9,660,343</u>		<u>45.3</u>	<u>-</u>

5. Inventories

(1) Disclosure of inventories by categories

	31/12/2018			31/12/2017		
	<u>Balance</u> RMB	<u>Provision</u> RMB	<u>Net carrying</u> <u>amount</u> RMB	<u>Balance</u> RMB	<u>Provision</u> RMB	<u>Net carrying</u> <u>amount</u> RMB
Raw material	67,267,035	-	67,267,035	66,881,090	-	66,881,090
Work in progress	1,787,819,923	-	1,787,819,923	1,568,230,851	-	1,568,230,851
Finished goods	894,187,725	(24,683,226)	869,504,499	864,097,497	(25,595,392)	838,502,105
	<u>2,749,274,683</u>	<u>(24,683,226)</u>	<u>2,724,591,457</u>	<u>2,499,209,438</u>	<u>(25,595,392)</u>	<u>2,473,614,046</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>25,595,392</u>	<u>749,134</u>	<u>(1,661,300)</u>	<u>-</u>	<u>24,683,226</u>

6. Other current assets

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Prepaid taxes	24,077,323	22,911,298
Pending deduct VAT on purchase	233,087,707	206,529,504
Prepaid rent	1,511,366	1,381,957
	<u>258,676,396</u>	<u>230,822,759</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

7. Available-for-sale financial assets

(1) Available-for-sale financial assets

	31/12/2018			31/12/2017		
	<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	467,251	-	467,251

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

Investee	Carrying amount				Provision for impairment losses				Proportion of voting power in the investee (%)	Cash dividend for the period RMB
	Opening RMB	Increase RMB	Decrease RMB	Closing RMB	Opening RMB	Increase RMB	Decrease RMB	Closing RMB		
Other	467,251	-	-	467,251	-	-	-	-		

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.

8. Investment properties

Investment properties measured by cost method

	<u>Buildings</u> RMB
<u>Total original carrying amount</u>	
31/12/2017	38,347,283
Increase	
Transfer from fixed assets	32,606,762
31/12/2018	70,954,045
<u>Total accumulated depreciation</u>	
31/12/2017	19,879,294
Increase	
Transfer from fixed assets	17,644,360
Additions	1,857,902
31/12/2018	39,381,556
<u>Total carrying amount</u>	
31/12/2018	31,572,489
31/12/2017	18,467,989

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

9. Fixed assets

(1) Details of fixed assets

	<u>Buildings</u> RMB	<u>Machinery</u> RMB	<u>Motor Vehicles</u> RMB	<u>Total</u> RMB
<u>Total original carrying amount</u>				
31/12/2017	4,508,868,684	2,247,350,293	28,689,415	6,784,908,392
Increase				
Purchase	4,490,675	235,607,780	923,222	241,021,677
Transfer from CIP	252,035,224	202,251,634	1,708,803	455,995,661
Acquisition increase (VII-1)	33,048,307	15,981,692	-	49,029,999
Decrease				
Disposal	(4,409,703)	(35,392,585)	(4,740,801)	(44,543,089)
Transfer to Investment properties (VI-8)	(32,606,762)	-	-	(32,606,762)
31/12/2018	<u>4,761,426,425</u>	<u>2,665,798,814</u>	<u>26,580,639</u>	<u>7,453,805,878</u>
<u>Total accumulated depreciation</u>				
31/12/2017	512,643,486	922,944,520	20,236,417	1,455,824,423
Increase				
Additions	126,510,348	168,695,471	2,632,539	297,838,358
Decrease				
Disposal	(242,705)	(29,575,754)	(2,125,751)	(31,944,210)
Transfer to Investment properties (VI-8)	(17,644,360)	-	-	(17,644,360)
31/12/2018	<u>621,266,769</u>	<u>1,062,064,237</u>	<u>20,743,205</u>	<u>1,704,074,211</u>
<u>Total carrying amount</u>				
31/12/2018	<u>4,140,159,656</u>	<u>1,603,734,577</u>	<u>5,837,434</u>	<u>5,749,731,667</u>
31/12/2017	<u>3,996,225,198</u>	<u>1,324,405,773</u>	<u>8,452,998</u>	<u>5,329,083,969</u>

As at 31 December 2018, fixed assets with ownership restricted are RMB 412,006,421 (31 December 2017: RMB 145,009,923). Please refer to Note VI-45 in detail.

As at 31 December 2018, the Group has net fixed assets that are temporarily idle of RMB 59,718,155(31 December 2017: Nil). The Group has no fixed assets acquired under finance leases or fixed assets classified as held for sale (31 December 2017: RMB 2,000,197).

(2) Fixed assets through operating lease

	<u>Amount</u> RMB
Machinery	<u>134,111</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

9. Fixed assets - continued

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

As at 31 December 2018, 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	1,755,472,791	Processing
Changan Chateau Dormitory building, main building	284,890,228	Processing
Beijing Chateau European town, main, service building	187,565,493	Processing
Ding Luo Te Chateau main building	83,218,432	Processing
Xinjiang Tianzhu fermentations and storage warehouse	17,768,840	Processing
Ice Wine Chateau office building and packing workshop	9,198,373	Processing
Jingyang factory fermentation building	4,171,918	Processing
Fermentation centre office, experiment building and workshop	3,653,494	Processing
Kylin Packaging finished goods warehouse and workshop	2,396,850	Processing
Sales Company office buildings	1,123,984	Processing
	<u>2,349,460,403</u>	

The buildings without property certificate above have no significant influence on the group's management.

10. Construction in progress

(1) Construction in progress:

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
R&D Centre ("Changyu Wine integrational Construction") Project	608,553,617	883,731,540
Changan Chateau Construction Project	39,793,893	53,290,036
Ningxia Chateau Construction Project	47,163,863	35,711,269
Shihezi Chateau Construction Project	23,664,124	25,463,724
Sales Company construction project	17,985,882	11,355,685
Other companies construction Project	22,135,212	16,589,315
	<u>759,296,591</u>	<u>1,026,141,569</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

10. Construction in progress- continued

(2) Changes in significant construction in progress:

	Budget RMB	31/12/2017 RMB	Addition RMB	Transfer to PPE RMB	Transfer to Lone-term prepaid expense RMB	31/12/2018 RMB	Status	Total accumulate Capitalizing interest RMB	Capitalizing interest for this period RMB	Interest capitalization rate %	Financed by
Changyu Wine integrational Construction"	4,505,780,000	883,731,540	118,142,779	(372,914,273)	(20,406,429)	608,553,617	74.3	14,271,837	5,843,872	1.2% 及 4.3%	Loans from financial institutions and Self-raised
Changan Chateau Construction Project	620,740,000	53,290,036	12,149,197	(25,645,340)	-	39,793,893	108.7	-	-	-	Self-raised
Shihezi Chateau Construction Project	780,000,000	25,463,724	37,629,835	(39,429,435)	-	23,664,124	96.3	-	-	-	Self-raised
Ningxia Chateau Construction Project	414,150,000	35,711,269	14,307,265	(2,854,671)	-	47,163,863	102.1	-	-	-	Self-raised
Sales Company construction project	161,350,000	11,355,685	6,893,191	(262,994)	-	17,985,882	97.7	-	-	-	Self-raised

The interest capitalized in construction in progress is RMB 5,843,872 in 2018(2017: RMB 6,138,242).

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

11. 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
<u>Total original carrying amount</u>			
31/12/2017	12,175,000	217,537,353	229,712,353
Increase			
Cultivated increase	19,371,297	-	19,371,297
Transfer to mature assets	<u>(17,708,689)</u>	<u>17,708,689</u>	<u>-</u>
31/12/2018	<u>13,837,608</u>	<u>235,246,042</u>	<u>249,083,650</u>
<u>Total accumulated depreciation</u>			
31/12/2017	-	27,782,465	27,782,465
Increase			
Additions	<u>-</u>	<u>12,034,812</u>	<u>12,034,812</u>
31/12/2018	<u>-</u>	<u>39,817,277</u>	<u>39,817,277</u>
<u>Total net carrying amount</u>			
31/12/2018	<u><u>13,837,608</u></u>	<u><u>195,428,765</u></u>	<u><u>209,266,373</u></u>
31/12/2017	<u><u>12,175,000</u></u>	<u><u>189,754,888</u></u>	<u><u>201,929,888</u></u>

As at 31 December 2018, there is no biological asset with ownership restricted. (31 December 2017:Nil)

As at 31 December 2018, there is no indication that biological assets may be impaired, and no provision is made. (31 December 2017:Nil)

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

12. 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
<u>Total original carrying amount</u>				
31/12/2017	521,731,139	73,666,754	159,702,508	755,100,401
Increase				
Purchase	1,596,780	922,809	105,827	2,625,416
Acquisition increase(VII-1)	4,924,992	1,232,494	10,260,400	16,417,886
31/12/2018	528,252,911	75,822,057	170,068,735	774,143,703
<u>Total accumulated depreciation</u>				
31/12/2017	67,547,772	21,516,741	10,586,991	99,651,504
Increase				
Additions	10,523,138	5,206,074	3,289,528	19,018,740
31/12/2018	78,070,910	26,722,815	13,876,519	118,670,244
<u>Total carrying amount</u>				
31/12/2018	450,182,001	49,099,242	156,192,216	655,473,459
31/12/2017	454,183,367	52,150,013	149,115,517	655,448,897

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

<u>Item</u>	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
In the PRC(within 50 years)	419,300,592	428,226,950
Out of the PRC (more than 50 years)	30,881,409	25,956,417
	450,182,001	454,183,367

As at 31 December 2018, the Group has land use right with infinite useful lives of RMB 30,881,409(31 December 2017: RMB 25,956,417), representing the freehold land held by Chile Indomita Wine Group and Australia Kilikanoon Estate under relevant Chile and Australia laws, on which the amortization is not required.

As at 31 December 2018, the Group has trademark with infinite useful lives of RMB 154,150,933 (31 December 2017: 143,890,533), which is held by Chile Indomita Wine Group and Australia Kilikanoon Estate. The recoverable amount of the trademark is determined according to the present value of the expected future cash flows generated from the asset group to which the single assets of trademark right belongs. The management prepares the cash flow projection for future 5 years (the "projecting period") based on the latest financial budget assumption, and estimates the cash flows after the future 5 years (the "subsequent period"). The pretax discount rates used in the cash flow projections are 12.3% and 14.4%, respectively. A key assumption in the estimate of future cash flows is the revenue growth rate in the projecting period. Such revenue growth rate is determined based on the industry and the expected growth rate of Chile Indomita Wine Group and Australia Kilikanoon Estate. The revenue growth rates in the subsequent period are 3.0% and 2.5%, respectively.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

12. Intangible assets - continued

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

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. The management believes that any reasonable change of the above assumptions will not result in the total book value of the asset group to which the single assets of trademark right belongs exceeding its recoverable amount.

According to the result of impairment assessment, by the end of 31 December 2018, the management believes there is no impairment loss on those trademark with infinite useful lives of the Group.

As at 31 December 2018, the intangible asset with restricted ownership is RMB 218,070,414 (December 31, 2017:RMB 164,051,996), Please refer to Note VI-45 in detail.

