



Yantai Changyu Pioneer Wine Co. Ltd.

2016 Annual Report

2016 Final 01

April, 2017

Contents

I、 Important Notice, Contents and Definition.....	3
II、 Brief Introduction for the Company and Main Financial Indicators	5
III、 Summary of the Company's Businesses	10
IV、 Management Discussion and Analysis	13
V、 Major issues	34
VI、 Changes in Shares and the Shareholders' Situation	50
VII、 Related Situation of Preferred Shares	59
VIII、 Situation for Directors, Supervisors, Senior Management and Staffs.....	60
IX、 Corporate Governance	73
X、 Related Situation of Corporation Bonds	83
XI、 Financial Report.....	84
XII、 Reference Document	185

I. Important Notice, Contents and Definition

The Board of Directors, the Board of Supervisors, directors, supervisors & senior managers of the Company collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report and confirm that to the best of their knowledge and belief there are no unfaithful facts, significant omissions or misleading statements.

Mr. Sun Liqiang (Chairman of the Company), Mr. Leng Bin (Chief Financial Officer) and Mr. Jiang Jianxun (Financial Director) assure the truthfulness, accuracy and completeness of the financial report in the annual report.

All directors personally attended the meeting for deliberating the annual report.

About significant risks that may be faced in production and operation process, please refer to “5. Risks likely to occur” part of “9. Expectation for the Company’s Future Development” in chapter four “Management Discussion and Analysis” of this report. We advise investors to read carefully and pay attention to the investment risks.

The business plan and target in the report do not represent the earnings forecast of the listed company to 2017. Whether the Company could achieve that or not depends on several factors including the changes of market conditions and the effort extent of managing team etc. with a great uncertainty, so the investors should be in a special attention.

The Company’s preliminary scheme of profit distribution deliberated and passed by the Board of Directors is shown as following: “Based on the Company’s total 685,464,000 shares, we plan to pay CNY5 (including tax) in cash as dividends for every 10 shares to all shareholders and to send 0 bonus share (including tax) and capital reserve will not be transferred to equity. ”

Definition

Definition Item	Refers to	Definition Content
Company/The Company	Refers to	Yantai Changyu Pioneer Wine Co. Ltd.
Changyu Group/Controlling Shareholder	Refers to	Yantai Changyu Group Co. Ltd.
CSRC	Refers to	China Securities Regulatory Commission
SSE	Refers to	Shenzhen Stock Exchange
Deloitte Hua Yong	Refers to	Deloitte Hua Yong Certified Public Accountants Co., LTD (special general partnership)
CNY	Refers to	Chinese Yuan

II. Brief Introduction for the Company and Main Financial Indicators

1. Company's information

Abbreviation of the Shares:	Changyu A、Changyu B	Code number of the Shares	000869、200869
Abbreviation of the Shares after alteration (if have)	—		
Place of listing of the Shares	Shenzhen Stock Exchange		
Legal Name in Chinese	烟台张裕葡萄酿酒股份有限公司		
Abbreviation of Chinese name	张裕		
Legal Name in English (if have)	YANTAI CHANGYU PIONEER WINE COMPANY LIMITED		
Abbreviation of English name (if have)	CHANGYU		
Legal Representative	Mr. Sun Liqiang		
Registered Address	56 Dama Road, Yantai, Shandong, China		
Postal Code	264000		
Office Address	56 Dama Road, Yantai, Shandong, China		
Postal Code	264000		
Website	http://www.changyu.com.cn		
E-mail	webmaster@changyu.com.cn		

2. Contact person and information

	Secretary to the Board of Directors	Authorized Representative of the Securities Affairs
Name	Mr. Qu Weimin	Mr. Li Tingguo
Address	56 Dama Road, Yantai, Shandong, China	56 Dama Road, Yantai, Shandong, China
Tel	0086-535-6633656	0086-535-6633656
Fax	0086-535-6633639	0086-535-6633639
E-mail	quwm@changyu.com.cn	stock@changyu.com.cn

3. Information disclosure and filing location

The newspapers in which the Company's information is disclosed	"China Securities Newspaper", "Securities Times" and "Hong Kong Commercial Daily"
Web Site assigned by CSRC to carry the annual report	http://www.cninfo.com.cn
Filing location	Board of Directors' Office of the Company, 56 Dama Road, Yantai, Shandong

4. Registration changes

Organization Code	913700002671000358
-------------------	--------------------

Changes for the main business of the Company since it was listed (if have)	<p>On 18th September 1997 the Company's operating scope was the production, processing and sales of wine, distilled liquor, healthy liquor, fruit liquor, non-alcohol beverages, fruit jam, packing materials and winemaking machines.</p> <p>On 17th April 2008, after the deliberation of 2007 shareholders' meeting, the Company's operating scope is amended to "the Company, legally registered, is in business of production, processing and sales of wine, distilled liquor, medicated liquor, fruit liquor, non-alcohol beverages, fruit jam, packing materials and winemaking machines; licensed import and export."</p> <p>On 12th May 2010, after the deliberation of 2009 shareholders' meeting, the Company revised its operating scope to "the Company, legally registered, is in business of production, processing and sales of wine, distilled liquor, medicated liquor, fruit liquor, non-alcohol beverages, fruit jam, packing materials and its products, winemaking machines; licensed import and export; external investments according to governmental policies."</p> <p>On 23rd September 2016, after the deliberation of 2016 annual 1st Interim shareholders' meeting, the Company revised its operating scope to "wine and fruit wine (bulk wine, processing and filling) production; blending liquor and other blending liquors (grape wine) production; other liquors (other distilling liquors) production; production, processing and sales of package materials and winemaking machines; grape plantation and procurement; tourism resources development (excluding tourism); package design; activity of building rental; licensed import and export; warehouse business; external investments according to governmental policies."</p>
Changes for all previous controlling shareholders (if have)	No.

5. Other documents

The accountant appointed by the Company

Name	Deloitte Hua Yong Certified Public Accountants Co., LTD (special general partnership)
Address	No. 1 East Chang'an Avenue, Dongcheng District, Beijing
Name of signatory accountants	Li Xu, Li Yangang

The sponsor agency the Company appointed to perform the duty of continuous supervision during the report period

☐ Available ☒ Not available

The financial adviser the Company appointed to perform the duty of continuous supervision during the report period

☐ Available ☒ Not available

6. Key accounting data and financial indicators

Whether the Company makes retroactive adjustments or restates the accounting data of previous fiscal years because of changes of accounting policy and/or accounting errors.

☐ Yes ☒ No

Item	2016	2015	More or less than Last year (%)	2014
Business revenue	4,717,596,472	4,649,722,368	1.46%	4,156,727,525
Net profit attributed to the shareholders of the listed company	982,460,488	1,030,073,860	-4.62%	977,707,711
Net profit attributed to the shareholders of the listed company after deducting the irregular profit and loss	941,730,478	993,268,823	-5.19%	950,191,379
Net cash flows from the operating activities	889,911,970	1,143,046,367	-22.15%	1,070,083,296
Basic earnings per share	1.43	1.5	-4.67%	1.43
Diluted earnings per share	1.43	1.5	-4.67%	1.43
Weighted average for earning rate of the net assets	12.55%	14.40%	-1.85%	13.96%
Item	Dec. 31st 2016	Dec. 31st 2015	More or less than Last year (%)	Dec. 31st 2014
Total assets	11,528,077,971	10,344,211,461	11.44%	8,912,232,640
Net Assets attributed to the shareholders of the listed company	8,209,010,989	7,564,099,003	8.53%	6,840,452,145

7. Differences in accounting data under PRC accounting standards and international accounting standards

(1) Differences of net profit and net asset in the financial report disclosed according to both international accounting standards and PRC accounting standards

☐ Available ☒ Not available

There are no differences of net profit and net asset in the financial report disclosed according to both international accounting standards and PRC accounting standards during the report period.

(2) Differences of net profit and net asset in the financial report disclosed according to both foreign accounting standards and PRC accounting standards

☐ Available ☒ Not available

There are no differences of net profit and net asset in the financial report disclosed according to both foreign accounting standards and PRC accounting standards during the report period.

8. Key financial indicators by quarter

Unit: CNY

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Business revenue	1,882,230,620	870,802,179	1,010,732,839	953,830,834
Net profit attributed to the shareholders of the listed company	542,806,719	152,215,128	129,748,790	157,689,851
Net profit attributed to the shareholders of the listed company after deducting the irregular profit and loss	538,762,161	139,716,160	123,011,178	140,240,980
Net cash flows from the operating activities	605,256,456	77,491,913	308,317,385	-101,153,784

Whether there are differences between the above mentioned financial indicators or their sum and the related financial indicators in the quarterly reports and semi-annual reports disclosed by the Company.

☐ Yes ☒ No

9. Item and amount of irregular profit and loss

☒ Available ☐ Not available

Unit: CNY

Item	2016	2015	2014	Explanation
Gain on disposal of non-current assets, including the reversal of accrued impairment provision	14,719	136,061	-5,086,545	—
Tax refund or exemption that is either non-recurring or without proper approval			13,405,520	—

Government grants credited in profit and loss (except for those recurring government grants that are closely related to the entity's operation, in line with related regulations and have proper basis of calculation)	49,130,643	38,952,919	27,140,194	—
Reversal of impairment loss for receivables which was separately undertaken impairment test			192,908	—
Other non-operating income and non-operating expenses except the aforementioned items	4,656,971	9,071,448	166,987	—
Less. Income tax effect	13,072,324	11,355,391	8,302,732	—
Total	40,730,009	36,805,037	27,516,332	--

The reasons shall be made clear and definitely as to the irregular profit and loss that the Company has defined by virtue of the *Explanatory Announcement on Public Company's Information Disclosure No.1 - Irregular Profit and Loss* and as to regarding the irregular profit and loss as recurrent profit and loss as specified in the *Explanatory Announcement on Public Company's Information Disclosure No.1 - Irregular Profit and Loss*.

☐ Available ☒ Not available

There is no situation that the irregular profit and loss is defined and specified as recurrent profit and loss in accordance with the *Explanatory Announcement on Public Company's Information Disclosure No.1 - Irregular Profit and Loss* during the report period.

III. Summary of the Company's Businesses

1. Main businesses during the report period

Whether the Company need to follow the disclosure requirement of special business?

No.

During the report period, the Company's main business is to produce and operate wine and brandy, thus providing the domestic and foreign consumers with healthy and fashionable alcoholic drinks. Compared with earlier stage, there are no significant changes happened to the Company's main businesses. The wine industry that the Company involved in is still in the growth stage, the whole domestic wine market is on the rising trend. The Company takes the dominant position in the domestic wine market.

2. Significant changes of main assets

(1) Significant changes of main assets

Main assets	Explanation of significant changes
Equity asset	No significant changes
Fixed asset	The book value of fixed assets increases by 51.60% compared with the beginning of the year, owing that parts of construction projects have transferred to fixed asset during the report period.
Intangible asset	No significant changes
Construction in process	The book value of construction projects decreases by 32.89% compared with the beginning of the year, owing to parts of construction projects have transferred to fixed asset during the report period.

(2) Main overseas assets condition

☒ Available ☐ Not available

Unit: CNY

Details of assets	Formation reasons	Assets scale	Location	Operation mode	Control measures for safeguarding of asset security	Earning condition	The proportion of overseas assets in the Company's net assets	Whether there are significant impairment risks
Equity asset	Acquisition of equity	465,376,681	Spain	Wine production and operation		-7,484,378	5.54%	No
Other explanation		No.						

3. Analysis of core competitiveness

Whether the Company need to follow the disclosure requirement of special business?

No.

Compared with the participants in the arena of the Chinese wine sector, we believe that the Company is provided with the following advantages:

Firstly, the Company has been enjoying a well-known wine brand since 120-odd years, “Changyu”, “Jiebaina” and “AFIP” are Chinese famous trademarks that have strong influence and good reputation.

Secondly, the Company has set up a nationwide marketing network, formed a “three-level” marketing network system mainly composed of the company’s salesmen and distributors, possessed the strong marketing ability and market exploitation ability.