13. Goodwill

<u>Investee</u>	<u>31/12/2017</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>31/12/2018</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
Australia Kilikanoon Estate	-	37,063,130	-	37,063,130
Total	<u>128,135,981</u>	<u>37,063,130</u>	<u>-</u>	<u>165,199,111</u>

The Group acquired Fransac Sales, Dicot and Mirefleurs and Chile Indomita Wine Group in December 2013, September 2015 January 2016 and July 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. The Group acquired Australia Kilikanoon Estate in January 2018, resulting goodwill amounting to RMB 37,063,130, 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). The pretax discount rate used in calculating the recoverable amounts of Fransac Sales, Dicot Mirefleurs, Indomita Wine and Australia Kilikanoon Estate are 16.6%, 12.4%, 16.6 %, 12.3% and 13.1%(2017: 15.4%, 11.8%, 15.4%, 13.2% and 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, Indomita Wine and Australia Kilikanoon Estate is 2.0%, 2.0%, 2.0%, 3.0%,2.5% (2017: 2%, 2%, 2%, 3% 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.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

13. Goodwill- continued

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

14. Long-term prepaid expenses

	<u>31/12/2017</u> RMB	<u>Increase</u> RMB	<u>Amortization</u> RMB	<u>31/12/2018</u> RMB
Land lease prepayments	56,365,385	-	(2,147,622)	54,217,763
Land requisition fee	43,976,036	-	(548,297)	43,427,739
Greening fee	125,628,334	24,511,623	(8,915,485)	141,224,472
Leasehold improvement	873,263	3,306	(100,922)	775,647
Others	3,166,213	2,198,373	(369,791)	4,994,795
	<u>230,009,231</u>	<u>26,713,302</u>	<u>(12,082,117)</u>	<u>244,640,416</u>

Note: The greening fee transferred from CIP to long-term prepaid expenses amounted to RMB 20,406,429, refer to Note VI-10 for details.

15. 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>31/12/2018</u>		<u>31/12/2017</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	602,476,583	150,619,145	618,591,681	154,647,920
Unpaid bonus	141,808,257	35,485,814	94,462,722	23,671,611
Retirement benefit	26,186,243	6,546,561	27,980,857	6,995,214
Asset impairment provision	24,683,226	6,170,807	25,595,392	6,398,848
Deductible losses	262,937,999	67,566,387	345,639,059	88,584,337
Deferred income	86,227,293	18,868,963	109,797,054	24,285,203
Assets impairment loss	661,415	178,582	684,622	184,848
Accrued rebate	-	-	13,413,655	3,353,415
	<u>1,144,981,016</u>	<u>285,436,259</u>	<u>1,236,165,042</u>	<u>308,121,396</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

15. Deferred tax assets/liabilities - continued

(2) Deferred tax liabilities

Item	31/12/2018		31/12/2017	
	Taxable temporary difference RMB	Deferred tax liability RMB	Taxable temporary difference RMB	Deferred tax liability RMB
Revaluation surplus in business combination not under common control	81,338,130	22,010,647	89,316,823	24,264,203

(3) Deferred tax assets and liabilities not recognized

	31/12/2018 RMB	31/12/2017 RMB
Deductible losses	171,430,831	150,320,039

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

	31/12/2018 RMB	31/12/2017 RMB
2018	-	-
2019	7,311,273	7,311,273
2020	45,960,766	45,960,766
2021	82,685,213	82,685,213
2022	14,362,787	14,362,787
2023	21,110,792	-
	171,430,831	150,320,039

16. Short-term borrowings

	31/12/2018 RMB	31/12/2017 RMB
Credit loans	605,202,708	648,494,624
Mortgaged loans	79,467,832	65,939,662
Guaranteed loan	3,331,870	-
	688,002,410	714,434,286

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

16. Short-term borrowings - continued

As at 31 December 2018, 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)	400,000,000	1.0000	400,000,000	Floating	1 year LPR- 0.04(Note 1)	4.35
Credit loans (RMB)	150,000,000	1.0000	150,000,000	Floating	Annual benchmark rate	4.35
Credit loans (EUR)	912,455	7.8473	7,160,308	Fixed	0.86~2.53	0.86~2.53
Credit loans (USD)	7,000,000	6.8632	48,042,400	Fixed	3.97~4.90	3.97~4.90
Mortgaged loans (EUR)	6,628,399	7.8473	52,015,032	Fixed	0.35~0.95	0.35~0.95
Mortgaged loans (USD)	4,000,000	6.8632	27,452,800	Fixed	4.22~4.38	4.22~4.38
Guaranteed loan(AUD)	690,543	4.8250	3,331,870	Fixed	3.00	3.00
			<u>688,002,410</u>			

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

As at 31 December 2018, 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 6,628,399 (translated as RMB 52,015,032)(31 December 2017:RMB 46,337,062). Mortgaged loans were Indomita Wine mortgaged Chilean peso 7,642,470,000 (translated as RMB 75,601,849) fixed assets from BBVA bank USD 4,000,000 (translated as RMB 27,452,800)(December 31, 2017: RMB 19,602,600). Australia Kilikanoon Estate has guaranteed loans of 690,543 Australian dollars (equivalent to RMB 3,331,870)(31 December 2017: Nil).

17. Notes and accounts payable

The aging analysis of accounts payable are as follows

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Within 1 year	710,208,269	664,020,176
1 to 2 years	3,091,659	2,051,592
2 to 3 years	121,598	371,111
Over 3 years	151,355	-
	<u>713,572,881</u>	<u>666,442,879</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

18. Advances from customers

The aging analysis of advances from customers are as follows

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Within 1 year	221,022,547	340,025,690
1 to 2 years	1,155,555	7,072,254
2 to 3 years	1,032,609	381,463
Over 3 years	2,864,533	3,414,749
	<u>226,075,244</u>	<u>350,894,156</u>

19. Employee benefits payable

(1) Employee benefits payable as follows:

	<u>31/12/2017</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>31/12/2018</u> RMB
Short-term payroll	182,545,284	481,042,461	(477,694,636)	185,893,109
Post-demotion benefits - predetermined provision plan	298,093	51,503,280	(51,576,508)	224,865
Termination benefits	27,980,857	13,677,216	(15,471,830)	26,186,243
	<u>210,824,234</u>	<u>546,222,957</u>	<u>(544,742,974)</u>	<u>212,304,217</u>

(2) Employee benefits payable:

	<u>31/12/2017</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>31/12/2018</u> RMB
Salaries and bonus	185,014,318	428,052,734	(425,381,062)	187,685,990
Staff benefit	2,116,475	17,783,378	(16,885,565)	3,014,288
Staff welfare	524,316	20,677,314	(20,740,535)	461,095
Includes:				
Medical insurance	524,316	19,045,528	(19,109,404)	460,440
Injury insurance	-	895,750	(895,095)	655
Maternity insurance	-	736,036	(736,036)	-
Housing fund	39,256	10,444,925	(10,431,671)	52,510
Union fee and education fee	2,060,231	4,109,651	(4,255,803)	1,914,079
Total	<u>189,754,596</u>	<u>481,068,002</u>	<u>(477,694,636)</u>	<u>193,127,962</u>
Less: Non-current liabilities	7,209,312			7,234,853
Short-term payroll	<u>182,545,284</u>			<u>185,893,109</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

19. Employee benefits payable - continued

(3) Predetermined provision plan

	<u>31/12/2017</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>31/12/2018</u> RMB
Pension	297,591	50,534,986	(50,608,044)	224,533
Unemployment insurance	<u>502</u>	<u>968,294</u>	<u>(968,464)</u>	<u>332</u>
	<u>298,093</u>	<u>51,503,280</u>	<u>(51,576,508)</u>	<u>224,865</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 50,534,986 and RMB 968,294 (2017: RMB 48,834,066 and RMB 1,141,605) respectively into pension insurance and unemployment insurance. As at 31 December 2018, the Group has unpaid pension and unemployment insurance of RMB 224,533 and RMB 332 respectively (31 December 2017: RMB 297,591 and RMB 502), 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.

20. Taxes payable

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Value added tax	36,442,868	35,681,696
Consumption tax	28,636,646	44,961,022
Corporation income tax	40,869,507	38,834,293
Urban land use tax	2,476,527	2,645,687
Individual income tax	5,669,099	7,805,917
City construction tax	4,337,712	5,669,280
Property tax	5,165,128	4,647,644
Others	<u>5,315,303</u>	<u>4,848,617</u>
	<u>128,912,790</u>	<u>145,094,156</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

21. Other payables

21.1 Presented by categories

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Interest payable	712,826	771,250
Other payables	607,767,064	602,964,319
	<u>608,479,890</u>	<u>603,735,569</u>

21.2 Other payables

(1) Natures of other payables are as follows

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Payable to dealer deposit	159,191,138	139,710,963
Payables for equipment and construction	152,825,734	130,706,777
Payables for transportation	38,867,725	27,847,092
Royalty fee	78,414,978	77,208,929
Advertising costs	80,715,461	118,834,960
Withholding promotion costs	15,714,400	13,413,655
Employee deposit	2,806,766	13,327,132
Deposits from suppliers	15,901,210	3,082,595
Payables for contracting fee	27,070,584	38,070,571
Others	36,259,068	40,761,645
	<u>607,767,064</u>	<u>602,964,319</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")	9,493,506	Payables for contracting fee
VASF Company	4,878,866	Payables for contracting fee
	<u>14,372,372</u>	

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

22. Deferred income

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Government grants		
Current liabilities	15,860,254	16,878,199
Non-current liabilities	70,367,039	92,918,855
	<u>86,227,293</u>	<u>109,797,054</u>

Government grants:

	<u>Opening</u> RMB	<u>Addition</u> RMB	Recognized in non-operating income /other income RMB	<u>Closing</u> RMB	Related to Assets/Income RMB
Wine base liquor brewage project	4,739,400	-	(1,434,900)	3,304,500	Assets
Shihezi chateau project funds	9,276,600	-	(2,280,000)	6,996,600	Assets
Xinjiang Industrial Rejuvenation and Technological Reconstruction Project	17,064,000	-	(1,422,000)	15,642,000	Assets
Special support for infrastructure facilities	5,300,000	-	(1,060,000)	4,240,000	Assets
Ningxia industry revitalization and technology reconstruction funds	1,086,000	-	(1,086,000)	-	Assets
Tourism Development Fund Subsidy Project	500,000	-	-	500,000	Income
Support enterprise development special funds (Huanren) wine production construction funds	10,200,000	-	(10,200,000)	-	Income
Wine electronic tracking system specific funds	3,600,000	-	(400,000)	3,200,000	Assets
Miyun Propaganda Department transfer	3,192,311	-	(667,054)	2,525,257	Assets
Wine industry specific funds	888,945	-	(888,945)	-	Assets
Shandong Peninsula Blue Economic Area construction funds	744,000	-	(186,000)	558,000	Assets
Information system construction project technology funds	8,000,000	-	(2,000,000)	6,000,000	Assets
Cross-border e-Business projects subsidies	3,480,000	-	(580,000)	2,900,000	Assets
Red wine phenolics research projects funds	702,615	300,000	(122,359)	880,256	Income
Grape base construction project	284,601	-	(284,601)	-	Income
Water pollution abatement project	520,000	-	(520,000)	-	Assets
Infrastructure construction project	320,132	-	(113,602)	206,530	Income
Industrial development support project	1,843,750	-	(125,000)	1,718,750	Assets
Subsidy for updating of economic and energy-saving technology	36,900,000	-	(4,100,000)	32,800,000	Assets
Special funds for efficient water saving irrigation project	1,154,700	-	(128,300)	1,026,400	Assets
Guidance funds for service industry development	-	1,720,000	(81,000)	1,639,000	Assets
Relocation allowance for boiler renovation	-	2,000,000	-	2,000,000	Income
	-	100,000	(10,000)	90,000	Income
Total	<u>109,797,054</u>	<u>4,120,000</u>	<u>(27,689,761)</u>	<u>86,227,293</u>	
Less: Non-current liabilities due within one year	16,878,199			15,860,254	
Other non-current liabilities	<u>92,918,855</u>			<u>70,367,039</u>	

As at 31 December 2018, 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

23. Non-current liabilities due within one year

	<u>31/12/2018</u>	<u>31/12/2017</u>
	RMB	RMB
Long-term borrowings due within one year	118,940,788	76,954,827
Long-term payables due within one year	34,000,000	34,000,000
	<u>152,940,788</u>	<u>110,954,827</u>

As at 31 December 2018, Long-term borrowings due within one year refers to Note VI-24, Long-term payables due within one year refers to Note VI-25.