Thirdly, the Company has already had strong research strength and a product R&D system, owned a one and only “State-level Wine R&D Center”, made mastery of advanced winemaking technology and production processes, been powerful enough in product innovation and established a perfect quality control system.

Fourthly, the Company is in possession of a lot of grape-growing bases to meet its future development, having developed a great deal of vineyards in the most suitable areas for wine grape growing such as in Shandong, Ningxia, Xinjiang, Liaoning, Hebei and Shanxi, whose scales and structures have generally met the Company’s needs for development.

Fifthly, the Company has a great variety of products composed of all grades, its wine, brandy and sparkling wine of over 100 sorts can meet different consumers’ demands. The Company has taken the lead in the domestic wine sector through rapid development in the past 10-odd years and has possessed comparative superiority in the future competition.

Sixthly, the Company has a relatively respect motivation system. Most of Company’s employees indirectly hold the Company’s equity through controlling shareholders. There are high consistency between employee benefits and shareholders benefits, in favor of motivating employees to create value for shareholders.

All in all, the Company has built up a strong core competitive edge and obtained and maintained a relatively dominant position in the long-term market competition.

IV. Management Discussion and Analysis

1. Summarization

In 2016, influenced by the slowdown of domestic economic growth, the overall domestic wine industry is relatively stable, the effective demands for top-level products is weakness, the medium-and-low-level products suitable for mass consumption maintains a favorable growth tendency. Because of the overwhelming flow of foreign wine into Chinese market, product price range further decreases, making market competition further intensified and bringing bigger challenges for the Company to achieve sustained and steady growth. Facing quite a lot of external disadvantages, the Company insists to focus on the market, adjust the marketing tactics and product structure, strive to develop brandy and imported wine, optimize the market layout, perfect the marketing channels and effort to promote product sales, achieving good results and realizing business income of CNY 4717.59 million, an increase of 1.46% compared with last year; but due to the impact of decreasing the proportion of the sales in the products with high gross profit margin and increasing the proportion of the sales in the products with the low profit margin, the Company realized net profit of CNY982.46 million belonging to the parent company's shareholders, an decrease of 4.62% compared with last year.

2. Analysis of main business

Whether or not the same as the disclosed summarization in operation situation discussion and analysis?

☐ Available ☒ Not available

(1) Summarization

Description	Increase or decrease of the end of the period over the end of last year	Cause of significant changes
Operating revenue	1.46%	Mainly because of increase in sales volume
Operating cost	4.18%	Mainly because of increase in sales volume, especially the proportion of sales in medium-low price products increased
Sales expense	3.48%	Mainly because of year-on-year increase of wage & welfare, transport cost and depreciation in 2016
Management expense	-1.33%	Mainly because of year-on-year reduction of property tax, stamp tax, business travel expense and service cost in 2016
R&D investment	0.34%	Mainly because of increase in expenses for technology research and development in 2016

Financial expense	94.63%	Mainly because of reduction of interest income due to decrease of time deposit balance, and the increase in loan interest expenditure and exchange loss
Net amount of cash flow generated in operating activities	-22.15%	Mainly because of decline of received cash from production sales and rendering of service
Net amount of cash flow generated in investment activities	26.70%	Mainly because of the decrease in received cash paid by subsidiary and other business units
Net amount of cash flow generated in capital-raising activities	47.24%	Mainly because of increase in received cash from loan

Review and summary of the process of the Company's early-disclosed development strategy and business plan during the report period

During the report period, influenced by the decelerated growth on the demand for domestic wine and intensified market competition, the Company has realized the business income of CNY 4.72 billion, increased by 1.46% compared with last year, exceeding the target fixed at the beginning of the year of realizing business income no less than CNY 4.6 billion. In order to deal with the unfavorable business environment, the Company continuously carried out the development strategy of multi-liquor, pushed hard on harmonious development of multi-liquor, which played an important part in realizing the increase in the business income. The main work in the report period is as following:

Firstly, the Company further strengthened the construction of marketing system, optimized product structure, increased the marketing promotion efforts and enhanced the marketing capability. the Company promoted the construction of wine distributor system, especially for chateau wine mainly pushed by the Company; quickened the national sales system construction and organized brandy-tasting meeting for 450 times. The Company further perfected the sales system of multi-channel and multi-corporation, integrated middle-and-low channel and middle-and-small hotel companies, and adjusted sales system for imported liquor. The Company built independent sales system for imported liquors, making marketing promotion more professional and more systematic. the Company conducted accurate dissemination for brands through new media platforms and took many activities, such as "G20 State Banquet", "World Cabernet Gernischt Day" and "Grappie Launch" and so on. According to Baidu search index, the visibility of Changyu brands in the whole year ranked first in the wine industry.

Secondly, the management of production was enhanced in order to lower the production cost and improve the production efficiency. Under the circumstance of raw material shortage, the Company fully took the advantage of centralized purchasing to ensure the full and timely supply of raw materials as well as the inhibition of increase in raw material price, resulting that the purchasing prices of main packaging materials were lower over 5% than average price. The Company further strictly controlled various expenses, reinforced the management of production process consumption index in order to keep major production expenses within

the standard scope of the Company. Owing to the improvement of production efficiency per capita in production system, the output per capita was increased through mode of production structure optimization.

Thirdly, the research for new products and new technologies was continued being conducted and the quality management was strengthened in order to improve technological level and product quality. The Company confirmed 41 technologies for improving internal quality of products, such as chateau wine, Jiebaina and brandy and so on, conducted technology research mainly in the aspects of product anti-oxidation and extension of bulk wine stability, and promoted steady improvement in internal quality of various products; combined with North West Agriculture and Forestry University to report a “Innovation and Application of Key Technology in Chinese Wine Industry Chain” project and won the second prize of 2016 National Scientific and Technological Progress Award; combined with Jiangnan University to report a “Establishment and Application of Quality Assessment and Management System for Premium Wine-making Grape Material and Wine” project and won the first prize of 2016 China General Chamber of Commerce Scientific and Technological Progress Award; its technology center was awarded as 2016 “National Agricultural Products Processing and Development Center Technological Innovation Top 10 Unit”; applied for 2 national patents for invention and published 5 academic paper; attended wine and spirit tasting contest owing international influence, which could be exemplified as Brussels, winning 3 gold awards and 8 silver awards; The Company enhanced product quality testing and mentoring, and implemented annual quality target, major work and special work, improving the quality management level.

Fourthly, the procurement of raw materials such as grapes was completed successfully and the management of grape base was further strengthened. The Company balanced domestic and international raw material resource, and optimized grape purchase pricing method, so that grape purchase pricing controlled in reasonable level.

Fifthly, the construction of technological upgrading projects is steadily promoted to strengthen momentum for future development. During the report period, the 7 projects run smoothly among 9 projects which planed to be constructed. Another 2 projects (named Changyu International Wine City Tourism Projects and Pioneer Monopoly Shop) Suspended implementation owing to the changes of domestic economic situation and consumer market ,engineering quality of each construction project is excellent.

(2) Revenue and cost

① Composition of operating incomes

Unit: CNY

	2016		2015		Year-on-year increase or decrease (%)
	Amount	Proportion in operating incomes	Amount	Proportion in operating incomes	
Total	4,717,596,472	100%	4,649,722,368	100%	1.46%

operation revenue					
Industry-classified					
Industry of liquor and alcoholic beverage	4,717,596,472	100%	4,649,722,368	100%	1.46%
Product-classified					
Wine	3,700,806,317	78.45%	3,659,597,234	78.71%	-0.26%
Brandy	905,687,936	19.20%	883,276,247	19%	0.20%
Others	111,102,219	2.36%	106,848,887	2.30%	0.06%
Area-classified					
Domestic	4,437,302,746	94.06%	4,481,598,915	96.38%	-2.32%
Abroad	280,293,726	5.94%	168,123,453	3.62%	2.32%

② The condition of sectors, products or areas accounting for over 10% in the Company's operating incomes or operating profits

☒ Available ☐ Not available

Whether the Company follow disclosure requirement of special industry?

No.

Unit: CNY

	Operating income	Operating cost	Gross profit rate	Year-on-year increase or decrease (%) of operating income	Year-on-year increase or decrease (%) of operating cost	Year-on-year increase or decrease (%) of gross profit rate
Industry-classified						
Industry of liquor and alcoholic beverage	4,717,596,472	1,575,770,979	66.60%	1.46%	4.18%	-0.87%
Product-classified						
Wine	3,700,806,317	1,204,784,351	67.45%	1.13%	5.15%	-1.24%
Brandy	905,687,936	317,845,705	64.91%	2.54%	3.46%	-0.31%
Area-classified						
Domestic	4,437,302,746	1,372,112,826	69.08%	-0.99%	-5.77%	1.57%

Under the situation that the statistical caliber of the Company's main business data was adjusted during the report period, the Company's main business data adjusted on the basis of caliber at the end of report period in recent one year.

☐ Available ☒ Not available

③ Whether the Company's sales revenue for material object is more than labor income

☒ Yes ☐ No

Sector	Project	Unit	2016	2015	Year-on-year increase or decrease (%)
Wine	Sales volume	Ton	98,958	86,318	14.64%
	Production	Ton	99,784	84,446	18.16%
Brandy	Sales volume	Ton	40,171	40,074	0.24%
	Production	Ton	43,262	39,432	9.71%

Explanation on the causes of over 30% year-on-year changes of the related comparison data.

☐ Available ☒ Not available

④ The fulfillment of major sales contract signed by the Company up to the report period

☐ Available ☒ Not available

⑤ Composition of operating costs

Unit: CNY

Sector	Project	2016		2015		Year-on-year increase or decrease (%)
		Amount	Proportion in the operating cost (%)	Amount	Proportion in the operating cost (%)	
Wine	Blending liquor	692,570,791	57.49%	608,095,160	53.07%	4.41%
	Packing material	372,613,924	30.93%	408,405,997	35.64%	-4.72%
	Wages	44,895,195	3.73%	41,930,611	3.66%	0.07%
	manufacturing cost	94,704,442	7.86%	87,353,461	7.62%	0.24%

Brandy	Blending liquor	187,495,081	58.99%	189,302,330	61.62%	-2.63%
	Packing material	105,943,197	33.33%	93,152,552	30.32%	3.01%
	Wages	11,965,588	3.76%	12,551,940	4.09%	-0.32%
	manufacturing cost	12,441,839	3.91%	12,206,568	3.97%	-0.06%

⑥ Whether there are changes of consolidation scope during the report period

☒Yes ☐No

For the scope of consolidated financial statement in this year, please see Notes VIII "Equity in other entities" in detail. For detail of changes in the scope of consolidated financial statement in this year, please see Notes VII "Change in consolidation scope".

⑦ Major changes or adjustments of the Company's products or services during the report period

☐Available ☒Not available

⑧ Information of major customers and major suppliers

The Company's important customers

The total sales amount of the top five customers (CNY)	173,506,000
The proportion that total sales amount of the top five customers accounting for the annual total sales amount (%)	3.68%
The proportion that sales amount of the related party in the total sales amount of the top five customers accounting for the annual total sales amount (%)	0%

Information on the Company's 5 biggest customers

No.	Customer Name	Sales Amount (CNY)	Proportion in Total Sales for the year (%)
1	Chuxin Trade Company Limited in Guangzhou city	49,540,846	1.05%
2	New Baicheng Food Trade Company in	34,594,182	0.73%

	Hanjiang district of Putian city		
3	Huahaipengcheng Liquor Company Limited in Zhuhai city	31,452,543	0.67%
4	Wal-Mart (China) Investment Company Limited	29,012,715	0.61%
5	Dali Qianxingrong Wine Shop in Nanhai district of Foshan city	28,905,714	0.61%
Total	—	173,506,000	3.68%

☒ Available ☐ Not available

There is no associated relationship between top 5 customers and the Company. The Company's directors, supervisors, senior management, core technicians, shareholders holding over 5% shares, actual controller and other related party don't gain benefits directly and indirectly in major customers.

Information on the Company's important suppliers

The total purchase amount of the top 5 suppliers	510,981,344
The proportion of the total purchase amount of the top 5 suppliers in the annual purchase amount	38.32%
Purchase amount of the related party in total purchase amount of the top five suppliers accounting for annual total purchase amount (%)	11.29%

Information on the Company's top 5 biggest suppliers

No.	Supplier Name	Purchase Amount (CNY)	Proportion in Total Purchase for the year (%)
1	Yantai Shenma Packaging Co., Ltd.	150,590,287	11.29%
2	Yantai Changyu Glass Co., Ltd.	128,098,740	9.61%
3	Xinjiang Yuyuan Liquor Co., Ltd.	85,691,150	6.43%
4	Liquan Sales Department of Shandong Yantai Winery Co., Ltd.	85,477,737	6.41%
5	152 regiment of the eighth agriculture production division	61,123,430	4.58%
Total		510,981,344	38.32%

Other situation explanation of main customers

☐ Available ☒ Not available

(3) Costs

Unit: CNY

	2016	2015	Year-on-year increase or decrease (%)	Explanation of significant changes
Sales expense	1,253,260,668	1,211,127,163	3.48%	Mainly because of year-on-year increase of wage & welfare, transport cost and depreciation in 2016
Management expense	309,783,548	313,968,409	-1.33%	Mainly because of year-on-year reduction of property tax, stamp tax, business travel expense and service cost in 2016
Financial expense	21,968,859	11,287,685	94.63%	Mainly because of reduction of interest income due to decrease of time deposit balance, and the increase of loan interest expenditure and exchange loss

(4) Research and development expenditure
☐ Available ☒ Not available
(5) Cash flow

Unit: CNY

Item	2016	2015	Year-on-year increase or decrease (%)
------	------	------	---

Subtotal of cash inflow in operating activities	4,525,609,466	5,045,321,545	-10.30%
Subtotal of cash outflow in operating activities	3,635,697,496	3,902,275,178	-6.83%
Net amount of cash flow generated in operating activities	889,911,970	1,143,046,367	-22.15%
Subtotal of cash inflow in investment activities	112,952,925	70,956,457	59.19%
Subtotal of cash outflow in investment activities	800,394,471	1,008,811,136	-20.66%
Net amount of cash flow generated in investment activities	-687,441,546	-937,854,679	26.70%
Subtotal of cash inflow in capital-raising activities	1,191,567,445	602,060,185	97.92%
Subtotal of cash outflow in capital-raising activities	1,232,491,837	679,633,059	81.35%
Net amount of cash flow generated in capital-raising activities	-40,924,392	-77,572,874	47.24%
Net increase of cash and cash equivalents	164,700,643	131,769,387	24.99%

Explanation of main influence factors contributing to great changes in related data on year-on-year basis

☒ Available ☐ Not available

During the report period, comparing with the same period of last year, net amount of cash flow generated in operating activities was reduced by 22.15%, mainly due to the decrease in received cash from selling commodity and providing labor service; subtotal of cash inflow in investment activities increased by 59.19%, mainly due to the regain of the fixed deposit whose duration is more than 3 months; subtotal of cash outflow in investment activities was reduced by 20.66%, mainly due to the decrease in received net amount of cash paid by subsidiary and other business units; net amount of cash flow generated in investment activities increased by 26.7%, mainly due to the decrease in received cash paid by subsidiary and other business units; subtotal of cash inflow in capital-raising activities increased by

97.92%, mainly due to the increase in received cash from loan; subtotal of cash outflow in capital-raising activities increased by 81.35%, mainly due to the increase in the cash paid for debt repayment; net amount of cash flow generated in capital-raising activities increased by 47.24%, mainly due to the increase in the received cash from loan; net increased amount of cash and cash equivalents increased by 24.99%, mainly due to the significant growth of net amount of cash flow generated in both operating activities and financing activities.

Explanation on the causes of the major differences between the net cash flow generated by the Company's operating activities and this year's net profit during the report period.

☐ Available ☒ Not available

3. Analysis to non-main business

☐ Available ☒ Not available

4. Assets and liabilities situation

(1) Major changes of assets

Unit: CNY

	At the end of 2016		At the end of 2015		Proportion increase or decrease (%)	Explanation on major changes
	Amount	Proportion in the total assets (%)	Amount	Proportion in the total assets (%)		
Monetary funds	1,391,517,607	12.07%	1,285,362,414	12.43%	-0.36%	-
Receivables	173,062,628	1.50%	197,795,091	1.91%	-0.41%	-
Inventory	2,248,609,740	19.51%	2,260,852,964	21.86%	-2.35%	-
Investment real estate		0%		0%	0%	-
Long-term equity investments		0%		0%	0%	-
Fixed assets	4,683,187,493	40.62%	3,089,245,185	29.86%	10.76%	Significant increase in the book value of fixed assets

						compared with the beginning of the year, owing that parts of construction projects have transferred to fixed asset during the report period.
Construction in progress	1,346,281,737	11.68%	2,005,990,308	19.39%	-7.71%	Significant decrease in the book value of construction projects compared with the beginning of the year, owing to parts of construction projects have transferred to fixed asset during the report period.
Short-term borrowings	662,388,882	5.75%	665,581,921	6.43%	-0.68%	No major changes
Long-term borrowings	49,140,555	0.43%	71,686,629	0.69%	-0.26%	No major changes

(2) Measuring assets and Liabilities at Fair Value

☐ Available ☒ Not available

(3) Assets rights restricted situation up to the end of report period

① In order to ensure the Company and Yantai Economic and Technological Development Zone Management Council to fulfill debtors obligation, Yantai Changyu Wine Research and Development Company Limited plans to provide bank receipt of self-owned CNY46.1million and 365,052.7 m² land with an estimated valuation of CNY127.7684million to China Agricultural Development Key Construction Fund Company Limited as guarantee for the debt amount of CNY119.84million including original capital of CNY107million invested by China Agricultural Development Key Construction Fund Company Limited.

② In order to ensure Yantai Changyu Wine Research and Development Company Limited and Yantai Economic and Technological Development Zone Management Council to fulfill debtors obligation, the Company plans to provide two real estate used for warehouse and office to China Agricultural Development Key Construction Fund Company Limited as guarantee to provide joint liability for the payment of Yantai Changyu Wine Research and Development Company Limited and Yantai Economic and Technological Development Zone Management Council for the debt amount of guarantee is CNY221.76million, including original capital of CNY198million invested by China Agricultural Development Key Construction Fund Company Limited. The first real estate provided by the Company as guarantee locates on Shixue Road in Zhifu District, whose land area, total building area and the estimated value is respectively 34,888 m², 10,071.04 m² and CNY42.6514million; the second real estate locates in the western grape hill factory on Dahaiyang Road in Zhifu District Yantai, whose land area, total building area and the estimated value is respectively 176,074 m², 89,571.29 m² and CNY330.898million.

5. Investment situation

(1) Overall situation

☒ Available ☐ Not available

Investment amount during the report period (CNY)	Investment amount of the same period of last year (CNY)	Variation
929,180,000.00	842,060,000.00	10.35%

(2) Situation of acquired main equity investments during the report period

☐ Available ☒ Not available

Unit: CNY

(3) Situation of main ongoing non-equity investments during the report period

☒ Available ☐ Not available

Unit: CNY

Project name	Investment mode	Whether it belongs to fixed assets investment	Involved sectors	Investment Amount during this report period	Accumulated investment amount up to the end of the report period	Capital source	Process of project	Estimated profit	Accumulated realized profit up to the end of the report period	Reasons for unreached planning schedule and estimated profit	Disclosure date (if have)	Disclosure index (if have)

Yantai Changyu International Wine City Blending and Cooling Center	Self-constructed	Yes	Liquor and alcoholic beverage sector	349,500,000	1,023,130,000	Owned funds	95%	—	—	—	2016.04.29	http://www.cninfo.com.cn/cninfo-new/disclosure/szse_main/bulletin_detail/true/1202265203?announceTime=2016-04-29
Yantai Changyu International Wine City Bottling Center	Self-constructed	Yes	Liquor and alcoholic beverage sector	295,000,000	776,690,000	Owned funds	95%	—	—	—	2016.04.29	
Yantai Changyu International Wine City Logistics Center	Self-constructed	Yes	Liquor and alcoholic beverage sector	199,452,000	398,892,000	Owned funds	100%	—	—	—	2016.04.29	
Changyu Vine and Wine Research Institute	Self-constructed	Yes	Liquor and alcoholic beverage sector	15,000,000	105,760,000	Owned funds	55%	—	—	—	2016.04.29	
Treasure Wine Chateau	Self-constructed	Yes	Liquor and alcoholic beverage sector	31,000,000	78,990,000	Owned funds	55%	—	—	—	2016.04.29	
Koyac Brandy	Self-	Yes	Liquor and	13,928,000	111,928,000	Owned	50%	—	—	—	2016.04.29	

Chateau	constructed		alcoholic beverage sector			funds						
Greening Investment	Self-constructed	Yes	Liquor and alcoholic beverage sector	25,300,000	25,300,000	Owned funds	100%	—	—	—	2016.04.29	
Yantai international Wine City Tourism project	Self-constructed	Yes	Liquor and alcoholic beverage sector	0	0	Owned funds	0%	—	—	Suspend implementation	2016.04.29	
Pioneer Monopoly Shop	Self-constructed	Yes	Liquor and alcoholic beverage sector	0	45,140,000	Owned funds	60%	—	—	Suspend implementation	2016.04.29	
Total	—	—	—	929,180,000	2,565,830,000	—	—	—	—	--	--	

(4) Financial assets investment**① Security investment situation**

☐ Available ☒ Not available

There is no security investment for the Company during the report period.

② Derivatives investment

☐ Available ☒ Not available

There is no entrust financing for the Company during the report period.

(5) The usage situation of the raised capital

☐ Available ☒ Not available

There is no usage situation of the raised capital for the Company during the report period.

(6) Sale of major assets and equities**① Sale of major assets**

☐ Available ☒ Not available

There is no sale of major assets during the report period.

② Sale of major equities

☐ Available ☒ Not available

(7) Analysis to the major holding and joint stock companies

☒ Available ☐ Not available

Situation of main subsidiaries and joint stock companies affecting over 10% of the Company's net profit

Unit: CNY

Company name	Company type	Main business	Registered capital	Total asset	Net asset	Operation revenue	Operation profit	Net Profit
Xinjiang Tianzhu Winery	Subsidiary	To plant grape, produce	CNY 75 million	157,135,133	128,532,045	118,253,496	14,648,474	11,561,969

Co., Ltd.		and sell grape juice, bulk wine and fruit wine						
Yantai Changyu -Castel Wine Chateau Co. LTD.	Subsidiary	To research, produce and sell wine and sparkling wine as well as the tourism service	USD 5 million	290,330,975	79,426,494	102,588,593	18,037,953	13,184,637
Langfang Castel-Changyu Wine Co. LTD.	Joint stock company	To produce and sell wine	USD 6,108,818	46,418,915	36,184,983	41,948,391	1,690,042	731,204
Chateau Changyu AFIP Global	Subsidiary	To research, produce and sell brandy and wine	CNY 110 million	590,662,821	158,551,404	178,662,315	40,183,818	29,417,483
Chateau Liaoning Changyu Ice Wine Co., Ltd.	Subsidiary	To produce ice wine	CNY 26.30 million	65,785,268	51,928,324	43,742,412	-5,846,120	-5,895,304
Dicot Partners, S.L.	Subsidiary	To produce and operate o wine and other liquor	EUR2.385732million	465,376,681	122,961,191	281,328,100	-16,244,067	-7,484,378

Acquisition and disposal of subsidiaries during the report period

☐ Available ☒ Not available

Information of main holding and joint stock companies

No

(8) Main part situation of the special purpose being controlled by the Company

☐ Available ☒ Not available

(9) Expectation for the Company's future development

On the basis of our limited experience and special skills, we make the following estimation of the wine sector and the Company's future development:

(1) The sector competition setup and development trend

In 2017, under the slowdown effect of national macroscopic economy growth, the operation situation of the Company will become more severe, plus the change of the alcohol consumption environment, leading to difficulties in selling high-end products; Consumers tend to be more rational, which requires Changyu to make more efforts in improving the cost performance of products; Owing that influx of plenty of imported wines would further compress the domestic wine market shares and the new channels such as E-commerce cause great impact on the traditional sales channels, the competition in the domestic wine industry will still be fierce at present and in the future long time; Raw material cost, freight and depreciation expense and other expenses are likely to increase, bringing big pressure to the Company's profitability. But in the long run, thanks to increase in their income, more and more people would pursue health and fashion life mode and the people would be in more favor of wines which fit quite well with the trend of consumption, ceaselessly stimulating the demands for premium wine. This decides that the Chinese wine industry owns a huge market development potential, especially that brandy and wine with high price ratio might have a faster growth. In such a case of long-term coexistence of opportunities and challenges, those enterprises that possess strong brand influence and marketing ability, catch the opportunities, actively take adjustments, make full use of newly emerging and traditional sales channels, timely satisfy the consumers' demands and provide products with high price ratio will have the opportunity to be the final winner of competition and then form a new structure of the future Chinese wine market.