24. Long-term borrowings

	<u>31/12/2018</u>	<u>31/12/2017</u>
	RMB	RMB
Credit loan	41,805,746	68,182,310
Mortgaged loan	3,924,916	6,693,544
Guaranteed loan	110,750,000	81,250,000
	<u>156,480,662</u>	<u>156,125,854</u>

As at 31 December 2018, loans detail is as follows:

	<u>Loans amount</u>	<u>Exchange rate</u>	<u>Amount</u>	<u>Nature</u>	<u>Interest rate</u>	<u>Year-end</u>	<u>Due within</u>	<u>Due over</u>
			RMB	of interest	%	borrowing rate	one year	one year
						%		
Guaranteed loan (RMB) (Note)	81,250,000	1.0000	81,250,000	Floating	5 year LPR- 0.9	4.275	18,750,000	62,500,000
Credit loan (EUR)	17,734,954	7.8473	139,171,506	Fixed	1.00-2.53	1.00-2.53	97,365,760	41,805,746
Mortgaged loan (EUR)(Note)	860,161	7.8473	6,749,944	Fixed	1.80	1.80	2,825,028	3,924,916
Guaranteed loan(AUD)(Note)	10,000,000	4.8250	48,250,000	Fixed	3.00	3.00	-	48,250,000
			<u>275,421,450</u>				<u>118,940,788</u>	<u>156,480,662</u>

Note: As at 31 December 2018, The secured loan is the long-term loan borrowed by the company for R&D Centre credit guarantee, RMB 81,250,000 (31 December 2017: RMB 100,000,000), mortgaged loans were Atrio using fixed assets EUR 4,264,170 (translated as RMB 33,462,225) as collateral for loans from Popular Español, EUR 860,161 (translated as RMB 6,749,944), (31 December 2017: RMB 9,502,372).The guaranteed loan(AUD) is the loan of AUD 10,000,000 borrowed by Australia Kilikanoon Estate from Australia & New Zealand banking(translated as RMB 48,250,000)(31 December 2017:Nil), which was guaranteed by the Company.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

25. Long-term payables

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Agricultural Development Fund of China ("CADF")	<u>225,000,000</u>	<u>259,000,000</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 RMB 34,000,000 in 2018. Refer to Note VI-45 for details of mortgaged and pledged assets.

<u>Long-term payables</u> RMB	<u>Yield rate</u>	<u>Investment date</u>	<u>Termination date of repayment</u>	<u>Due within 1 year</u>	<u>Due after 1 year</u> RMB	<u>Mortgaged and pledged assets</u> RMB
67,000,000	1.2%	12 January 2016	24 December 2025	10,000,000	57,000,000	Cash and Bank Intangible assets
176,000,000	1.2%	29 February 2016	28 February 2026	22,000,000	154,000,000	Fixed assets and intangible assets
<u>16,000,000</u>	1.2%	16 June 2016	22 May 2026	<u>2,000,000</u>	<u>14,000,000</u>	Cash and bank
<u>259,000,000</u>				<u>34,000,000</u>	<u>225,000,000</u>	

26. Other non-current liabilities

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Employee benefit	<u>7,234,853</u>	<u>7,209,312</u>

As at 31 December 2018, employee benefit represents deposit from bonus accrued for managers and above. According to the bonus payment schedule of 2018, the bonus is expected to be paid during 2020 to 2022.

27. Share capital

	<u>31/12/2017</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>31/12/2018</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>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

28. Capital reserve

	<u>31/12/2017</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>31/12/2018</u> RMB
Share premium	560,038,853	-	-	560,038,853
Other	5,916,588	-	-	5,916,588
Total	<u>565,955,441</u>	<u>-</u>	<u>-</u>	<u>565,955,441</u>

29. Other comprehensive income

<u>2018</u>	<u>2018</u>						Closing balance
	Opening balance	Before-tax amount	Less: last year other comprehensive income in P/L current year	Less: tax expense	Post-tax attributable to parent	Post-tax attributable to NCI	
Other comprehensive income to be reclassified to profit and loss	3,109,240	(376,524)	-	-	(143,863)	(232,661)	2,965,377
Foreign currency statement translation difference	<u>3,109,240</u>	<u>(376,524)</u>	<u>-</u>	<u>-</u>	<u>(143,863)</u>	<u>(232,661)</u>	<u>2,965,377</u>

30. Surplus reserve

	<u>31/12/2017</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>31/12/2018</u> RMB
Statutory surplus reserve	<u>342,732,000</u>	<u>-</u>	<u>-</u>	<u>342,732,000</u>

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 2018.

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.

31. Retained earnings

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Retained earnings brought forward	7,309,081,618	6,620,118,562
Profit attributable to shareholders of the Company	1,042,632,929	1,031,695,056
Less: Dividends paid in respect prior year's profit	<u>(342,732,000)</u>	<u>(342,732,000)</u>
Retained earnings carried forward	<u>8,008,982,547</u>	<u>7,309,081,618</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

31. Retained earnings - continued

(1) Appropriation to surplus reserve by subsidiaries

As at 31 December 2018, the balance of the Group's unappropriated profits include appropriation to surplus reserve by subsidiaries amounting to RMB 54,336,543 (31 December 2017: RMB 51,994,942).

(2) Cash dividends approved by general meeting

According to the annual general meeting on 25 May 2018, 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 18 April 2019, on the basis of 685,464,000 issued shares in 2018, cash dividends of RMB 6.0 (including taxes) for every 10 share will be distributed to all the shareholders. The aggregate amount of cash dividend is RMB 411,278,400. The above proposal regarding dividends distribution is yet to be approved in a shareholders' meeting.

32. Revenue and costs

Revenue is analysed as follows:

	<u>2018</u> RMB	<u>2017</u> RMB
Principal Revenue	5,066,265,044	4,856,168,699
Other Revenue	75,979,696	76,376,530
	<u>5,142,244,740</u>	<u>4,932,545,229</u>

Operating cost is analysed as follows:

	<u>2018</u> RMB	<u>2017</u> RMB
Principal operating cost	1,872,991,039	1,645,690,616
Other operating cost	28,620,468	25,901,663
	<u>1,901,611,507</u>	<u>1,671,592,279</u>

The Revenue for the Group is mainly from the sales of wine, brandy and sparkling wine. In 2018, Over 87% (2017: over 91%) of the sales generated in PRC.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

33. Taxes and surcharges

	<u>2018</u> RMB	<u>2017</u> RMB
Consumption tax	157,037,382	177,879,324
City construction tax	39,655,738	52,247,915
Education fee and surcharges	28,762,507	35,831,575
Property tax	31,461,708	23,113,211
Land use tax	12,098,790	11,874,984
Stamp tax	4,507,785	3,945,731
Others	2,967,764	5,359,283
	<u>276,491,674</u>	<u>310,252,023</u>

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

34. Selling expenses

	<u>2018</u> RMB	<u>2017</u> RMB
Marketing expenses	386,519,123	428,828,931
Salary and employee benefit	297,489,665	272,148,620
Freight	141,756,007	139,218,637
Trademark fee	73,976,395	72,838,612
Labor fee	72,036,252	67,860,856
Warehouse leasing expenses	45,668,613	53,075,132
Depreciation cost	41,410,740	34,963,089
Advertising fees	35,857,276	34,753,090
Conference expenses	32,731,215	31,609,123
Design cost	29,437,757	27,226,277
Travelling expenses	27,176,277	27,709,534
Security and sanitation fee	12,896,986	12,659,228
Water and electricity fee	11,297,244	11,247,163
Office allowance	9,707,518	6,165,561
Packing cost	8,195,160	7,163,930
Taxes	7,113,764	6,771,337
Amortization of low-value consumables	5,756,602	4,028,573
Business entertainment	5,665,336	4,403,750
Others	29,907,216	29,851,000
	<u>1,274,599,146</u>	<u>1,272,522,443</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

35. Administrative expense

	<u>2018</u> RMB	<u>2017</u> RMB
Salary and employee benefit	114,473,209	106,342,126
Depreciation	71,978,485	71,558,307
Maintenance fee	25,189,384	21,665,024
Administrative expenses	23,766,176	22,173,925
Amortization	18,187,049	22,438,364
Greening fee amortization	14,730,804	10,667,941
Contracting fee	13,364,835	21,162,623
Rental fees	13,012,167	12,414,249
Safe production cost	9,692,574	7,840,215
Security and sanitation fee	8,659,405	6,317,723
Service fee	6,556,258	12,118,257
Entertainment fee	5,300,526	5,470,001
Travelling expenses	3,630,225	4,747,256
Others	15,039,554	11,545,122
	<u>343,580,651</u>	<u>336,461,133</u>

36. Financial expense

	<u>2018</u> RMB	<u>2017</u> RMB
Interest income	(12,086,007)	(9,168,772)
Exchange income	(666,323)	(182,610)
Interest expenses	52,198,774	32,233,729
Less: Capitalization of interests	5,843,872	6,138,242
Bank charges	2,342,730	1,846,154
	<u>35,945,302</u>	<u>18,590,259</u>

37. (Reversal of) Impairment loss of assets

	<u>2018</u> RMB	<u>2017</u> RMB
(Reversal of) Inventory impairment	(912,166)	7,938,748
Impairment losses from other receivables	-	354,805
	<u>(912,166)</u>	<u>8,293,553</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

38. Other income

<u>Project Subsidy</u>	<u>2018</u> RMB	<u>2017</u> RMB	<u>Assets/income related</u>
Tax refund	6,587,773	17,765,560	Income
Special funds for manufacturing industry	4,750,000	4,100,000	Income
Industrial development support project	4,100,000	-	Assets
Ningxia industry revitalization and technology reconstruction funds	1,086,000	3,295,000	Assets
Project funds	2,280,000	2,280,000	Assets
Shandong Peninsula Blue Economic Area construction funds	2,000,000	2,000,000	Assets
Special funds for the development of enterprises	42,953,900	-	Income
Others	7,493,199	6,352,199	Assets
Others	16,030,562	10,245,625	Income
	<u>87,281,434</u>	<u>46,038,384</u>	

39. Non-operation income

	<u>2018</u> RMB	<u>2017</u> RMB	<u>Recognized in extraordinary profit and loss</u> RMB
Government grants	-	1,600,000	-
Penalty income	1,901,530	7,993,571	1,901,530
Others	5,451,779	7,637,156	5,451,779
	<u>7,353,309</u>	<u>17,230,727</u>	<u>7,353,309</u>

40. Non-operation expenses

	<u>2018</u> RMB	<u>2017</u> RMB	<u>Recognized in extraordinary profit and loss</u> RMB
Compensation and penalty loss	2,576,838	347,528	2,576,838
Donation	293,819	294,899	293,819
Others	665,251	989,049	665,251
	<u>3,535,908</u>	<u>1,631,476</u>	<u>3,535,908</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

41. Income tax

	<u>2018</u> RMB	<u>2017</u> RMB
Current income tax	352,598,370	330,784,002
Deferred income tax	14,529,152	7,350,243
	<u>367,127,522</u>	<u>338,134,245</u>

Reconciliation between income tax expenses and profits is as follows:

	<u>2018</u> RMB	<u>2017</u> RMB
Profit before tax	1,408,611,698	1,371,927,763
Income tax expense at statutory tax rate 25% (2017:25%)	352,152,925	342,981,941
Effect of different tax rates applied by certain subsidiaries	(949,634)	(9,600,821)
Changes in opening balances of deferred tax liabilities due to tax rate adjustment	-	(1,342,916)
Unrecognised Deductible loss	4,642,727	3,590,697
Utilization of Deductible losses which were not recognized previously	-	(6,157,735)
Non-deductible expenses	5,496,292	7,550,095
Write-off of deferred tax assets	5,785,212	1,112,984
Income tax expenses	<u>367,127,522</u>	<u>338,134,245</u>

42. 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>2018</u> RMB	<u>2017</u> RMB
Earnings		
Consolidated profit attributable to ordinary shareholders of the Company	<u>1,042,632,929</u>	<u>1,031,695,056</u>
Shares		
Weighted average number of outstanding ordinary shares	<u>685,464,000</u>	<u>685,464,000</u>
Basic earnings per share	<u>1.52</u>	<u>1.51</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

42. Basic and dilutive earnings per share - continued

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.