(2) The Company's development strategy

The Company will continue adhering to the strategy of focusing on wine while fully developing various products, actively expand the scope of consumption field and marketing mode, industriously develop middle-and-high-end wines and brandy, strengthen the marketing level of imported wine and strive to provide consumers with a rich variety of products in high price ratio.

(3) Management plan in new year

In 2017, the Company will try its best to realize business income of not less than CNY4.9 billion and control the main operating costs and three period expenses below CNY3.5 billion.

(4) The measures the Company will take

In order to better catch the opportunities and face the challenges, the Company will take full advantage of self-owned advantages, adhere to market-orientation, take profit evaluation as a means, regard innovations and key work as drives, insist in management and implementation and would pay attention to following aspects in 2017:

Firstly, the Company will stick to market-orientation, further enhance the construction of marketing system, optimize the product mix and improve marketing capacity. The Company will optimize distributor structure of wines such as Changyu Castel, Changyu AFIP and Jiebaina etc, accelerate marketing system construction of three western chateaux, promote steady growth of

sales volume in middle-and-high-level products; will complete upgrade of Brandy products, further expand Brandy market coverage and increase marketing investment of middle-and-high-level brandy product in order to ensure the continuous and rapid grow of brandy; will strengthen marketing effort of middle-and-low-end products and acquired overseas enterprises' product and endeavor to develop Zuishixian, Grappie and imported products to Big Product; will continue enhancing newly-emerging business including direct-supply and e-commerce etc, enlarging input of e-commerce business and accelerating the development of e-commerce business; will intensify product price management so as to improve profit ability; will standardize business of VIP custom-made product and improve service level; will positively take various measures to enhance market competitiveness of Pioneer Monopoly Shop.

Secondly, the Company will focus on informationization of production system, comprehensively improve management level and reduce business risk. The Company will build an intelligentialized manufacturing system to realize systematic control in overall process of production and logistics as well as the seamless joint of various links including the generation of sales order, decomposition of production plan, operation on production line, storage and logistics links, build an efficient and flexible production mode, support "various varieties, small quantity" production and "order business flexibility", improve production efficiency and meet the quickly changed market need; will continue perfecting and implementing the management control and assessment method of salary per ton, bulk wine consumption and controlled expense, make centralized purchasing in bulk raw material to reduce production cost and improve production efficiency; will further perfect capital management system, improve financing mode and reduce capital cost.

Thirdly, the Company will further enhance the management of grape base and reinforce the guarantee capability of grape material. The Company will integrate the layout of domestic and foreign raw material resource to form the advantage complementation of domestic and foreign raw material in the aspects of quality, quantity and price and so on and to ensure the stable supply of premium raw material; will actively carry out the classification management, classification processing and pricing in bases special for brandy; will improve grape pricing mechanism and guide the grape bases to produce as the need; will further enhance the management level of self-supporting bases and improve the quality of wine grape through increasing the soil fertility and adopting advanced cultivation technology; will perfect the management system of tracing grape bases by winemakers to improve the management level and grape quality of bases; will perfect profit assessment method of bases and enhance the profitability of self-supporting bases; will further increase contractual base area per contractor, enhance popularizing rate of mechanization plantation, improve plantation efficiency and reduce raw material cost.

Fourthly, in order to speed up the pace of internationalization, the Company will continue seeking for target enterprise in major wine regions, such as Australia and Chile, in order to realize the comprehensive layout in global major wine regions; will reinforce the management of acquired enterprise and achieve continuous and rapid development in overseas market in the mean time of enlarging Chinese market business.

Fifthly, the company will steadily push construction of investment projects forward, reinforce project management, scientifically arrange construction process and strive for putting into production on time. The Company will continue conducting construction of various project in Yantai Changyu International Wine City(Changyu Industry park),do the equipment commissioning and finishing touches well, intensify project cost audit and auditing of final

settlement, strictly control project investment amount and ensure that all projects could be built and put into operation according to the scheduled process and quality.

(5) Potential risks

A) Risks in price fluctuation of raw materials

Grapes are the Company's main raw materials. The grape's yield and quality are affected to a certain extent by the natural factors such as drought, wind, rain, frost and snow. These force majeure factors greatly influence the quantity and price of the grapes in this Company orders and add the uncertainty to the Company's production and operation. Therefore, the Company will lower the risks that are likely to affect grape quality and result in price fluctuation by means of expanding the self-run vineyards, strengthening the vineyard management and optimizing the layout of vineyards.

B) Risks in uncertainty of market input and output

To cope with the cutthroat market competition and to meet the needs for market development, the Company has input more and more capital in the market and the sales expense has taken up a higher percentage point in the business revenue. The input-output ratio will affect the Company's operating results to a great extent and the risk that some investments may not reach the expectations is likely to occur. Therefore, the Company will strengthen market research and analysis, enhance market forecast accuracy and continue to perfect the input-output evaluation system to ensure the investments in market to be satisfactory as expected.

C) Risks in product transport

The Company's products are fragile and sent to different places all over the world, mostly by sea, railway and expressway. The peak season of sales is usually in cold winter and close to the spring festival when market has a great demand. At that time, the natural and human factors such as serious shortage of transport capacity resulting from busy flow of people and goods, wind, snow, freezing as well as traffic accidents make the transport departments difficult to send products to markets in time and safely. As a result, it makes this Company have to face the risks of missing the peak season of sales. Therefore, the Company will adopt all methods possible like making precise sales prediction and well designed connection of production and sales, reasonably arranging production and transport means and making use of more available warehouses in different places to lower these kinds of risks.

D) Risks in investment faults

According to the plan, currently the Company has finished the production layout at home, and the next step is to pay more attention to the overseas merge and acquisition in the same industry. Currently, Yantai Changyu International Wine City (namely Yantai Changyu Industrial Park) has those features such as the big investment amount, long-term construction period and many uncertain factors; more unforeseeable factors for the overseas merge and acquisition projects in the progress of M&A, it is difficult to make sure the fair and reasonable transaction price, the integration and management after M&A is also hard. Under the influence of uncertain factors for individual projects, It leads to have the risks of facing with the investment amount out of budget or hardly taking back the expected investment earnings. The Company will take an adequate argument and scientific decision-making for investment projects, try hard to reduce and avoid investment risks.

10. The Company's receptions, studies, communications and visits

☒ Available ☐ Not available

Reception Time	Reception method	Reception object type	Basic information index of studies
2016.05.05	Field survey	Institution	-
2016.05.12	Field survey	Individual	-
2016.05.26	Field survey	Individual	-
2016.06.24	Field survey	Individual	-
Number of Reception	4		
Number of received institution	46		
Number of received individual	0		
Number of other object	0		
Whether disclose, reveal or betray no-public import information	No		

V. Major issues

1. The Company's common stock profit distribution and increasing equity with capital reserve

Promulgation, implementation or adjustment of common stock profit distribution policies especially cash dividends policies during the report period

☒ Available ☐ Not available

Deliberated and passed by the 2015 Stockholders' Meeting convened on 26th May, 2016 by the Company, the Company's 2015 annual profit distribution scheme is shown as follows: based on total 685,464,000 shares (including 453,460,800 A shares and 232,003,200 B shares) up to 31st December, 2015, the Company would pay cash dividend to all shareholders registered on the share registration day: CNY5 in cash per ten shares. This time the Company would neither dispatch bonus shares nor increase equity with capital reserve.

On 1st July, 2016, the Company published the Implementation Announcement of 2015 Annual Equity Distribution on China Securities Journal, Securities Times and www.cninfo.com.cn, determining that the share registration day and the ex-dividend day of A Share was respectively on 6th July, 2016 and on 7th July, 2016; the last trading day, the share registration day and the ex-dividend day of B Share was respectively on 6th July, 2016, on 11th July, 2016 and on 7th July.

This time the dispatching objects contain all A Share holders registered at China Securities Depository and Clearing Corporation Limited Shenzhen Company after closing of Shenzhen Stock Exchange on the afternoon of 6th July, 2016 and all B Share holders registered at China Securities Depository and Clearing Corporation Limited Shenzhen Company after closing of Shenzhen Stock Exchange on the afternoon of 11th July, 2016. This dispatching has already been completed in July 2016.

Special explanation	
Whether it is in accordance with the requirements of the regulation in the Articles of Association and the resolution of shareholders	Yes
Whether the distribution standard and proportion is clear and definite	Yes
Whether the relative decision process and mechanism is complete	Yes
Whether the independent directors perform their responsibilities and play the roles.	Yes
Whether the small and middle shareholders have the chance to express their advices and appeals, as well as their lawful right and interest is in an enough protection.	Yes
Whether it is legal and transparent for the condition and process while adjusting and amending the cash dividends distribution policy.	Yes

The Company's plan (preliminary scheme) of common stock profit distribution and increasing equity with capital reserve in the recent three years (including the report period).

The Company's profit distribution in 2014 is as following: Because the left amount of legal earned surplus reserve reaches 50% of registered capital, while making profit distribution, the legal earned surplus reserve will be not drawn. Based on the Company's 685,464,000 shares at total up to December 31, 2014, we plan to pay CNY 4.4 in cash as dividends for every ten share (including tax) to the Company's all shareholders, totaling up to CNY 301.60416 million accounted for 30.85% of net profits CNY977.707711 million attributable to shareholders of parent company in the consolidated statements. The retained and undistributed profit of CNY 676.103551 million will be reserved for distribution in the next year.

The Company's preliminary scheme of profit distribution plan in 2015 is as following: Because the left amount of legal earned surplus reserve reaches 50% of the registered capital, while making profit distribution, the legal earned surplus reserve will not be drawn. Then based on the Company's 685,464,000 shares at total up to December 31, 2015, we plan to pay CNY 5 in cash as dividends for every ten shares (including tax) to the Company's all stockholders, totaling up to CNY 342.732 million, accounting for 33.27% of the net profit CNY 1030.07386 million attributable to the shareholders of the parent company in the consolidated statement, the retained and undistributed profit of CNY 687.34186 million will be reserved for the distribution of next year.

The Company's profit distribution plan in 2016 is as following: Because the left amount of legal earned surplus reserve reaches 50% of the registered capital, while making profit distribution, the legal earned surplus reserve will not be drawn. Then based on the Company's 685,464,000 shares at total up to December 31, 2016, we plan to pay CNY 5 in cash as dividends for every ten shares (including tax) to the Company's all stockholders, totaling up to CNY 342.732 million, accounting for 34.89% of the net profit CNY 982.460488 million attributable to the shareholders of the parent company in the consolidated statement, the retained and undistributed profit of CNY 639.728488 million will be reserved for the distribution of next year.

The Company's common stock cash dividend record in recent three years (including the report period)

Unit: CNY					
Year of distribution	Amount of cash dividend (including tax)	Net profit belonging to the listed company's stockholders in the consolidated statement of the distribution year	Proportion in the net profit belonging to the listed company's stockholders in the consolidated statement (%)	Amount of cash dividends in other ways	Proportion of cash dividends in other ways
2016	342,732,000	982,460,488	34.89%	0	0%
2015	342,732,000	1,030,073,860	33.27%	0	0%
2014	301,604,160	977,707,711	30.85%	0	0%

During the report period the Company earned profit, the profit of the parent company that could be distributed to common stock shareholders was positive but without proposing common stock cash dividend distribution.