43. Notes to consolidated cash flow statement

(1) Cash received relating to other operating activities:

	<u>2018</u> RMB	<u>2017</u> RMB
Government grants	57,123,900	20,930,752
Interest income	7,871,853	3,839,079
Penalty income	1,901,530	7,993,571
Refundable deposits of notes payable	-	46,900,000
Others	5,806,589	5,573,503
	<u>72,703,872</u>	<u>85,236,905</u>

(2) Cash paid relating to other operating activities:

	<u>2018</u> RMB	<u>2017</u> RMB
Selling expenses	918,966,855	956,902,163
General and administrative expenses	140,112,380	107,905,766
Refundable deposits of notes payable	-	8,000,000
Others	4,637,082	2,103,059
	<u>1,063,716,317</u>	<u>1,074,910,988</u>

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

	<u>2018</u> RMB	<u>2017</u> RMB
Cash paid for acquisition of Australia Kilikanoon Estate	107,194,420	-
Less: Cash and bank for Australia Kilikanoon Estate at acquisition date	1,359,765	-
Cash paid for acquisition of Indomita Wine	-	318,867,650
Less: Cash and bank for Indomita Wine at acquisition date	-	15,071,107
	<u>105,834,655</u>	<u>303,796,543</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

43. Notes to consolidated cash flow statement - continued

(4) Cash received relating to other financing activities:

	<u>2018</u> RMB	<u>2017</u> RMB
Received government grants related to assets	-	5,800,000
R&D Centre long-term payables pledged time deposit	61,700,000	46,100,000
Interest income from R&D Centre long-term payables pledged time deposit	768,259	1,030,804
	<u>62,468,259</u>	<u>52,930,804</u>

(5) Cash paid relating to other financing activities:

	<u>2018</u> RMB	<u>2017</u> RMB
R&D Centre long-term payables pledged time deposit	<u>46,100,000</u>	<u>61,700,000</u>

44. Supplementary information to consolidated cash flow statement

(1) Supplementary information to consolidated cash flow statement

	<u>2018</u> RMB	<u>2017</u> RMB
Cash flows from operating activities calculated by adjusting the net profit:		
Net profit	1,041,484,176	1,033,793,518
Add: Loss for (reversal of) impairment of assets	(912,166)	8,293,553
Depreciation of investment properties	1,857,902	590,610
Depreciation of fixed assets	297,838,358	250,264,403
Amortization of intangible assets	19,018,740	24,098,781
Depreciation of biological assets	12,034,812	10,160,981
Amortization of long-term prepaid expenses	12,082,117	13,911,581
(Gains) losses on disposal of assets	(11,368,355)	222,586
Finance expense	45,855,744	22,381,504
Decrease in deferred tax assets	22,685,137	13,315,979
Decrease in deferred tax liabilities	(8,155,985)	(5,965,736)
Increase in inventories	(180,452,933)	(138,995,031)
Increase in operating receivables	(137,899,294)	(180,593,570)
Decrease in operating payables	(138,089,507)	(78,236,132)
Net cash flows from operating activities	<u>975,978,746</u>	<u>973,243,027</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

44. Supplementary information to consolidated cash flow statement - continued

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

	<u>2018</u> RMB	<u>2017</u> RMB
Payment of intangible assets and other long-term assets by bank acceptances	<u>109,378,598</u>	<u>140,493,507</u>

(3) Cash and cash equivalents

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Closing balance of Cash and bank	1,475,700,477	1,402,522,509
Less:		
Restricted bank deposits	2,611,350	2,645,410
Restricted other monetary funds	93,186,393	123,987,825
Deposit with a period of over three months	<u>173,042,400</u>	<u>95,000,000</u>
Closing balance of cash and cash equivalents	<u>1,206,860,334</u>	<u>1,180,889,274</u>

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Cash	1,206,860,334	1,180,889,274
Including: Cash on hand	114,335	136,973
Bank deposits on demand	<u>1,206,745,999</u>	<u>1,180,752,301</u>
Closing balance of cash and cash equivalents	<u>1,206,860,334</u>	<u>1,180,889,274</u>

45. Assets with restriction of ownership

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Cash and bank	95,797,743	126,633,235
Account receivable	52,015,032	46,337,062
Fixed assets	412,006,421	145,009,923
Intangible assets	<u>218,070,414</u>	<u>164,051,996</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

45 Assets with restriction of ownership - continued

As at 31 December 2018, Cash and bank with restriction of ownership as follows:

	<u>31/12/2018</u>	<u>31/12/2017</u>
	RMB	RMB
R&D Centre long-term payables pledged time deposit	46,100,000	61,700,000
Refundable deposits of letter of credit	44,540,850	57,946,190
Balance in Alipay account	2,483,816	4,317,635
Home maintenance funds	2,611,350	2,645,410
Margin for entity card	51,727	14,000
Deposit for ICBC platform	10,000	10,000
Total	<u>95,797,743</u>	<u>126,633,235</u>

Among the aforementioned items, the amount of RMB 2,483,816 which is the blocked balances of goods payment in Alipay account can be unlocked after 15 days.

As at 31 December 2018, the amount of accounts receivable with restricted ownership is EUR 6,628,399 (translated as RMB 52,015,032), which refers to accounts receivable Atrio conducted for factoring from Banco de Sabadell, S.A. etc.

As at 31 December 2018, fixed assets with restriction of ownership as follows:

Company	<u>Restricted reasons</u>	<u>31/12/2018</u>
		RMB
The Company	Long-term payable collateral from R&D Centre	34,246,887
Sales Company	Long-term payable collateral from R&D Centre	39,557,304
Atrio Company	Long-term borrowings collateral	33,462,225
Indomita Wine	Short-term borrowings collateral	75,601,849
Ningxia Moser 15th Changyu Wine Chateau Co., Ltd. ("Ningxia Chateau")	Long-term payable collateral from R&D Centre	184,678,629
Ningxia Wine Co.Ltd. ("Ningxia Wine").	Long-term payable collateral from R&D Centre	44,459,527
Total		<u>412,006,421</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

45 Assets with restriction of ownership - continued

As at 31 December 2018, Intangible assets with restriction of ownership as follows:

Company	<u>Restricted reasons</u>	<u>31/12/2018</u> RMB
The Company	Long-term payable collateral from R&D Centre	50,902,950
R&D Centre	Long-term payable collateral from R&D Centre	108,913,538
Ningxia Chateau	Long-term payable collateral from R&D Centre	8,906,611
Ningxia Wine	Long-term payable collateral from R&D Centre	49,347,315
Total		<u>218,070,414</u>

46. Foreign monetary items

(1) Foreign monetary items

The foreign monetary items located within China are as follows:

	<u>Closing foreign</u> <u>currency balance</u>	<u>Exchange</u> <u>rate</u>	<u>Closing translated</u> <u>RMB balance</u>
Cash and bank			
EUR	127	7.8473	997
HKD	213	0.8762	187
USD	<u>7,196,107</u>	<u>6.8632</u>	<u>49,388,322</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 functional currency of Australia Kilikanoon Estate is AUD. The foreign monetary assets and liabilities of the overseas subsidiaries are as follows:

	<u>Closing foreign</u> <u>currency balance</u>	<u>Exchange</u> <u>rate</u>	<u>Closing translated</u> <u>RMB balance</u>
Cash and bank			
EUR	25,328	7.8473	198,756
USD	276,196	6.8632	1,895,588
Short-term borrowings			
USD	<u>11,000,000</u>	<u>6.8632</u>	<u>75,495,200</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 RMB	Net profit from acquisition date to year end RMB
Australia Kilikanoon Estate	18 January 2018	AUD 20,860,825	80%	Purchase	18 January 2018	Finish payment and acquire equity	57,648,905	217,869

Other detail information:

Pursuant to the Agreement on the delivery of transferred equities entered into between the shareholders of the Company and Australia Kilikanoon Estate on 5 December 2017, the Company acquired 80% equity interests of Australia Kilikanoon Estate at the consideration of AUD 20,860,825(translated as RMB 107,194,420). The Company completed the equity transfer on 18 January 2018 and obtained the control of financial and operating policies over Australia Kilikanoon Estate.

(2) Consideration and Goodwill

Consideration

	<u>Australia Kilikanoon Estate</u> RMB
Cash	107,194,420
Total consideration	107,194,420
Less: acquired provisional value of net assets	<u>70,131,290</u>
Goodwill	<u><u>37,063,130</u></u>

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

	<u>Australia Kilikanoon Estate</u>	
	<u>Fair value</u> <u>at acquisition date</u> RMB	<u>Book value</u> <u>at acquisition date</u> RMB
Assets		
Cash and bank	1,359,765	1,359,765
Accounts receivable	10,366,281	10,366,281
Prepayment	237,174	237,174
Other receivables	187,720	187,720
Inventories	69,612,312	57,946,312
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>

YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

VII. CHANGE IN CONSOLIDATION SCOPE - continued

1. Business combination under different control - continued

(3) Recognised assets and liabilities of acquiree at acquisition date- continued

	<u>Australia Kilikanoon Estate</u>	
	<u>Fair value</u>	<u>Book value</u>
	<u>at acquisition date</u>	<u>at acquisition date</u>
	RMB	RMB
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>59,547,024</u>	<u>53,644,595</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>70,131,290</u>	<u>50,088,792</u>