☐ Available ☒ Not available

2. The Company's preliminary scheme of profit distribution and preliminary scheme of increasing equity with capital reserve

☒ Available ☐ Not available

Number of sending bonus shares per ten shares (share)	0	
Number of dividend payout per ten shares (CNY) (including tax)	5	
Number of transferring per ten shares(share)	0	
The cardinal number of the capital stocks for the preliminary distribution scheme (shares)	685,464,000	
Total cash dividend distribution (CNY) (including tax)	342,732,000	
Distributable profit (CNY)	982,460,488	
The proportion of cash dividend distribution in the total profit distribution	100%	
Cash dividend		
If the Company's development is in growth stage and major capital expenditure is arranged, while making profit distribution, the proportion of cash dividends should takes up no less than 20% in this profit distribution		
Detailed explanation for the preliminary scheme of profit distribution or increasing equity with capital reserve		
According to the audit result from Deloitte Hua Yong, the net profit belonging to the parent company's stockholders in the consolidated statement is CNY982.460488million, the net profit of the parent company in financial statement is CNY1830.574470 million in 2016. According to PRC accounting standard, the situation for the attributable profit of consolidation and parent company in 2016 is as following:		
Unit: CNY		
	Consolidation	Parent company
Undistributable profit at the end the year	6,620,118,562	7,360,234,545
Including: net profit in 2016	982,460,488	1,830,574,470
Distributable profit carried over to the beginning of the year	5,980,390,074	5,872,392,075
Distribution for 2015 dividend	342,732,000	342,732,000
Withdrawing for the legal earned surplus reserve	0	0

According to regulation of 157th item in the Articles of Association, which is that the Company can distribute dividends either in cash or by stock, the profit to be distributed each year is not less than 25% of the distributable profit realized in the same year and the

accumulated sum of profit to be distributed in cash in the next three years is not less than 30% of the yearly average distributable profit to be realized in the next three years, meanwhile, considering the large amount on the capital expenditure in 2017, under the condition of not influencing the normal production and operation, the Company put forward preliminary scheme on profit distribution in 2016 as following:

Because the left amount of legal earned surplus reserve reaches 50% of the registered capital, while making profit distribution, the legal earned surplus reserve will not be drawn. Then based on the Company's 685,464,000 shares at total up to December 31, 2016, we plan to pay CNY 5 in cash as dividends for every ten shares (including tax) to the Company's all stockholders, totaling up to CNY 342.732 million, accounting for 34.89% of the net profit CNY 982.460488million attributable to the shareholders of the parent company in the consolidated statement, the retained and undistributed profit of CNY 639.728488 million will be reserved for the distribution of next year. The cash dividend for the shareholders of B share listed overseas was paid in Hongkong dollar according to the middle rate between CNY and Hongkong dollar issued by the People's Bank of China on the first working day after the resolution date of 2016 shareholders' meeting.

3. Implementation of commitments

(1) Commitments that the Company's actual controllers, shareholders, related parties, acquirers and the Company and other related commitment parties have implemented during the report period and have not implemented up to the end of the report period

☒ Available ☐ Not available

Commitments	Commitment party	Commitment type	Commitment content	Commitment time	Commitment period	Implementation
Commitments at share reform	—		—		—	—
Commitments made in acquisition report or equity changes report	—		—		—	—
Commitments at asset restructuring	—		—		—	—
Commitments at the initial public offering or refinancing	Yantai Changyu Group Co. Ltd.	Solve horizontal competition	Non-horizontal competition	18 th May 1997	Forever	Has been performing strictly
	Yantai Changyu Group Co. Ltd.	Clear the purpose of brand royalty	According to <i>Trademark License Contract</i> , the	18 th May 1997	Forever	Has been performing strictly

			Company will pay trademark royalty for the “Changyu” products of Yantai Changyu Group Co., Ltd every year, Yantai Changyu Group Co., Ltd will use trademark royalty to advertise “Changyu” trademarks and Contracted products in this contract.			
Equity incentive commitments	—	—	—		—	—
Commitments at middle and small shareholders of the Company	—	—	—		—	—
Commitment under timely implementation or not	Yes					
Whether or not to have specific reasons of the unimplemented commitment and next steps(if any)	No					

(2) The Company should make a statement on the achieved original profit forecast of assets or projects and its reason if there is profit forecast of Company’s assets or projects and the report period is still in the profit forecast period

☐ Available ☒ Not available

4. Non-business capital occupying of listed company by controlling shareholder and its related parties

☐ Available ☒ Not available

There are no non-business capitals occupying of listed company by controlling shareholder and its related parties during the report period.

5. Explanation of Non-standard Audit Report given by accounting firm in the report period from board of directors, board of supervisors and independent directors (if have)

☐ Available ☒ Not available

6. Compared with the previous year's financial report, explanation for the changes of accounting policy, accounting estimation and accounting method

☐ Available ☒ Not available

There are no changes of accounting policy, accounting estimation and accounting method during the report period.

7. During the report period, the situation explanation for the correction of major accounting errors which need to be retrospect and restated.

☐ Available ☒ Not available

There is no situation for the correction of major accounting errors which need to be retrospect and restated.

8. Compared with the previous year's financial report, explanation for the changes of the consolidated statements scope.

☒ Available ☐ Not available

For the scope of consolidated financial statement in this year, please see Notes VIII "Equity in other entities" in detail. For detail of changes in the scope of consolidated financial statement in this year, please see Notes VII "Change in consolidation scope".

9. The appointment and dismissal of certified public accountants

Currently appointed accounting firm

Domestic accounting firm name	Deloitte Hua Yong Certified Public Accountants Co., Ltd. (special general partnership)
-------------------------------	---

Reward for domestic accounting firm (CNY'0000)	198
Consecutive period for the audit services of domestic accounting Firm	4
Name of Certified public accountant for the audit services of domestic accounting Firm	Li Xu, Li Yangang
Overseas accounting firm name (if have)	—
Reward for overseas accounting firm (CNY'0000) (if have)	0
Consecutive period for the audit services of overseas accounting Firm	—
Name of Certified public accountant for the audit services of overseas accounting Firm	—

Whether or not to dismiss the accounting firm during the report period

☐ Yes ☒ No

To employ internal control audit accounting firms, financial adviser or sponsor.

☒ Available ☐ Not available

The Company employs Deloitte Hua Yong Certified Public Accountants Co., Ltd. (special general partnership) as 2016 internal control audit accounting firms.

10. Face of suspension and termination of listing after the disclosure of annual report

☐ Available ☒ Not available

11. Bankruptcy reorganization

☐ Available ☒ Not available

There is no bankruptcy reorganization during the report period.

12. Material litigation and arbitration

☐ Available ☒ Not available

There are no material litigation and arbitration during the report period.

13. Penalty and rectification

☐ Available ☒ Not available

There are no penalties or rectifications during the report period.

14. Credit of the Company, holding shareholders and actual controllers

☐ Available ☒ Not available

15. Implementation of the Company's equity incentive plan, employee stock ownership plan or other employee incentive measures

☐ Available ☒ Not available

There are no implementation of the Company's equity incentive plan, employee stock ownership plan and other employee incentive measures.

16. Significant related transactions**(1) Related transactions in relation to routine operations**

☒ Available ☐ Not available

Detailed information about the Company's 2016 annual routine related transactions, please refer to Notes X "Related party and Related Transaction" in the Financial Statement of the report in detail, or could also look up the Company's related temporary announcement according to the following index.

Disclosure website of major related transactions' temporary reports for related query

Name of Temporary announcement	Disclosure date of temporary announcement	Website of disclosure of temporary announcement
Announcement of 2017 annual routine related transaction	April 22, 2017	Cninf (http://www.cninfo.com.cn)
Announcement of 2016 annual routine related transaction	April 29, 2016	Cninf (http://www.cninfo.com.cn)

(2) Related transactions in relation to acquisition and sales of assets or equity

☐ Available ☒ Not available

There are no related transactions in relation to acquisition or sales of assets or equity during the report period.

(3) Related transactions in relation to common foreign investment

☐ Available ☒ Not available

There are no related transactions in relation to common foreign investment during the report period.

(4) Related current credit and debt

☒ Available ☐ Not available

Whether or not to exist non-operating related credit and debt

☐ Yes ☒ No

(5) Other major related transactions

☐ Available ☒ Not available

17. Major and important contracts and execution results

(1) Trusteeship, contract and leasehold issues

① Trusteeship situation

☐ Available ☒ Not available

There is no trusteeship situation during the report period.

② Contract situation

☒ Available ☐ Not available

Contract situation description

During the report period, about the Company's contract operation situation, please see "1. The structure of Enterprise group" in Annex 8 "Rights and interests of other subject" in the financial report of this report.

Project in gains and losses for the Company to achieve more than 10% of the total profit

☐ Available ☒ Not available

There are no contract projects in gains and losses for the Company to achieve more than 10% of the total profit during the report period.

③ Leasehold situation

☒ Available ☐ Not available

Leasehold situation description

On 1st January 2012, the Company renewed the *Space Lease Agreement* with the controlling shareholder Changyu Group, the Company leased the space with 57749.77 square meters located at 174 Shihuiyao Road, Zhifu District, Yantai City and the space with 3038 square meters located at 56 Dama Road, Zhifu District, Yantai City, which are all under the name of controlling shareholder. The rent of the above spaces per year is CNY 5.858 million with a period of 5 years from 1st January 2012 to 31st December 2016.

Project in gains and losses for the Company to achieve more than 10% of the total profit

☐ Available ☒ Not available

There are no leasehold projects in gains and losses for the Company to achieve more than 10% of the total profit during the report period.

(2) Major guarantee

☒ Available ☐ Not available

① Guarantee situation

Unit: CNY' 0000

External guarantee of the Company and its subsidiaries (excluding guarantee to subsidiaries)								
Guarantee object name	Disclosure date of related announcement about guarantee quota	Guarantee quota	Actual date of occurrence (date of agreement)	Actual guarantee amount	Guarantee type	Guarantee Period	Whether or not complete implement	Whether or not belong to related-party guarantee
Yantai Economic and Technological Development Zone Management Council.	2016.12.22	34160	2016.12.21	34160	Mortgage; Pledge	10years	No	No
Total of the external guarantee quota approved during the report period (A1)		34160		Total of the actual external guarantee amount during the report period (A2)		34160		
Total of the external guarantee quota		34160		Balance of the actual		34160		

approved by the end of the report period (A3)				external guarantee by the end of the report period (A4)				
Guarantee between the Company and subsidiaries								
Guarantee object name	Disclosure date of related announcement about guarantee quota	Guarantee quota	Actual date of occurrence (date of agreement)	Actual guarantee amount	Guarantee type	Guarantee Period	Whether or not complete implement	Whether or not belong to related-party guarantee
Yantai Changyu Pioneer Wine Sales Limited Company	2016.10.31	10,000	2016.11.05	10,000	Joint liability assurance	2years	No	Yes
Yantai Changyu Pioneer Wine Company Limited	2016.12.22	11,984	2016.12.21	11,984	Mortgage; Pledge	10years	No	Yes
Yantai Changyu Wine Research and Development Company Limited	2016.12.22	72,176	2016.12.21	72,176	Joint liability assurance; Mortgage	10years	No	No
Total of the guarantee quota approved to subsidiaries during the report period (B1)		82,176		Total of the actual guarantee amount for subsidiaries during the report period (B2)		32,176		
Total of the guarantee quota approved to subsidiaries by the end of the report		82,176		Balance of the actual guarantee for subsidiaries		32,176		

period (B3)			by the end of the report period (B4)					
Guarantee between subsidiaries								
Guarantee object name	Disclosure date of related announcement about guarantee quota	Guarantee quota	Actual date of occurrence (date of agreement)	Actual guarantee amount	Guarantee type	Guarantee Period	Whether or not complete implement	Whether or not belong to related-party guarantee
Total of the guarantee quota approved to subsidiaries during the report period (C1)		0		Total of the actual guarantee amount for subsidiaries during the report period (C2)		0		
Total of the guarantee quota approved to subsidiaries by the end of the report period (C3)		0		Balance of the actual guarantee for subsidiaries by the end of the report period (C4)		0		
Total of the Company’s guarantee amount （Total of above three major items）								
Total of the approved guarantee quota during the report period（A1+B1+C1）		116,336		Total of the actual guarantee amount during the report period（A2+B2+C2）		66,336		
Total of the approved guarantee quota by the end of the report period（A3+B3+C3）		116,336		Balance of the actual guarantee by the end of the report period（A4+B4+C4）		66,336		
The proportion of Actual total guarantee amount (A4+B4+C4) in the Company’s net asset				8.08%				

Among :	
The amount of guarantee for shareholders, actual controllers and their related parties (D)	0
The amount of debt guarantee for the guaranteed objects whose asset-liability ratio is more than 70% directly or indirectly (E)	0
Total amount of guarantee that exceeds 50% of net assets (F)	0
Total amount of the above-mentioned three items (D+E+F)	0
Explanation for undue guarantees that have happened warranty liability or may take joint payback liabilities during the report period (if have)	No
Explanation for violating due process to provide external guarantee (if have)	No

Specific explanation on adopting complex guarantee type

No.

② Illegal external guarantee

☐ Available ☒ Not available

There is no illegal guarantee situation during the report period.

(3) Entrusting others to manage cash assets

① Financial management entrustment

☐ Available ☒ Not available

There is no financial management entrustment during the report period.

② Loan entrustment

☐ Available ☒ Not available

There is no loan entrustment during the report period.

(4) Other important contracts

☐ Available ☒ Not available

There are no other important contracts during the report period.

18.Social Responsibility

(1)Precise poverty

①Summary of annual precise poverty

No.

②Working condition of Listed company's annual precise poverty

No.

③Subsequent precise poverty plan

No.

(2)Other social responsibility

Please see “China Securities Newspaper” , “Securities Times” and 2016 Annual Social Responsibility Report disclosed on www.cninfo.com.cn .

The listed company and its subsidiaries are whether or not to belong to the heavy pollution industry stipulated by the state environmental protection department.

☐ Yes ☒ No

Whether or not to public social responsibility

☒ Yes ☐ No

Enterprise social responsibility					
Enterprise property	Whether including environmental information	Whether including social information	Whether including information in governance aspect	Standard of disclosure	
				Domestic standard	Foreign standard
Private	Yes	Yes	Yes	Listed Company social responsibility guidance	other

Detail explanation

1. Whether the Company has passed Environment Management System Certification(ISO14001)	Yes.
2. Expenditure of environment protection in the firm-year(CNY‘0000)	630
3.Emission reduction performance of three wastes ‘waste gas, waste water and waste residues’ for the Company	All discharges with standards
4.Investment of employee career development ability for improvement of employee knowledge and technology	220
5. Social public donation	186

19. Other Major issues

☐ Available ☒ Not available

There are no other major issues need to be explained during the report period.

20. Major issues of Company’s subsidiaries

☐ Available ☒ Not available

VI. Changes in Shares and the Shareholders' Situation

1. Changes in shares

(1) Changes in shares

	Amount before this change		Change (+, -)					Amount after this change	
	Amount	Percentage %	Allot new share	Distribute bonus share	Transfer other capital to share capital	others	Sub total	Amount	Percentage %
1、Unrestricted shares	685,464,000	100%						685,464,000	100%
(1)、A shares	453,460,800	66.15%						453,460,800	66.15%
(2)、B shares	232,003,200	33.85%						232,003,200	33.85%
2、Total shares	685,464,000	100%						685,464,000	100%

Cause of share change

☐ Available ☒ Not available

Approval of share change

☐ Available ☒ Not available

Transfer of changed shares

☐ Available ☒ Not available

The influence of share change on the financial indicators such as basic earnings per share, diluted earnings per share of the latest year and the latest period, net asset per share belonging to the Company's common shareholders, etc.

☐ Available ☒ Not available

Other contents the Company thinks necessary or securities regulatory departments ask to make public.

☐ Available ☒ Not available

(2) Changes in restricted shares

☐ Available ☒ Not available

2. Securities issuance and listing situation

(1) Securities issuance (exclude preferred share) during report period

☐ Available ☒ Not available

(2) Explanation of change in Company's total shares and shareholding structure and change in Company's assets and liability structure

☐ Available ☒ Not available

(3) Current employee shares

☐ Available ☒ Not available

3. Situation for shareholders and the actual controllers

(1) The number of shareholders of the Company and the shareholdings

Unit: share

Total shareholders in the report period	41,984	Total number of shareholders by the end of last month before the disclosure day of the annual report	42,254	Total number of preferred shareholder recovering voting power by the end ofreport period (if have) (see note 8)	0	Total number of preferred shareholder recovering voting power by the end of last month before the disclosure day of the annual report (if have) (see note 8)	0	
Shareholders holding more than 5% or the top 10 shareholders holding situation								
Name of Shareholders	Character of shareholders	Percentage (%)	Shares held until the end of the report period	Changes during the report period	Number of restricted shares	Number of unrestricted shares	Pledged or frozen	
							Share status	Amount
YANTAI CHANGYU GROUP CO. LTD.	Domestic non-state-owned legal person	50.40%	345,473,856	0		345,473,856		0
GAOLING FUND,L.P.	Foreign legal person	3.11%	21,300,919	0		21,300,919		0
CHINA SECURITIES FINANCE CORP	State-owned legal person	2.32%	15,924,155	-73,300		15,924,155		0
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	Foreign legal person	2.22%	15,241,826	-334,300		15,241,826		0
TIANAN	Domestic non-state-owned	1.16%	7,939,166	7,939,166		7,939,166		0

PROPERTY INSURANCE CO., LTD—BAOYING NO.1	legal person							
NORGES BANK	Foreign legal person	0.96%	6,584,748	886,296		6,584,748		0
GUOTAI JUNAN SECURITIES(HONG KONG) LIMITED	Foreign legal person	0.78%	5,321,478	651,906		5,321,478		0
CENTRAL HUIJIN ASSET MANAGEMENT LTD.	State-owned legal person	0.69%	4,761,200	0		4,761,200		0
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND	Foreign legal person	0.55%	3,788,487	72,700		3,788,487		0
FIDELITY CHINA SPECIAL SITUATIONS PLC	Foreign legal person	0.55%	3,779,202	0		3,779,202		0

Strategic investors or legal result of the placement of new shares to become a top 10 shareholders(if have)(see note 3)	No
The explanation for the associated relationship and accordant action	Among the top 10 shareholders, Yantai Changyu Group Company Limited has no associated relationship or accordant action relationship with the other 9 listed shareholders, and the relationship among the other shareholders is unknown.
The top 10 shareholders with unrestricted shares	
Name of Shareholders	Number of unrestricted Type of share

	shares held until the end of the year	Type of share	Amount
YANTAI CHANGYU GROUP CO. LTD.	345,473,856	A	345,473,856
GAOLING FUND,L.P.	21,300,919	B	21,300,919
CHINA SECURITIES FINANCE CORP	15,924,155	A	15,924,155
BBH BOS S/A FIDELITY FD - CHINA FOCUS FD	15,241,826	B	15,241,826
TIANAN PROPERTY INSURANCE CO., LTD—BAOYING NO.1	7,939,166	A	7,939,166
NORGES BANK	6,584,748	B	6,584,748
GUOTAI JUNAN SECURITIES(HONGKONG) LIMITED	5,321,478	B	5,321,478
CENTRAL HUIJIN ASSET MANAGEMENT LTD.	4,761,200	A	4,761,200
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND	3,788,487	B	3,788,487
FIDELITY CHINA SPECIAL SITUATIONS PLC	3,779,202	B	3,779,202
The explanation for the associated relationship and accordant action of the top 10 shareholders with unrestricted shares, the the associated relationship and accordant action between the top 10 shareholders with unrestricted shares and the top 10 shareholders	Among the top 10 shareholders, Yantai Changyu Group Company Limited has no associated relationship or accordant action relationship with the other 9 listed shareholders, and the relationship among the other shareholders is unknown.		
Explanation for the top 10 shareholders who involved in financing activities and stock trading business (if have)(see note 4)	The top 10 shareholders do not involve in financing activities and stock trade business.		

Whether or not the Company's top 10 common shareholders and shareholders with unrestricted shares take agreed repurchase trading during the report period

☐ Yes ☒ No

There is no agreed repurchase trading taken by the Company's top 10 common shareholders and shareholders with unrestricted shares during the report period.

(2) Situation for the controlling shareholders of the Company

Property of holding shareholders

Type of holding shareholders: Legal representative

Name of controlling shareholder	Legal representative	Establishment date	Organization code	Main business
Yantai Changyu Group Co. Ltd.	Sun Liqiang	1997.04.27	913706002656458244	Production and distribution of wine, healthy liquor, distilled liquor and non-alcohol beverages, planting of agricultural products and export business under the scope of permission.
Equity situation for the other domestic listed companies controlled or shared by the controlling shareholders during the report period	No.			

Changes in the controlling shareholder during the report period

☐ Available ☒ Not available

There are no changes in the controlling shareholder during the report period.

(3) Situation for the actual controllers of the Company

Property of actual controllers: domestic other institutions; foreign other institutions

Type of actual controllers: Legal representative

Name of actual controllers	Legal representative	Establishment date	Organization code	Main business
Yantai Yuhua Investment & Development Co. Ltd	Jiang Hua	2004.10.28	76779294—7	Under state permission, property investment, tenancy of machine and facility, wholesale and retail of construction material, chemical products (chemical hazard products excluded), hardware and electronical products, grape

				plantation.
ILLVA Saronno Holding Spa	Augusto Reina	1984.07.25	—	Directly or indirectly conduct the production and distribution of food products (alcoholic products included) as well as industrial, commercial, financial and service activities of any other kinds through joint-stock companies and organizations
International Finance Corporation	Philippe LE HOUEROU	1956.07.25	—	International Finance Corporation is one of the members of World Bank, mainly dedicated to investment in private sectors of developing countries while providing technical support and consultation service. The corporation is a multilateral financial institution that ranks first in the world in terms of providing capital stock and loans to developing countries. Its purpose is to promote sustainable investments of private sectors of developing countries in order to alleviate poverty and improve people's life.
Yantai Guofeng Investment Holdings Co., Ltd	Chen Dianxin	2009.02.12	00426068-6	Operating management of state-owned property right (stock right) authorized by State-owned Assets Supervision and Administration Commission of Yantai Municipal Government; Financing, investment and operating management of government projects, such as strategic investment and industrial investment and so on; Capital operation (including acquisition, reintegration and transfer, etc) of state-owned property right and state-owned stock right within the scope of authorization; Venture capital investment business; Agency of venture capital investment business of other venture investment enterprises or individuals; Participation in the establishment of venture capital investment enterprises and venture capital investment management consultant institutions; Investment and financing service business; Investment and financing consultant business; Other business authorized by State-owned Assets Supervision and Administration Commission of Yantai Municipal Government.(Projects need to be authorized in accordance with the law could carry out business activities only after the approval of relevant departments)