VIII. INTERESTS IN OTHER ENTITIES

1. Structure of the Group

<u>Name</u>	<u>Address</u>	<u>Place of registration</u>	<u>Nature</u>	<u>Equity interest owned by the company</u>		<u>Acquisition method</u>
				<u>Direct</u>	<u>Indirect</u>	
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	Navarra, Spain	Navarra, Spain	Sales	75%	-	Subsidiary acquired in business combination under non-common control
IWCC	Santiago, Chile	Santiago, Chile	Sales	85%	-	Subsidiaries acquired by establishment
Australia Kilikanoon Estate	Adelaide Australia	Adelaide Australia	Sales	80%	-	Subsidiary acquired in business combination under non-common control
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") (b)	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") (c)	Lanfang, Hebei, China	Lanfang, Hebei, China	Manufacturing	39%	10%	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	
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")	Lanfang, Hebei, China	Lanfang, 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 (d)	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") (e)	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	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 Chateau	Yinchuan, Ningxia, China	Yinchuan, Ningxia, China	Manufacturing	100%	-	Subsidiaries acquired by establishment
Shanxi Changyu Rina Castle Chateau Co., Ltd. ("Chang'an Chateau") R&D Centre (f)	Xianyang, Shanxi, China	Xianyang, Shanxi, China	Manufacturing	100%	-	Subsidiaries acquired by establishment
Changyu (HuanRen) Wine Co., Ltd. ("Huan Ren Wine")	Yantai, Shandong, China	Yantai, Shandong, China	Manufacturing	72%	-	Subsidiaries acquired by establishment
Xinjiang Changyu Sales Co., Ltd. ("Xinjiang Sales")	Benxi Liaoning China	Benxi Liaoning China	Wine production	100%	-	Subsidiaries acquired by establishment
Ningxia Changyu Trading Co., Ltd. ("Ningxia Trading")	Shihezi Xinjiang China	Shihezi Xinjiang China	Sales	-	100%	Subsidiaries acquired by establishment
Shanxi Changyu Rina Wine Sales Co., Ltd. ("Shanxi Sales")	Yinchuan Ningxia China	Yinchuan Ningxia China	Sales	-	100%	Subsidiaries acquired by establishment
Penglai Changyu Wine Sales Co., Ltd. ("Penglai Sales")	Xianyang, Shanxi, China	Xianyang, Shanxi, China	Sales	-	100%	Subsidiaries acquired by establishment
Laizhou Changyu Wine Sales Co., Ltd. ("Laizhou Sales")	Shenyang, Liaoning, China	Shenyang, Liaoning, China	Sales	-	100%	Subsidiaries acquired by establishment
Francs Champs	Laizhou Shandong China	Laizhou Shandong China	Sales	-	100%	Subsidiaries acquired by establishment
Lanzhou Changyu Wine Sales Co., Ltd. ("Lanzhou Sales")	Cognac, France	Cognac, France	Investment and trading	100%	-	Subsidiaries acquired by establishment
Beijing Retailing Co. Ltd ("Beijing Retailing")	Lanzhou Gansu, China	Lanzhou Gansu, China	Sales	-	100%	Subsidiaries acquired by establishment
Tianjin Changyu Pioneer Sales Co., Ltd. ("Tianjin Pioneer")	Beijing, China	Beijing, China	Sales	-	100%	Subsidiaries acquired by establishment
Fuzhou Changyu Pioneer Sales Co., Ltd. ("Fuzhou Pioneer")	Tianjin, China	Tianjin, China	Sales	-	100%	Subsidiaries acquired by establishment
Nanjing Changyu Pioneer Sales Co., Ltd. ("Nanjing Pioneer")	Fuzhou Fujian, China	Fuzhou Fujian, China	Sales	-	100%	Subsidiaries acquired by establishment
Xianyang Changyu Pioneer Sales Co., Ltd. ("Xianyang Pioneer")	Nanjing, Jiangsu, China	Nanjing, Jiangsu, China	Sales	-	100%	Subsidiaries acquired by establishment
Shenyang Changyu Pioneer Sales Co., Ltd. ("Shenyang Pioneer")	Xianyang, Shanxi, China	Xianyang, Shanxi, China	Sales	-	100%	Subsidiaries acquired by establishment
Jinan Changyu Pioneer Sales Co., Ltd. ("Jinan Pioneer")	Shenyang, Liaoning, China	Shenyang, Liaoning, China	Sales	-	100%	Subsidiaries acquired by establishment
Shanghai Changyu Pioneer Sales Co., Ltd. ("Shanghai Pioneer")	Jinan, Shandong, China	Jinan, Shandong, China	Sales	-	100%	Subsidiaries acquired by establishment
Fuzhou Changyu Pioneer Sales Co., Ltd. ("Fuzhou Pioneer")	Shanghai, China	Shanghai, China	Sales	-	100%	Subsidiaries acquired by establishment
Shijiazhuang Changyu Pioneer Sales Co., Ltd. ("Shijiazhuang Pioneer")	Fuzhou, Jiangxi, China	Fuzhou, Jiangxi, China	Sales	-	100%	Subsidiaries acquired by establishment
Hangzhou Yuzefeng Sales Co., Ltd. ("Hangzhou Yuzefeng")	Shijiazhuang, Hebei, China	Shijiazhuang, Hebei, China	Sales	-	100%	Subsidiaries acquired by establishment
Jilin Changyu Pioneer Sales Co., Ltd. ("Jilin Pioneer")	Hangzhou, Zhejiang, China	Hangzhou, Zhejiang, China	Sales	-	100%	Subsidiaries acquired by establishment
	Changchun, Jilin, China	Changchun, Jilin, 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	
Beijing Changyu Pioneer Sales Co., Ltd ("Beijing Pioneer")	Beijing, China	Beijing, China	Sales	-	100%	Subsidiaries acquired by establishment
Harbin Changyu Pioneer Sales Co., Ltd ("Harbin Pioneer")	Harbin, Heilongjiang, China	Harbin, 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
Wuhan Changyu Pioneer Sales Co., Ltd ("Wuhan Pioneer")	Wuhan, Hubei, China	Wuhan, Hubei, China	Sales	-	100%	Subsidiaries acquired by establishment
Hohhot Changyu Pioneer Sales Co., Ltd ("Hohhot Pioneer")	Hohhot Inner Mongolia, China	Hohhot 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 Changyu Pioneer Sales Co., Ltd ("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 Changyu Pioneer Sales Co., Ltd ("Hefei Pioneer")	Hefei, Anhui, China	Hefei, Anhui, China	Sales	-	100%	Subsidiaries acquired by establishment
Urumchi Changyu Pioneer Sales Co., Ltd ("Urumchi Pioneer")	Urumchi Xinjiang, China	Urumchi Xinjiang, 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) 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.
- (c) 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 was terminated on 31 December 2017. Non-controlling shareholders of Langfang Chateau will be entitled to/abided by the rights/obligations of the shareholders as agreed in the Articles of Association upon the due date of the agreement arrangement.
- (d) Beijing Chateau is a joint venture established by the Company, Yantai De'an and Beijing Qinglang, and the Company increases the capital contribution RMB 502,910,000 in this period, Yantai De'an and Beijing Qinglang together increase the capital contribution RMB29,840,000. Beijing Chateau has compelled 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.

VIII. INTERESTS IN OTHER ENTITIES - continued

1. Structure of the Group - continued

- (e) 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.
- (f) R&D Centre is a joint venture established by the Company and CADF, accounting for 72% of R&D Centre's equity interest at 31 December 2018. The Company has complete control over the operation, investment and financial policies of the R&D Centre subject to the contract arrangement as described in Note VI-25. The contract arrangement will expire on 22 May 2026. As at 31 December 2018, the remaining investment of IFAD accounted for 28% of the registered capital.

2. Non-wholly owned subsidiaries

<u>Name interest</u>	<u>Non-controlling 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>31/12/2018 non-controlling interest</u>
Xinjiang Tianzhu	40%	(2,760,804)	-	-	50,612,648
Atrio	25%	844,190	(744,149)	-	31,726,931
Changyu Chateau	30%	-	-	-	12,365,016
Langfang Castel	51%	(1,774,541)	-	-	20,927,981
Beijing Chateau	10%	-	-	-	65,133,868
Ice Chateau	49%	-	-	-	33,319,062
IWCC	15%	2,619,885	(2,655,627)	-	53,079,827
Australia Kilikanoon Estate	20%	(310,144)	-	17,532,823	17,222,679
		<u>(1,381,414)</u>	<u>(3,399,776)</u>	<u>17,532,823</u>	<u>284,388,012</u>

VIII. INTERESTS IN OTHER ENTITIES - continued

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

Name	31/12/2018						31/12/2017					
	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	27,390,495	66,486,795	93,877,290	-	5,336,114	5,336,114	30,264,441	71,323,940	101,588,381	809,080	5,336,114	6,145,194
Changyu Chateau	141,298,023	114,694,168	255,992,191	171,869,662	-	171,869,662	140,038,021	115,435,985	255,474,006	175,061,601	-	175,061,601
Langfang Castel	17,659,511	16,001,682	33,661,193	3,358,322	-	3,358,322	22,728,536	17,973,719	40,702,255	6,133,909	-	6,133,909
Beijing Chateau	219,973,582	461,115,089	681,088,671	62,598,545	-	62,598,545	214,079,274	481,668,050	695,747,324	73,963,043	-	73,963,043
Ice Chateau	45,194,591	23,920,890	69,115,481	14,974,458	100,000	15,074,458	38,657,358	25,484,359	64,141,717	10,871,695	100,000	10,971,695
Atrio	464,421,130	99,080,668	563,501,798	381,659,315	54,520,937	436,180,252	398,835,959	116,299,504	515,135,463	299,030,002	89,336,338	388,366,340
IWCC	214,784,490	300,969,342	515,753,832	148,359,328	4,976,161	153,335,489	175,669,256	305,664,706	481,333,962	122,023,764	5,206,406	127,230,170
Australia Kilikanoon Estate	87,634,707	63,759,866	151,394,573	13,387,942	51,893,171	65,281,113	N/A	N/A	N/A	N/A	N/A	N/A

Name	2018				2017			
	Revenue	Net profit (loss)	Total comprehensive income	Operating activities cash flows	Revenue	Net profit (loss)	Total comprehensive income	Operating activities cash flows
Xinjiang Tianzhu	18,803	(6,902,010)	(6,902,010)	43,112	116,555,588	15,531,513	15,531,513	32,224,800
Changyu Chateau	121,235,278	3,710,124	3,710,124	16,096,447	68,964,230	985,910	985,910	19,629,212
Langfang Castel	5,038,281	(3,479,492)	(3,479,492)	673,422	39,165,527	(1,616,638)	(1,616,638)	(1,554,380)
Beijing Chateau	159,369,783	16,555,846	16,555,846	19,627,933	145,103,200	17,475,647	17,475,647	49,964,881
Ice Chateau	57,290,490	870,994	870,994	289,782	49,643,396	1,241,699	1,241,699	(1,748,535)
Atrio	327,550,545	3,811,465	3,376,761	6,129,923	281,007,167	2,000,682	7,701,416	(32,148,326)
IWCC	262,104,563	15,934,347	17,465,900	3,584,648	157,953,467	28,791,684	31,458,952	16,482,765
Australia Kilikanoon Estate	57,648,905	217,869	(1,550,720)	(1,522,151)	N/A	N/A	N/A	N/A

* This is amount incurred in the period between acquisition date and 31 December 2018.

IX. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

The Group's major financial instruments include cash and bank, notes and account receivable, 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.

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, Chilean peso and Australia dollar, borrowings denominated in USD, while the Group's other principal activities are denominated and settled in RMB. As at 31 December 2018, 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>31/12/2018</u>	<u>31/12/2017</u>
	RMB	RMB
Bank and cash (EUR)	199,753	1,190,459
Bank and cash (USD)	51,283,910	34,843,968
Short-term borrowings (USD)	75,495,200	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.

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

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>Current year</u>		<u>Prior year</u>	
<u>Change in exchange rate</u>		<u>Effect on profit</u>	<u>Effect on</u>	<u>Effect on profit</u>	<u>Effect on</u>
		<u>RMB</u>	<u>shareholders'</u>	<u>RMB</u>	<u>shareholders'</u>
			<u>equity</u>		<u>equity</u>
			<u>RMB</u>		<u>RMB</u>
EUR	5% increase against RMB	50	50	50	50
EUR	5% decrease against RMB	(50)	(50)	(50)	(50)
USD	5% increase against RMB	2,469,416	2,469,416	1,456,525	1,456,525
USD	5% increase against RMB	(2,469,416)	(2,469,416)	(1,456,525)	(1,456,525)

Overseas entities:

		<u>Current year</u>		<u>Prior year</u>	
<u>Change in exchange rate</u>		<u>Effect on profit</u>	<u>Effect on</u>	<u>Effect on profit</u>	<u>Effect on</u>
		<u>RMB</u>	<u>shareholders'</u>	<u>RMB</u>	<u>shareholders'</u>
			<u>equity</u>		<u>equity</u>
			<u>RMB</u>		<u>RMB</u>
USD	5% increase against EUR	900	900	52,695	52,695
USD	5% decrease against EUR	(900)	(900)	(52,695)	(52,695)
USD	15% increase against Chile Peso	(11,042,641)	(11,042,641)	(5,275,651)	(5,275,651)
USD	15% decrease against Chile Peso	11,042,641	11,042,641	5,275,651	5,275,651
EUR	10% increase against Chile Peso	19,876	19,876	58,350	58,350
EUR	10% decrease against Chile Peso	(19,876)	(19,876)	(58,350)	(58,350)

Note: As at 31 December 2018, the Group's management anticipated a change of 5% in exchange rate for USD to EUR, 10% in exchange rate for EUR to Chilean Peso and 15% in exchange rate for USD to Chilean Peso.

IX. FINANCIAL INSTRUMENT AND RISK MANAGEMENT - continued

1. Risk management objectives and policies - continued

1.1 Market risk- continued

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-16 and Note VI-24 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.

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

	Change in interest rate	Current year		Prior year	
		Effect on profit	Effect on shareholders' equity	Effect on profit	Effect on shareholders' equity
Bank borrowings	50 bps increase	(2,016,667)	(2,016,667)	(2,046,646)	(2,046,646)
Bank borrowings	50 bps decrease	2,016,667	2,016,667	2,046,646	2,046,646

Note: As at 13 December 2018, the Group's management anticipated a change of 50 basis points in the bank's variable interest rate.

1.2 Credit risk

As at 31 December 2018, 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.