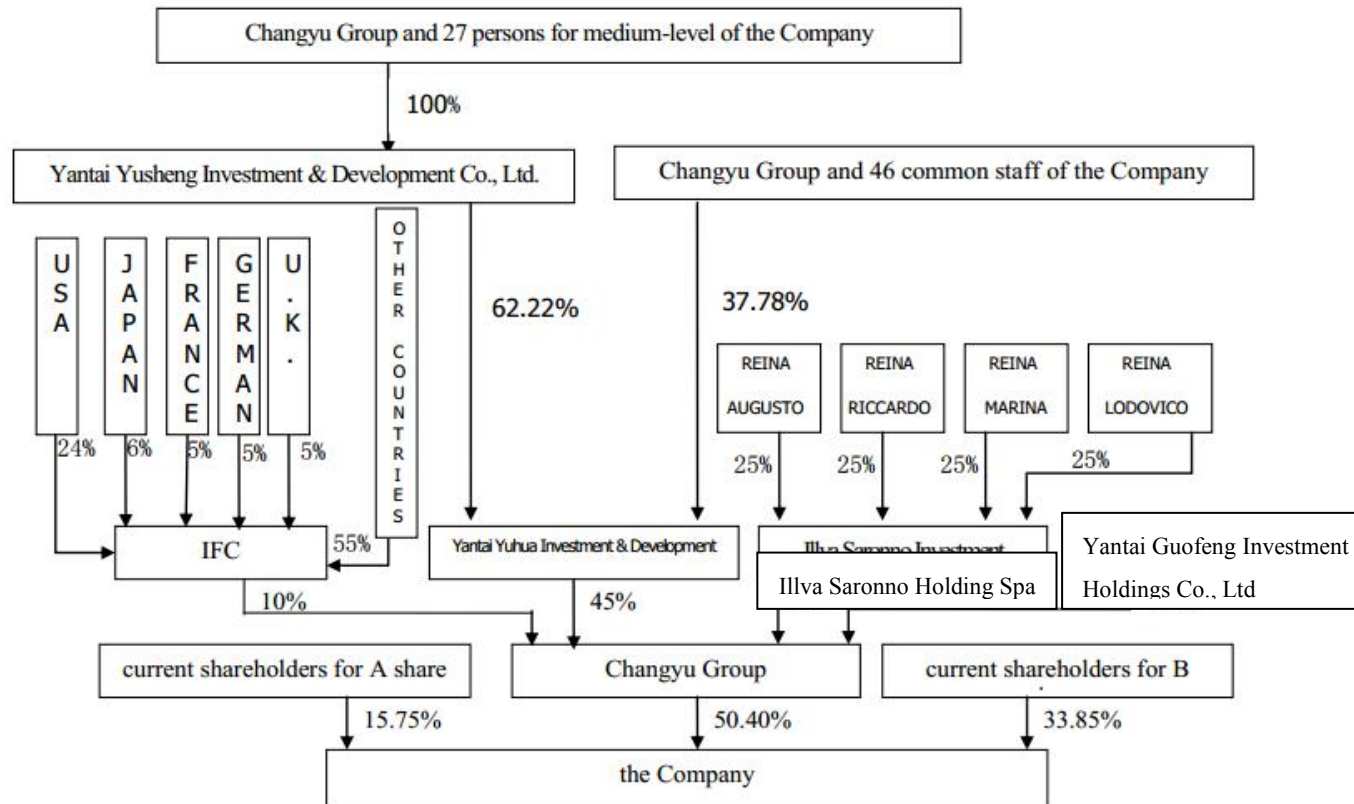
Equity situation for the other domestic listed companies controlled by the actual controller during the report period	No
---	----

Changes of the actual controllers during the report period

☐ Available ☒ Not available

There are no changes in actual controllers during the report period.

Introduction for property right and control relations between the Company and its actual controllers



Actual controller controls the Company through a trust or other asset management ways

☐ Available ☒ Not available

(4) Other institutional shareholders holding more than 10% shares

☐ Available ☒ Not available

(5) Shares reduction situations of holding shareholders, actual controllers, restructuring side and other commitment subjects

☐ Available ☒ Not available

VII. Related Situation of Preferred Shares

☐ Available ☒ Not available

There are no preferred shares during the report period.

VIII. Situation for Directors, Supervisors, Senior Management and Staff

1. Changes in shareholdings of directors, supervisors and senior management

Name	Post	Status	Gender	Age	Beginning date of the post	Ending date of the post	Shares held at the beginning of the period	Increased shares during the period	Decreased shares during the period	Other changes of shares held	Shares held at the end of the period
Sun Liqiang	Chairman to the Board of Directors	present incumbent	M	69	1997.09.18	2019.05.27	0	0	0	0	0
Zhou Hongjiang	Vice-chairman to the Board of Directors and General manager	present incumbent	M	52	2002.05.20	2019.05.27	0	0	0	0	0
Leng Bin	Director and Vice-general manager	present incumbent	M	54	2000.08.22	2019.05.27	0	0	0	0	0
Qu Weimin	Director, Vice-general manager and Secretary to the Board of Directors	present incumbent	M	59	1997.09.18	2019.05.27	0	0	0	0	0
Zhang Ming	Director	present incumbent	M	43	2016.05.26	2019.05.27	0	0	0	0	0
Chen Jizong	Director	leaving the post	M	41	2013.05.14	2016.05.26	0	0	0	0	0
Augusto Reina	Director	present	M	76	2006.12.07	2019.05.27	0	0	0	0	0

		incumbent									
Aldino Marzorati	Director	present incumbent	M	64	2006.12.07	2019.05.27	0	0	0	0	0
Antonio Appignani	Director	present incumbent	M	78	2006.12.07	2019.05.27	0	0	0	0	0
Dai Hui	Director	present incumbent	F	51	2010.09.01	2019.05.27	0	0	0	0	0
Xiao Wei	Independent director	leaving the post	M	56	2010.09.01	2016.05.26	0	0	0	0	0
Wang Zhuquan	Independent director	present incumbent	M	51	2014.05.23	2019.05.27	0	0	0	0	0
Wang Shigang	Independent director	Present incumbent	M	51	2011.05.10	2019.05.27	0	0	0	0	0
Luo Fei	Independent director	Present incumbent	M	64	2016.09.23	2019.05.27	0	0	0	0	0
Liu Yan	Independent director	Present incumbent	F	43	2016.09.23	2019.05.27	0	0	0	0	0
Kong Qingkun	Chairman to the Board of Supervisors	present incumbent	M	44	2013.05.14.	2019.05.27	0	0	0	0	0
Zhang Lanlan	Supervisor	present incumbent	F	47	2013.05.14.	2019.05.27	0	0	0	0	0
Liu Zhijun	Supervisor	present incumbent	M	36	2016.05.26	2019.05.27	0	0	0	0	0
Guo Ying	Supervisor	leaving the post	F	42	2013.05.14.	2016.05.26	0	0	0	0	0
Yang Ming	Vice-general manager	present incumbent	M	58	1998.08.12	-	0	0	0	0	0
Li Jiming	Chief engineer	present	M	50	2001.09.14	-	0	0	0	0	0

		incumbent									
Jiang Hua	Vice-general manager	present incumbent	M	53	2001.09.14	-	0	0	0	0	0
Sun Jian	Vice-general manager	present incumbent	M	50	2006.03.22	-	0	0	0	0	0
Jiang Jianxun	Finance manager	present incumbent	M	50	2002.05.20	-	0	0	0	0	0
Total	--	--	--	--	--	--	0	0	0	0	0

2. Changes in the Company's directors, supervisors and senior management

☒ Available ☐ Not available

Name	Position	Type	Date	Reason
Chen Jizong	Director	Leaving the post owing to <u>expiration of the term of office</u>	2016.05.26	-
Xiao Wei	Independent director	Leaving the post owing to <u>expiration of the term of office</u>	2016.05.26	-
Guo Ying	Supervisor	Leaving the post owing to <u>expiration of the term of office</u>	2016.05.26	-

3. Situation for work experience

The professional background, main work experiences and present positions of the Company's directors, supervisors and senior management

(1) Members of Board of Directors

Mr. Sun Liqiang, male, 69, Chinese, with college degree, senior economist, began serving as chairman of the Company from 18th September, 1997 and has held the position ever since. Now, he concurrently is party secretary, chairman and general manager of Changyu Group. He was representative of the 10th and 11th National People's Congress.

Mr. Zhou Hongjiang, male, 52, Chinese, with doctor degree, senior engineer, began serving as director, vice-chairman and general manager of the Company from 20th May, 2002 and has held the position ever since. Now, he concurrently is vice chairman of Changyu Group and the representative of the 12th National People's Congress. He was vice general manager of the Company and general manager of the Sale Company.

Mr. Leng Bin, male, 54, Chinese, with master degree, senior accountant, began serving as director of the Company from 15th June, 2000 and has held the position ever since. Now, he concurrently is director of Changyu Group. He was chief accountant and certified accountant of Yantai Radio Regulatory Commission and vice section chief and section chief of Yantai Audit Bureau.

Mr. Qu Weimin, male, 59, Chinese, bachelor of engineering, senior economist, began serving as director, vice general manager and concurrently as secretary to the board of directors of the Company from 18th September, 1997 and has held the position ever since. He worked at Yantai Commission for Restructuring the Economic System and Research Office of Yantai Government and has 20 years of experience in the aspect of macroeconomic study and enterprise operation and management.

Mr. Zhang Ming, male, 43, Chinese, with bachelor degree, senior engineer, is now chairman of Yantai Guofeng Investment Holding Co., Ltd. He was planner of Yantai Synthetic Leather General Factory, plan specialist of business department, deputy section chief of plan and statistic section in assets management department and section chief of plan and statistic section in assets management department in Yantai Wanhua Synthetic Leather Group Co.,

Ltd, risk control section chief of Yantai Guofeng Investment Holding Co., Ltd. and concurrently director and vice general manager of Yantai Guoyu Finance Lease Co., Ltd, vice general manager and secretary to the board of directors of Wanhua Efficient Technology Group Co., Ltd. and general manager of Yantai State-owned Asset Management Co., Ltd.

Mr. Augusto Reina, male, 76, Italian, is now serving as chief executive officer of several companies including Illva Saronno Holding SpA and Illva Saronno Investment SRL, member of the board of directors of Barberini Spa, director of Federvini (Italian Alcohols Production and Export Association), director of Istituto Del Liquore (Wine Research Institute), director of Assovini (Sicily Viniculture and Wine Production Association) and director of Changyu Group. He has been director of the Company since 27th April, 2006.

Mr. Aldino Marzorati, male, 64, Italian, with bachelor degree, is now the general manager of Illva Saronno Holding SpA and director of the board of directors of some branches under the group company and the director of Changyu Group. He has been director of the Company since 27th April, 2006.

Mr. Antonio Appignani, male, 78, Italian, with bachelor degree, is vice chairman of Italian Business Consultation Committee, chief of Professional Ethics Committee, teacher of vocational training course of Industrial and Commercial Consultation Committee, member of Economic and Commercial Committee of the public university “G. D Annunzio” and concurrently serving as member of the board of directors of different companies and member of the board of directors of several companies under Illva Group and the director of Changyu Group.

Ms. Dai Hui, female, 51, Chinese, MBA, is now consultant of IFC, director of Changyu Group Company and director of Listed Company. She was former project manager of Government Loan Enlending Department in China FOTIC (staying in Beijing), former manager assistant of High Net Worth Center in First Pacific Bank (staying in Hongkong), representative of Rabobank Beijing Office (staying in Beijing) and chief representative of Rabobank Beijing Office (staying in Beijing).

Mr. Wang Shigang, male, 51, Chinese, MBA and Certified Public Accountant, is now the board chairman of Shandong Tianhengxin Construction Cost Consultation Co. Ltd.. He previously served as independent director of the Company. He acts as the independent director again from 14th May, 2013.

Mr. Wang Zhuquan, male, 51, Chinese, doctor of management (accountancy), first batch of national accounting academic leading personals of Financial Department, the entrant of accountant master cultivation project of Financial Department, outstanding teacher of Shandong province, Government Special Allowance expert, acted as independent director from 13th May, 2010 to 12th May, 2013. Now he is the professor and the doctoral supervisors of the Ocean University of China as well as independent director of the some listed companies which could be exemplified as Qingdao DoubleStar Co., Ltd. He acts as the independent director of the Company again from 23rd May, 2014.

Mr. Luo Fei, male, 64, Chinese, with doctor degree, visiting scholar of University of Toronto, doctoral supervisors, Government Special Allowance expert, first batch of trans-century subject (academic) leading personals of Financial Department. He successively served as the dean of accounting college in Zhongnan University of Economics and the dean of accounting college in Zhongnan University of Economics and Law. He focuses on the study of financial accounting, cost accounting, financial management, and so on. He has worked in companies

for many years and has practical working experience with companies. Now he is serving as independent director of the Company.

Ms. Liu Yan, female, 43, Chinese, with master degree, was honored as national outstanding lawyer in 2005. Her main practice areas include issuing and listing of domestic and foreign stocks, merger and acquisition and foreign investment. She now is the partner of Tian Yuan Law Firm and serving as independent director of the Company.