IX. FINANCIAL INSTRUMENT AND RISK MANAGEMENT - continued

1. Risk management objectives and policies - continued

1.2 Credit risk - continued

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 2018, 19.8% of the Group trade receivables are due from top five customers (31 December 2017: 20.7%). 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> RMB	<u>1-3 months</u> RMB	<u>3-12 months</u> RMB	<u>1-5 years</u> RMB	<u>More than five years</u> RMB	<u>Total</u> RMB
Short-term borrowings	2,338,698	57,691,463	641,831,131	-	-	701,861,292
Accounts payable	163,879,578	327,759,156	221,934,147	-	-	713,572,881
Other payables	155,842,255	179,896,318	256,314,091	-	-	592,052,664
Interest payable	712,826	-	-	-	-	712,826
Long-term borrowings	8,382,996	31,970,170	85,822,835	168,574,037	-	294,750,038
Long-term payables	-	22,762,934	14,158,433	143,555,433	90,356,300	270,833,100
	<u>331,156,353</u>	<u>620,080,041</u>	<u>1,220,060,637</u>	<u>312,129,470</u>	<u>90,356,300</u>	<u>2,573,782,801</u>

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	<u>259,000,000</u>	<u>-</u>	<u>223,263,886</u>	<u>-</u>	<u>223,263,886</u>

As at 31 December 2018, 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>
Changyu Group Company	Parent Company	Limited Company	Yantai	Zhou Hongjiang	Manufacturing	50,000,000	50.4	50.4	265645824

During the year ended 31 December 2018, there is no change in parent company's registered capital, shares holding or voting power.

2. Subsidiaries: Please refer to Note 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
Yantai Changyu Culture Tourism Production Sales Co., Ltd. ("Culture Sales")	Company controlled by the same parent	91370602MA3N7A877P
Yantai Changyu Culture Tourism Development Co., Ltd. ("Culture Development")	Company controlled by the same parent	91370602MA3N59J300

4. Significant related party transactions

(1) Purchases from and sales to related parties

Purchase from related parties

	<u>The content of related party transactions</u>	<u>2018 RMB</u>	<u>2017 RMB</u>
ShenMa Packing	product purchase	173,238,289	145,872,001
Zhongya Pharmaceutical	product purchase	15,690,930	9,279,380
Wine Culture Museum	product purchase	16,784,711	6,336,832
Window of the Wine City	product purchase	7,913,342	2,756,050
Culture Sales	product purchase	35,857	
		<u>213,663,129</u>	<u>164,244,263</u>

All related party transactions are based on the negotiated price.

In 2018, purchases from related parties accounted for 11.2% of the Group's total purchase (2016: 10.9%)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS - continued

4. Significant related party transactions - continued

(1) Purchases from and sales to related parties- continued

Sales to related parties

	The content of related <u>party transactions</u>	<u>2018</u> RMB	<u>2017</u> RMB
Wine Culture Museum	goods sales	23,515,379	8,235,520
Window of the Wine City	goods sales	13,821,555	12,205,247
Zhongya Pharmaceutical	goods sales	4,552,269	2,035,003
Culture Sales	goods sales	2,914,686	-
ShenMa Packing	goods sales	348,247	1,634,883
		<u>45,152,136</u>	<u>24,110,653</u>

All related party transactions are based on the negotiated price. In 2018, sales to related parties accounted for less than 1% of the Group's total sales (2017: less than 1%).

(2) Property leased from a related party

The Group as Lessee

<u>2018</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	1,538,840
Changyu Group Company	office building and factory	1 January 2017	31 December 2021	1,331,364
Changyu Group Company	office building and factory	1 January 2017	31 December 2021	3,994,091
				<u>6,864,295</u>

All related party transactions are based on the negotiated price.

The Group as Lessor

<u>2018</u>	<u>Assets leased</u>	<u>Beginning date</u>	<u>Ending date</u>	<u>Rental income</u> RMB
ShenMa Packing	office building and factory	1 July 2017	30 June 2022	1,478,982
Zhongya Pharmaceutical	office building and factory	1 January 2018	31 December 2018	518,182
				<u>1,997,164</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

	The content of related party transactions	Note	<u>2018</u> RMB	<u>2017</u> RMB
Changyu Group Company	Royalty fee	(a)	73,976,395	72,838,612
Changyu Group Company	Patents fee	(b)	<u>50,000</u>	<u>50,000</u>

All related party transactions are based on the negotiated price.

(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 2018, royalty fee paid to related company accounted for 100% of the Group (2017: 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 2018, the patents usage fee payable to Changyu Group Company is amounted to RMB 50,000 (2017: RMB 50,000).

During 2018, patent fee paid to related company accounted for 100% of the Group (2017: 100%).

(4) Remuneration of the management

	<u>2018</u> RMB	<u>2017</u> RMB
Remuneration of the management	<u>13,102,005</u>	<u>10,309,409</u>

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS - continued

5. Balance due from/to related parties

(1) Balance due from related parties

<u>Accounts receivable</u>	<u>31/12/2018</u>		<u>31/12/2017</u>	
	<u>Balance</u> RMB	<u>Provision</u> RMB	<u>Balance</u> RMB	<u>Provision</u> RMB
Zhongya Pharmaceutical	2,768,391	-	8,134,150	-
Shen Ma Packing.	17,137	-	1,342,348	-
Window of the Wine City	1,911,157	-	3,196,095	-
Wine Culture Museum	-	-	34,280	-
	<u>4,696,685</u>	<u>-</u>	<u>12,706,873</u>	<u>-</u>

<u>Other receivable</u>	<u>31/12/2018</u>		<u>31/12/2017</u>	
	<u>Balance</u> RMB	<u>Provision</u> RMB	<u>Balance</u> RMB	<u>Provision</u> RMB
Shen Ma Packing.	<u>813,440</u>	<u>-</u>	<u>813,440</u>	<u>-</u>

(2) Balance due to related parties

<u>Accounts payable</u>	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Shen Ma Packing.	55,366,785	52,403,056
Zhongya Pharmaceutical	6,722,667	2,051,991
Wine Culture Museum	4,646,731	2,040,860
Window of the Wine City	4,789,600	1,485,766
	<u>71,525,783</u>	<u>57,981,673</u>

<u>Other payable</u>	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Shen Ma Packing.	450,000	-
Changyu Group Company	78,414,978	77,208,929
	<u>78,864,978</u>	<u>77,208,929</u>

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

XI. COMMITMENT

1. Important commitments

(1) Capital commitments

	<u>31/12/2018</u> RMB'000	<u>31/12/2017</u> RMB'000
Capital commitment for purchasing non-current assets	996,675	1,246,506

(2) Operating lease commitment

As lessee

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

	<u>31/12/2018</u> RMB'000	<u>31/12/2017</u> RMB'000
Within 1 year	20,576	32,236
1 to 2 years	11,757	19,116
2 to 3 years	10,064	11,943
3 years and above	84,095	95,342
	<u>126,492</u>	<u>158,637</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 18 April 2019, the Company proposed a cash dividend of RMB 6.0 (including taxes) for every 10 shares in respect of 2018 based on the issued shares of 685,464,000. The aggregate amount of cash dividend is RMB 411,278,400. The resolution is to be approved by the annual general meeting.

XIII. OTHER SIGNIFICANT EVENTS

Capital management

The main target of the capital management of the group is to ensure the continuous operation of the group, optimize the portfolio structure of equity financing and debt financing, so as to achieve the goal of maximizing shareholder benefits. The capital structure of the group consists of the following parts:

- (1) Cash and cash equivalents
- (2) Share capital, capital reserve, surplus reserve and retained earnings

The management reviews the group's capital structure according to the interim or year-end financial reports and considers the cost of capital and the corresponding risks of various capital types. Based on the choice of the management, the group optimizes the overall capital structure by issuing additional shares and borrowing or repaying loans.

Segment report

The Group is principally engaged in the production and sales of wine, brandy, and champagne in China, France, Spain, Chile and Australia. 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, Chile and Australia. The management periodically evaluates segment results, in order to allocate resources and evaluate performances. In 2018, more than 87% revenue and more than 99% profit derived from China, and more than 92% 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>31/12/2018</u>	<u>31/12/2017</u>
	RMB	RMB
Cash	3,177	5,280
Bank balance	579,993,055	501,208,996
Other currency fund	<u>44,592,577</u>	<u>57,960,190</u>
Total	<u><u>624,588,809</u></u>	<u><u>559,174,466</u></u>

As at 31 December 2018, the balance of restricted cash of the Company is RMB 2,611,350 (31 December 2017: RMB 2,645,410), which is home maintenance funds.

As at 31 December 2018, other currency fund of the Company include: deposit of RMB 44,540,850 for letter of credit (31 December 2017: RMB 57,946,190) and deposit of RMB 51,727 for entity card (31 December 2017: RMB 14,000).

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

1. Cash and bank - continued

As at 31 December 2018, the Company's time deposits include the short-term deposits with original maturity from six months to twelve months amounting to RMB 45,000,000 (31 December 2017: RMB 5,000,000) with interest rate ranging from 1.55% to 2.03%.

2. Notes and account receivable

2.1 Presented by categories

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Notes receivable	39,885,254	41,645,203
Accounts receivable	1,447,973	7,805,333
Total	<u>41,333,227</u>	<u>49,450,536</u>

2.2 Notes receivable

(1) Categories of notes receivable

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Bank acceptances	<u>39,885,254</u>	<u>41,645,203</u>

(2) Pledged notes receivable

As of 31 December 2018, there was no pledged notes receivable (31 December 2017: Nil).

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

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Bank acceptances	<u>94,755,124</u>	<u>72,316,589</u>

As at 31 December 2018, notes endorsed by the Company to other parties which are not yet due at the end of the period is RMB 94,755,124 (31 December 2017: RMB 72,316,589). 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, 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.

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

2. Notes and accounts receivable- continued

2.2 Notes receivable - continued

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

As at 31 December 2018, there was no notes receivable were reclassified as accounts receivable due to the default of drawer (31 December 2017: Nil).

2.3 Accounts receivable

(1) Disclosure of accounts receivable by categories:

	Balance		31/12/2018			Balance		31/12/2017		
	Amount	Proportion	Bad debts provisions		Carrying Amount	Amount	Proportion	Bad debts provisions		Carrying Amount
	RMB	(%)	Amount	Proportion	Amount	RMB	(%)	Amount	Proportion	Amount
	RMB	(%)	RMB	(%)	RMB	RMB	(%)	RMB	(%)	RMB
Accounts receivable for which bad debt provision has been assessed individually	1,447,973	100.0	-	-	1,447,973	7,805,333	100.0	-	-	7,805,333

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

The aging analysis is as follows:

	31/12/2018	31/12/2017
	RMB	RMB
Within 1 year	1,447,973	7,805,333

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

As at 31 December 2018, there was no provision provided for trade receivables (31 December 2017: Nil). The Company did not provide, reverse or write off any provision during 2018 (31 December 2017: Nil).

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

	Relationship with the Group	Amount	Aging	Proportion of total receivables
Zhongya Pharmaceutical	Other related parties	1,447,973	Within 1 year	100.0

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

3. Other receivables

3.1 Presented by categories

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Interest receivable	254,088	76,646
Dividend receivables	500,000,000	407,495,922
Other receivables	<u>525,389,268</u>	<u>592,274,075</u>
Total	<u>1,025,643,356</u>	<u>999,846,643</u>

3.2 Dividend receivables

	<u>31/12/2017</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>31/12/2018</u> RMB
Within 1 year				
Including: Sales Company	402,595,884	867,404,116	(770,000,000)	500,000,000
Wines Sales	-	30,000,000	(30,000,000)	-
Langfang Castel	-	785,986	(785,986)	-
Beijing Chateau	-	19,850,000	(19,850,000)	-
Shihezi Chateau	4,900,038	15,531,228	(20,431,266)	-
National Wines	-	20,000,000	(20,000,000)	-
Langfang sales	-	1,981,410	(1,981,410)	-
Atrio	-	2,080,191	(2,080,191)	-
Chile Indomita				
Wine Group	-	6,495,728	(6,495,728)	-
Total	<u>407,495,922</u>	<u>964,128,659</u>	<u>(871,624,581)</u>	<u>500,000,000</u>

3.3 Other receivables

(1) Disclosure of other receivables by categories:

	31/12/2018			31/12/2017						
	Balance		Bad debts provisions	Balance		Bad debts provisions	Carrying Amount			
	Amount RMB	Proportion (%)	Amount RMB	Proportion (%)	Amount RMB	Proportion (%)	Amount RMB			
Other receivables for which bad debt provision has been assessed individually	525,389,268	100.0	-	-	525,389,268	592,274,075	100.0	-	-	592,274,075

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

3. Other receivables - continued

3.3 Other receivables - continued

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

The aging analysis is as follows:

	31/12/2018				31/12/2017			
	Balance		Bad debts provision	Carrying amount	Balance		Bad debts provision	Carrying amount
	Amount RMB	Proportion %	Amount RMB	Amount RMB	Amount RMB	Proportion %	Amount RMB	Amount RMB
Within 1 year	491,483,881	93.5	-	491,483,881	589,011,103	99.5	-	589,011,103
1 to 2 years	33,897,084	6.5	-	33,897,084	3,006,488	0.5	-	3,006,488
2 to 3 years	8,303	-	-	8,303	53,794	-	-	53,794
Over 3 years	-	-	-	-	202,690	-	-	202,690
	<u>525,389,268</u>	<u>100.0</u>	<u>-</u>	<u>525,389,268</u>	<u>592,274,075</u>	<u>100.0</u>	<u>-</u>	<u>592,274,075</u>

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

No bad debt accrued or reversed in 2018 (2017:Nil.).

(3) Other receivables written off current year

No other receivables written off in 2018 (2017:Nil.).

(4) Disclosure of other receivables by nature

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Receivable from subsidiary	523,579,831	589,897,407
Receivable deposit	12,500	2,500
Others	<u>1,796,937</u>	<u>2,374,168</u>
	<u>525,389,268</u>	<u>592,274,075</u>

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

As at 31 December 2018, the particulars of top five other receivables are as follows:

	<u>Nature</u>	<u>Amount</u> RMB	<u>Aging</u>	<u>Proportion of total</u> <u>prepayments</u> %
Sales Company	Internal balance	369,060,579	Within 1 year	70.2
R&D Centre	Internal balance	120,589,826	Within 1 year	23.0
Changyu Chateau	Internal balance	12,404,563	Within 1 year	2.4
Pioneer International	Internal balance	10,704,391	Within 1 year	2.0
Ningxia Chateau	Internal balance	<u>7,085,540</u>	Within 1 year	<u>1.3</u>
		<u>519,844,899</u>		<u>98.9</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

4. Inventories

	31/12/2018			31/12/2017		
	Balance RMB	Provision RMB	Net carrying amount RMB	Balance RMB	Provision RMB	Net carrying amount RMB
Raw material	1,200,528	-	1,200,528	1,841,216	-	1,841,216
Work in progress	358,230,774	-	358,230,774	307,104,357	-	307,104,357
Finished goods	25,723,438	-	25,723,438	39,096,480	-	39,096,480
	<u>385,154,740</u>	<u>-</u>	<u>385,154,740</u>	<u>348,042,053</u>	<u>-</u>	<u>348,042,053</u>

5. Long-term equity investments

2018	Cost RMB	31/12/2017 RMB	for the year RMB	31/12/2018 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	-
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	-
Changyu Chateau (a)	3,500,000	3,500,000	-	3,500,000	70	100	-
Ningxia Growing	36,573,247	36,573,247	-	36,573,247	100	100	-
National Wines	2,000,000	2,000,000	-	2,000,000	100	100	20,000,000
Ice Chateau (a)	30,440,500	30,440,500	-	30,440,500	51	100	-
Beijing Chateau (a)	579,910,000	579,910,000	-	579,910,000	90	100	19,850,000
Sales Company	7,200,000	7,200,000	-	7,200,000	100	100	867,404,116
Langfang Sales (b)	100,000	100,000	-	100,000	10	100	1,981,410
Langfang Castel(a)	19,835,730	19,835,730	-	19,835,730	39	100	785,986
Wine Sales	4,500,000	4,500,000	-	4,500,000	100	100	30,000,000
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	-
Jingyang Wine (b)	900,000	900,000	-	900,000	90	100	-
Ningxia Wine	222,309,388	222,309,388	-	222,309,388	100	100	-
Ningxia Chateau	443,463,500	443,463,500	10,000,000	453,463,500	100	100	-
Dingluote Chateau (b)	212,039,586	212,039,586	-	212,039,586	65	100	-
Shihezi Chateau	809,019,770	809,019,770	3,000,000	812,019,770	100	100	15,531,228
Changan Chateau	803,892,258	803,892,258	-	803,892,258	100	100	-
R&D Centre (a)	500,000,000	500,000,000	2,788,906,445	3,288,906,445	72	100	-
Huanren Wine	21,700,000	21,700,000	500,000	22,200,000	100	100	-
Grape Wine Sales Co.,	5,000,000	-	-	-	-	100	-
Francs Champs	236,025,404	236,025,404	-	236,025,404	100	100	-
Atrio	190,150,544	190,150,544	-	190,150,544	75	75	2,080,191
IWCC	274,248,114	274,248,114	-	274,248,114	85	85	6,495,728
Australia Kilikanoon Estate	-	-	107,194,420	107,194,420	80	80	-
	<u>4,516,202,204</u>	<u>4,511,202,204</u>	<u>2,909,600,865</u>	<u>7,420,803,069</u>			<u>964,128,659</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 2018, there was no significant restriction on the remittance of fund from the investees to the Company.

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

6. Fixed assets

(1) Fixed assets

	<u>Buildings</u> RMB	<u>Machinery</u> RMB	<u>Motor vehicles</u> RMB	<u>Total</u> RMB
<u>Total original carrying amount</u>				
31/12/2017	265,340,049	475,569,634	10,129,313	751,038,996
Increase				
Purchase	-	9,345,433	-	9,345,433
CIP transfer	8,887,802	139,665	-	9,027,467
Decrease				
Disposal	-	(13,137,771)	(3,479,487)	(16,617,258)
Transfer to Investment property (VI-8)	(32,606,762)	-	-	(32,606,762)
31/12/2018	<u>241,621,089</u>	<u>471,916,961</u>	<u>6,649,826</u>	<u>720,187,876</u>
<u>Total accumulated depreciation</u>				
31/12/2017	111,607,494	346,413,532	4,867,069	462,888,095
Increase				
Additions	7,784,794	15,133,656	531,639	23,450,089
Decrease				
Disposal	(227,951)	(12,642,520)	(946,751)	(13,817,222)
Transfer to Investment property (VI-8)	(17,644,360)	-	-	(17,644,360)
31/12/2018	<u>101,519,977</u>	<u>348,904,668</u>	<u>4,451,957</u>	<u>454,876,602</u>
<u>Total net carrying amount</u>				
31/12/2018	<u>140,101,112</u>	<u>123,012,293</u>	<u>2,197,869</u>	<u>265,311,274</u>
31/12/2017	<u>153,732,555</u>	<u>129,156,102</u>	<u>5,262,244</u>	<u>288,150,901</u>

As at 31 December 2018, fixed assets with restricted ownership is RMB 34,246,887 (December 31, 2017:RMB 36,349,289), referring to Note VI-45 for details.

As at 31 December 2018, the Company has no fixed assets classified as held for sale (31 December 2017:RMB 2,000,197), and the Company has no temporary idle fixed assets and fixed assets under finance leases.

(2) Fixed assets through operating lease

	<u>Amount</u> RMB
Machinery	<u>134,111</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

6. Fixed assets - continued

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

As at 31 December 2018, buildings without property certificate are as follows:

	<u>Amount</u> RMB	<u>Reasons why</u> <u>certificates of title have</u> <u>not been obtained</u>
Fermentation centre office, experiment building and workshop	<u>3,653,494</u>	Processing

7. Construction in progress

(1) Construction in progress

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Reconstruction of boiler heating systems	-	3,556,349
Drainage project	-	3,200,000
Non-dry sticker labeling machine project	4,105,264	-
Others	2,206,437	-
	<u>6,311,701</u>	<u>6,756,349</u>

(2) Current year movement on important construction:

	Budget RMB	31/12/2017 RMB	Addition RMB	Transfer to PPE RMB	31/12/2018 RMB	Accumulated expenditure/ budget %	The progress of constructio n	Financed by
Reconstruction of boiler heating systems	13,000,000	3,556,349	-	(3,556,349)	-	100.0	100.0	Self-raised
Non-dry sticker labeling machine project	6,920,000	<u>-</u>	<u>5,431,516</u>	<u>(1,326,252)</u>	<u>4,105,264</u>	78.5	78.5	Self-raised

There was no interest capitalized in construction in progress in 2018.

(3) As at 31 December 2018, there was no provision was made for the construction in process, and no provision was made (31 December 2017:Nil).

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

8 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
<u>Total original carrying amount</u>			
31/12/2017	6,306,963	130,929,124	137,236,087
Increase			
Cultivated increase	12,930,423	-	12,930,423
Transfer to mature assets from immature assets	<u>(9,802,191)</u>	<u>9,802,191</u>	<u>-</u>
31/12/2018	<u>9,435,195</u>	<u>140,731,315</u>	<u>150,166,510</u>
<u>Total accumulated depreciation</u>			
31/12/2017	-	17,663,548	17,663,548
Increase			
Additions	<u>-</u>	<u>7,500,169</u>	<u>7,500,169</u>
31/12/2018	<u>-</u>	<u>25,163,717</u>	<u>25,163,717</u>
<u>Total net carrying amount</u>			
31/12/2018	<u>9,435,195</u>	<u>115,567,598</u>	<u>125,002,793</u>
31/12/2017	<u>6,306,963</u>	<u>113,265,576</u>	<u>119,572,539</u>

As at 31 December 2018, there is no biological asset with ownership restricted (31 December 2017: Nil).

As at 31 December 2018, there is no indication that biological assets may be impaired, and no provision was made. (31 December 2017: Nil).

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

9. Intangible assets

Intangible assets

	<u>Land use right</u> RMB
<u>Total original carrying amount</u> 31/12/2017 and 31/12/2018	<u>96,594,766</u>
<u>Total accumulated depreciation</u> 31/12/2017	26,971,547
Increase Additions	<u>2,379,153</u>
31/12/2018	<u>29,350,700</u>
<u>Total net carrying amount</u> 31/12/2018	<u>67,244,066</u>
31/12/2017	<u>69,623,219</u>

As at 31 December 2018, Intangible assets with restricted ownership are RMB 50,902,950 (December 31, 2017: RMB 52,720,912), Please refer to Note VI-45 in detail.

10. Deferred tax assets

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

Item	31/12/2018		31/12/2017	
	<u>Deductible</u> <u>temporary difference</u> RMB	<u>Deferred</u> <u>tax assets</u> RMB	<u>Deductible</u> <u>temporary difference</u> RMB	<u>Deferred</u> <u>tax assets</u> RMB
Unrealized profit from intra - company transactions	5,897,436	1,474,359	7,163,828	1,790,957
Unpaid bonus	37,973,000	9,493,249	35,822,735	8,955,683
Retirement benefit	10,143,950	2,535,988	10,057,113	2,514,278
Deductible losses	30,421,511	7,605,378	45,526,327	11,381,582
Deferred income	12,343,972	3,085,993	16,581,627	4,145,407
	<u>96,779,869</u>	<u>24,194,967</u>	<u>115,151,630</u>	<u>28,787,907</u>

11. Other non-current assets

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Receivables from subsidiaries	<u>972,700,000</u>	<u>3,718,674,166</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

12. Short-term borrowings

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Credit loans	<u>150,000,000</u>	<u>600,000,000</u>

As at 31 December 2018, 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	<u>150,000,000</u>	24 May 2018 – 24 May 2019	Annual benchmark rate	4.35

13. Notes and accounts payable

The aging analysis of accounts payable are as follows

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Within 1 year	132,664,195	97,036,146
1 to 2 years	-	556,883
2 to 3 years	395	240,095
Over 3 years	39,714	-
	<u>132,704,304</u>	<u>97,833,124</u>

14. Employee benefits payable

(1) Employee benefits payable

	<u>31/12/2017</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>31/12/2018</u> RMB
Short-term salaries and welfare	60,050,963	97,491,895	(95,341,628)	62,201,230
Post-demission benefits				
- predetermined provision plan	-	6,785,401	(6,785,401)	-
Termination benefit	10,057,113	5,216,248	(5,129,412)	10,143,949
	<u>70,108,076</u>	<u>109,493,544</u>	<u>(107,256,441)</u>	<u>72,345,179</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

14. Employee benefits payable - continued

(2) Short-term salaries and welfare

	<u>31/12/2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>31/12/2018</u>
	RMB	RMB	RMB	RMB
Salaries and bonus	60,694,620	83,892,951	(81,609,810)	62,977,761
Staff benefit	37,173	6,191,811	(6,191,811)	37,173
Staff welfare	-	4,004,223	(4,004,223)	-
Includes:				
Medical insurance	-	3,476,931	(3,476,931)	-
Injury insurance	-	289,904	(289,904)	-
Maternity insurance	-	237,388	(237,388)	-
Housing fund	-	3,005,993	(3,005,993)	-
Union fee and education fee	1,896,872	529,790	(529,791)	1,896,871
Total	<u>62,628,665</u>	<u>97,624,768</u>	<u>(95,341,628)</u>	<u>64,911,805</u>
Less: Non-current liabilities	<u>2,577,702</u>			<u>2,710,575</u>
Short-term salaries and welfare	<u><u>60,050,963</u></u>			<u><u>62,201,230</u></u>

(3) Predetermined provision plan

	<u>31/12/2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>31/12/2018</u>
	RMB	RMB	RMB	RMB
Pension	-	6,534,445	(6,534,445)	-
Unemployment insurance	-	250,956	(250,956)	-
	<u>-</u>	<u>6,785,401</u>	<u>(6,785,401)</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 6,534,445 and RMB 250,956 (2017: RMB 8,595,215 and RMB 323,852) respectively into pension insurance and unemployment insurance. As at 31 December 2018, the Company does not have unpaid pension and unemployment insurance (31 December 2017: 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

15. Taxes payable

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Value added tax	1,686,599	-
Consumption tax	3,902,791	6,450,962
Corporation income tax	-	26,069
Urban land use tax	685,626	784,627
Individual income tax	6,316,001	6,630,393
City construction tax	36,314	345,138
Property tax	243,814	82,669
Others	240,286	249,832
	<u>13,111,431</u>	<u>14,569,690</u>

16. Other payables

16.1 Presented by categories

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Interest payable	181,250	652,500
Other payables	607,793,269	544,713,172
	<u>607,974,519</u>	<u>545,365,672</u>

16.2 Other payables

(1) Natures of other payables are as follows

	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Payable to subsidiaries	585,044,038	534,530,323
Payables for equipment and construction	10,554,451	8,538,687
Deposits from suppliers	5,982,500	183,000
Others	6,212,280	1,461,162
	<u>607,793,269</u>	<u>544,713,172</u>

(2) As at 31 December 2018, there were no significant outstanding balance aged over than one year.

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

17. Capital reserve

<u>2018</u>	<u>31/12/2017</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>31/12/2018</u> RMB
Share premium	<u>557,222,454</u>	<u>-</u>	<u>-</u>	<u>557,222,454</u>

18. Revenue and costs

Revenue is analysed as follows:

	<u>2018</u> RMB	<u>2017</u> RMB
Principal revenue	874,292,088	1,310,443,414
Other revenue	<u>2,154,982</u>	<u>813,440</u>
	<u>876,447,070</u>	<u>1,311,256,854</u>

Operating cost is analysed as follows:

	<u>2018</u> RMB	<u>2017</u> RMB
Principal operating cost	772,497,769	1,165,362,798
Other operating cost	<u>1,989,262</u>	<u>590,610</u>
	<u>774,487,031</u>	<u>1,165,953,408</u>

19. Taxes and surcharges

	<u>2018</u> RMB	<u>2017</u> RMB
Consumption tax	27,262,209	53,236,697
City construction tax	3,214,543	10,190,867
Education fee and surcharges	2,159,612	5,817,116
Property tax	1,854,486	2,267,901
Land use tax	3,168,559	3,168,559
Stamp tax	310,835	603,461
Others	<u>376,517</u>	<u>1,285,624</u>
	<u>38,346,761</u>	<u>76,570,225</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

20. General and administrative expense

	<u>2018</u> RMB	<u>2017</u> RMB
Salary and employee benefit	55,580,888	38,430,904
Maintenance fee	8,396,432	6,192,525
Office fee	3,641,210	3,881,091
Service fee	3,495,328	9,194,005
Depreciation	3,375,180	4,286,164
Property insurance fees	2,961,742	3,080,521
Leasing expenses	2,790,358	2,276,896
Amortization	2,379,153	2,695,110
Shuttle bus	1,442,340	1,719,660
Security and sanitation fee	763,792	941,434
Travelling expenses	324,566	527,464
Greening fee amortization	312,080	394,604
Others	5,042,139	5,498,757
	<u>90,505,208</u>	<u>79,119,135</u>

21. Financial Expense

	<u>2018</u> RMB	<u>2017</u> RMB
Interest income	(41,821,372)	(18,602,199)
Exchange loss	4,443,175	1,040,832
Interest expenses	16,075,353	17,414,181
Bank charges	1,010,107	784,754
	<u>(20,292,737)</u>	<u>637,568</u>

22. Investment income

	<u>2018</u> RMB	<u>2017</u> RMB
Long-term equity investment income accounted for by using the cost method	<u>964,128,659</u>	<u>798,877,905</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

22. 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>2018</u> RMB	<u>2017</u> RMB
Sales Company	867,404,116	577,813,022
Beijing Chateau	-	87,000,000
Wine Sales	-	53,461,029
Xinjiang Tianzhu	-	48,620,373
	<u>867,404,116</u>	<u>766,894,424</u>

As at 31 December 2018 and at 31 December 2017, there are no significant restriction on the remittance of investment income to the Company.

23. Supplement to cash flow statement

	<u>2018</u> RMB	<u>2017</u> RMB
(1) Cash flows from operating activities calculated by adjusting the net profit:		
Net profit	969,588,573	793,598,010
Add: Depreciation of investment properties	1,857,902	590,610
Depreciation of fixed assets	23,450,089	32,201,177
Amortization of intangible assets	2,379,153	2,379,153
Depreciation of biological assets	7,500,169	6,781,447
(Gains)Losses on disposal of assets	(12,411,962)	29,625
Finance expenses	17,808,569	18,614,396
Investment income	(964,128,659)	(798,877,905)
Decrease/(increase) in deferred tax assets	4,592,940	(1,802,655)
Increase / (decrease) in inventories	(37,112,687)	444,690,365
Decrease in trade receivables	37,072,169	103,406,898
Increase / (decrease) in trade payables	92,609,575	(3,541,352)
Net cash flows from operating activities	<u>143,205,831</u>	<u>598,069,769</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

23. Supplement to cash flow statement - continued

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

	<u>2018</u> RMB	<u>2017</u> RMB
Change the claim on subsidiaries into Long-term equity investments	2,802,406,445	2,386,907,749
Increase the investment in subsidiaries with bank acceptances	-	96,345,678
Recover the investment in subsidiaries with bank acceptances	-	(96,345,678)
	<u>2,802,406,445</u>	<u>2,386,907,749</u>

24. Cash and cash equivalents

	<u>2018</u> RMB	<u>2017</u> RMB
Closing balance of Cash and bank	624,588,809	559,174,466
Less:		
Restricted bank deposits	2,611,350	2,645,410
Restricted other monetary assets	44,592,577	57,960,190
Deposit with a period of over three months	45,000,000	5,000,000
Closing balance of cash and cash equivalents	<u>532,384,882</u>	<u>493,568,866</u>

	<u>2018</u> RMB	<u>2017</u> RMB
Cash and bank	532,384,882	493,568,866
Including: Cash and bank	3,177	5,280
Bank deposits on demand	<u>532,381,705</u>	<u>493,563,586</u>
Closing balance of cash and cash equivalents	<u>532,384,882</u>	<u>493,568,866</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

25. Related party transactions

(1) Purchase of materials

	<u>2018</u> RMB	<u>2017</u> RMB
Subsidiaries	209,808,816	352,495,622
Other related parties	88,897,126	82,394,392
	<u>298,705,942</u>	<u>434,890,014</u>

(2) Sales of goods

	<u>2018</u> RMB	<u>2017</u> RMB
Subsidiaries	867,995,960	1,302,056,254
Other related parties	8,451,110	9,200,600
	<u>876,447,070</u>	<u>1,311,256,854</u>

(3) Sales of Fixed assets

	<u>2018</u> RMB	<u>2017</u> RMB
Subsidiaries	134,445	47,843,203
Other related parties	-	3,934,643
	<u>134,445</u>	<u>51,777,846</u>

(4) Interest income from occupation of funds

	<u>2018</u> RMB	<u>2017</u> RMB
Subsidiaries	<u>35,823,556</u>	<u>14,912,649</u>

(5) Lease income

	<u>2018</u> RMB	<u>2017</u> RMB
Subsidiaries	<u>1,997,164</u>	<u>739,491</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

25. Related party transactions - continued

(6) Guarantees

<u>Guaranteed party</u>	<u>Currency</u>	<u>Amount</u>	<u>Beginning date</u>	<u>Due date</u>	<u>Whether guarantees are fulfilled completely</u>
R&D Center	RMB	500,000,000	8 March 2017	8 March 2022	No
Australian Kilikanoon Estate	AUD	17,000,000	13 December 2018	13 December 2023	No

26. Receivables and payables to related parties

(1) Trade receivables

<u>Trade receivables</u>	<u>31/12/2018</u>		<u>31/12/2017</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>1,447,973</u>	<u>-</u>	<u>7,805,333</u>	<u>-</u>
<u>Other receivables</u>	<u>31/12/2018</u>		<u>31/12/2017</u>	
	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB
Subsidiaries	523,579,831	-	589,897,407	-
Other related parties	<u>813,440</u>	<u>-</u>	<u>813,440</u>	<u>-</u>
	<u>524,393,271</u>	<u>-</u>	<u>590,710,847</u>	<u>-</u>
<u>Other non-current assets</u>	<u>31/12/2018</u>		<u>31/12/2017</u>	
	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB
Subsidiaries	<u>972,700,000</u>	<u>-</u>	<u>3,718,674,166</u>	<u>-</u>

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

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

26. Receivables and payables to related parties - continued

(2) Trade payables

<u>Trade payables</u>	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Other related parties	28,892,583	29,145,914
	<u>28,892,583</u>	<u>29,145,914</u>
<u>Other payables</u>	<u>31/12/2018</u> RMB	<u>31/12/2017</u> RMB
Subsidiaries	585,044,038	534,530,323
Other related parties	450,000	-
	<u>585,494,038</u>	<u>534,530,323</u>

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

APPENDIX I SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS
 YEAR ENDED 31 DECEMBER 2018

I. DETAILS OF EXTRAORDINARY PROFIT AND LOSS

	<u>2018</u> RMB
Corporate income tax effect	11,368,355
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)	87,281,434
Other non-operating income and expense	3,817,401
Corporate income tax effect	(25,157,188)
The impact of non-controlling interests' equity	<u>(103,311)</u>
	<u>77,206,691</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).

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>2018</u>	Weighted average <u>ROE</u> %	<u>Basic EPS</u> RMB
Net profit attributable to shareholders of the Company	11.23	1.52
Net profit attributable to shareholders of the Company deducting extraordinary profit and loss	<u>10.40</u>	<u>1.41</u>

The Company did not have any potential dilutive shares.

<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.