(2) Members of board of supervisors

Mr. Kong Qingkun, male, 44, Chinese, MBA and economist, served as the section member of production department in the healthy liquor branch office, clerk and vice director of general manager office. He now is director of general manager office.

Ms. Zhang Lanlan, female, with bachelor degree and economist, served as vice-manager of the Company's import/export company, manager of import department. She now is director of board of directors' office.

Mr. Liu Zhijun, male, 36, Chinese, with bachelor degree, worked in foreign fund section of Economy and Trade Bureau in Longkou economic development zone, served as news section member of propaganda department in Longkou Municipal Committee, member of propaganda and mass work section, member of planning section, vice-director member of programming development and enterprise distribution section, vice-director member and deputy chief of programming development section. He now is supervisor of the Company.

(3) Other senior managers

Mr. Yang Ming, male, 58, Chinese, with bachelor degree, application researcher, has been serving as vice general manager of the Company since 12th August, 1998.

Mr. Li Jiming, male, 50, Chinese, with doctor degree, application researcher, has been serving as chief engineer of the Company since 14th September, 2001.

Mr. Jiang Hua, male, 53, Chinese, with master degree, senior engineer, has been serving as vice general manager of the Company since 14th September, 2001.

Mr. Sun Jian, male, 50, Chinese, MBA and economist, has been serving as vice general manager of the Company since 22nd March, 2006.

Mr. Jiang Jianxun, male, 50, Chinese, MBA and accountant, has been serving as Financial Manager of the Company since 20th May, 2002.

Post in the shareholder's company

☒ Available ☐ Not available

Name	Shareholder's Company	Post	Beginning date of the post	Ending date of the post	Paid by shareholder's company or not
Sun Liqiang	Yantai Changyu Group Co. Ltd.	Chairman and general manager	2013.10.08	2017.10.07	No
Zhou Hongjiang	Yantai Changyu Group Co. Ltd.	Vice chairman	2013.10.08	2017.10.07	No
Li Jiming	Yantai Changyu Group Co. Ltd.	Director	2013.10.08	2017.10.07	No
Sun Jian	Yantai Changyu Group Co. Ltd.	Director	2013.10.08	2017.10.07	No
Chen Jizong	Yantai Changyu Group Co. Ltd.	Director	2013.10.08	2017.10.07	No
Augusto Reina	Yantai Changyu Group Co. Ltd.	Director	2013.10.08	2017.10.07	No
Aldino Marzorati	Yantai Changyu Group Co. Ltd.	Director	2013.10.08	2017.10.07	No
Antonio Appignani	Yantai Changyu Group Co. Ltd.	Director	2013.10.08	2017.10.07	No
Dai Hui	Yantai Changyu Group Co. Ltd.	Director	2014.03.06	2017.10.07	No
Explanation for the post in the shareholder's company	No.				

Post at other companies

☒ Available ☐ Not Available

Name	Other's company	Post at other company	Beginning date of the post	Ending date of the post	Paid by other company or not
Leng Bin	Yantai Changyu Zhongya Medicine & Healthy Liquor Co., Ltd	Director and legal representative	2012.09.10		No
Explanation for the post in the shareholder's company	No.				

Disciplinary actions taken by securities regulators in recent 3 years to the Company's directors, supervisors and senior management both on the job and left during the report period

☐ Available ☒ Not available

4. Salary of directors, supervisors and senior management

Decision-making process, the basis of determination, the actual payment of directors, supervisors and senior management

The salary for the independent directors is paid according to the resolution of shareholders' meeting. The salary for the chairman, directors with administration duty, supervisors, managers and other senior management should be paid on basis of the evaluation result according to the *Proposal on Assessment Methods of the Company's Senior Officers' Performance from 2014 to 2017* which was passed during the Board of Directors' meeting.

Salary of directors, supervisors and senior management during the report period

Unit: CNY'0000

Name	Post	Gender	Age	Status	Total reward from the Company before tax	Whether get reward from related parties of the Company
Sun Liqiang	Chairman to the Board of Directors	M	69	present incumbent	126.89	No
Zhou Hongjiang	Vice-chairman to the Board of Directors and general manager	M	52	present incumbent	126.77	No
Leng Bin	Director and vice-general manager	M	54	present incumbent	89.39	No
Qu Weimin	Director, Vice-general manager and Secretary to the Board of Directors	M	59	present incumbent	89.11	No
Zhang Ming	Director	M	43	present incumbent	0	No
Chen Jizong	Director	M	41	leaving the post	0	No
Augusto Reina	Director	M	76	present incumbent	0	No
Aldino Marzorati	Director	M	64	present incumbent	0	No
Antonio Appignani	Director	M	78	present incumbent	0	No
Dai Hui	Director	F	51	present incumbent	0	No
Xiao Wei	Independent Director	M	56	leaving the post	5	No
Wang Zhuquan	Independent Director	M	52	present incumbent	5	No
Wang Shigang	Independent Director	M	51	present incumbent	5	No

Luo Fei	Independent Director	M	64	present incumbent	0	No
Liu Yan	Independent Director	F	43	present incumbent	0	No
Kong Qingkun	Chairman to the Board of supervisors	M	44	present incumbent	60.63	No
Zhang Lanlan	supervisor	F	47	present incumbent	19.26	No
Liu Zhijun	supervisor	M	36	present incumbent	0	No
Guo Ying	supervisor	F	42	leaving the post	0	No
Yang Ming	Vice-general manager	M	58	present incumbent	85.79	No
Li Jiming	Chief Engineer	M	50	present incumbent	79.98	No
Jiang Hua	Vice-general manager	M	53	present incumbent	85.62	No
Sun Jian	Vice-general manager	M	50	present incumbent	77.74	No
Jiang Jianxun	Finance manager	M	50	present incumbent	60.49	No
Total	-	-	-	-	916.67	-

The awarded equity incentives for the directors, supervisors and senior management of the Company during the report period

☐ Available ☒ Not available

5. Staff of the Company

(1) Staff number, specialty constitution and education degree

Incumbent staff number of parent company (people)	1,625
Incumbent staff number of major subsidiary companies (people)	3,002

Total incumbent staff (people)	4,627
Total staff getting paid in current period (people)	4,627
Retired staff number whose expenses are undertaken by parent company or subsidiary companies (people)	0
Specialty constitution	
Category	Number of people (people)
Production staff	1,331
Sales staff	2,780
Technical staff	152
Financial staff	145
Administrative staff	219
Total	4,627
Education degree	
Category	Number (People)
Bachelor and above	1,387
Junior College	1,953
<u>Technical secondary school</u>	550
Senior high school and below	737
Total	4,627

(2) Remuneration policy

The Company builds and improves the remuneration and welfare system, including salary system, incentive mechanism, social security and health insurance and so on, to make sure that all staff could be insured. In accordance with the law, the Company buys social old-age insurance, medical insurance, occupational injury insurance, unemployment insurance and maternity insurance, and pay housing fund for staff. Based on the principle of “distribution according to work, equal pay for equal work”, the Company pays the staff’s remuneration timely. With the increase of the Company’s profitability, the Company steadily improves the staff’s remuneration and welfare, and provides the competitive salary income and development space of equal opportunity for staff.

(3) Training plan

In order to further improve the employees' comprehensive quality and professional skill, the 2017 training plan for the Company's major employee is shown as follows:

① Senior and Middle-level Managers

Firstly, it is commonality training. Training topics related with industrial development, business orientation and management philosophy would be chosen to open the senior and middle-level managers' minds, to promote operation philosophy and also to improve scientific decision-making capacity and operation capacity. The Company plans to employ professional lecturers to give lectures in the company or through remote internet videos. There will be four topics arranged for senior and middle-level managers within the year, one topic in each quarter and one to two days for each topic.

Secondly, it is professional training. Based on individual work, senior and middle-level managers would be organized in batches to attend high-end forum and summit of entrepreneur and to visit domestic and foreign successful enterprises for studying. Middle-level managers would be encouraged to take participation in MBA and other master degree. The professional managers related with finance, equipment, safety, technology quality and other professional fields would be organized to attend vocational qualification test to get vocational qualification certificate. Senior and middle-level managers would attend special training organized by the Company's professional management department for safety, technology, equipment, finance and tourism and so on, no less than twice a year.

② Section Chief and Ordinary Staff Members

Firstly, it is commonality training. Courses would be arranged in order to improve capability of management, innovation and execution. In addition, professional lecturers or college teachers would be employed to give lectures in the company, twice a year and one day for each time. They would attend commonality trainings about enterprise culture, rules and regulation and various alcohol products knowledge which should be known and grasped.

Secondly, it is professional training. Professional and responsible senior managers would choose one book for their subordinate administrative personnel to study on their own. At the end of the year these administrative personnel should propose suggestion for the Company's development on the basis of their own work. Eligible general administrative personnel would be encouraged to take participation in MBA and other master degree. The professional administrative personnel related with finance, equipment, safety, technology quality and other professional fields would be organized to attend vocational qualification test to get vocational qualification certificate. Based on their undertaking work, they would attend special training organized by the Company's professional management department no less than twice a year, which involve safety, technology, equipment, finance, tourism and comprehensive management and other special projects.

③ Marketing Personnel

Firstly, it is commonality training. They would study training materials related with the Company's management system, product knowledge and sales responsibility system.

Secondly, it is professional training. For personnel whose level is or above manager assistant in the city marketing management company, the Company would invite professional lecturers

to the company or by means of remote internet video to give lectures about successful cases and economic situation research in current domestic and foreign wine industry, once a quarter and one day for each time. For city marketing manager, the Company would strengthen their training for marketing skills as well as execution ability of the company's sales policy. The Company would invite its professional management cadre or employ professional lecturers to take closed training for these managers, once at the beginning of each month and one day for each time. For business directors and other personnel, every marketing management company should be based on the local business and adopt training methods of employing professional lecturers combined with going outside for visit and learning so as to make all marketing personnel within its jurisdiction attend training about successful marketing cases and marketing management philosophy. The frequency of this training is once a quarter and one day for each time.

(4) Labor outsourcing

☐ Available ☒ Not available

IX. Corporate Governance

1. Current Corporate Governance Situation of the Company

(1) About shareholders and shareholders' meeting

The Company has set up the *Deliberation Rules of Shareholders' Meeting*, and convened the shareholders' meetings in strict accordance with requirements of standard opinion of shareholders' meeting, made the great effort to provide convenient conditions for more shareholders to participate the shareholders' meeting, and ensured all shareholders to enjoy same equity and well exercised their rights. The Company drew great attention to the communication and exchange with shareholders, actively responded the shareholders' inquiry and questions, and widely listened to the suggestions and comments from shareholders.

(2) About the Company and holding shareholder

The Company has independent power on business and self-management, and also be independent of its holding shareholder on business, staff, assets, organization and finance. The Board of Directors, Board of Supervisors, management team and also internal organizations operated independently in the Company. The holding shareholder of the Company could regulate its activities, no other behavior was found that surpassed the shareholders' meeting to directly or indirectly interfere with the decision-making and business activities of the Company, or occupied any assets of the Company which damaged the Company's and medium & small shareholders' interests.

(3) About the director and board of directors

The Company strictly appoints all directors in light of *Company Law* and *Articles of Associations*. The qualifications of all directors are in line with the requirements of laws and regulations. In accordance with the requirements of *Corporate Governance Guidelines*, the Company has carried out the cumulative voting system. At present, the Company has four independent directors accounting for about one third of all directors, and the number and composition of board of directors was basically in accord with requirements of regulations and also *Articles and Associations*. All directors of the Company could work in the light of regulations including *Rules of Board of Directors' Procedure* and *Working Rules for Independent Directors*, punctually attended board of directors' and shareholders' meetings, actively took part in relevant knowledge training, knew very well about the laws and regulations concerned, had a deep knowledge and long experience of practitioners, and performed their duties according to the law and regulations. The Board of Directors convened the meetings in accordance with related rules and regulations.

(4) About supervisor and board of supervisors

The Company strictly elected all supervisors in light of *Company Laws* and *Articles of Associations*. At present, board of supervisors has three people among which one supervisor is representative for staff, the number and composition of board of supervisor was in accord with requirements of regulations and rules. All supervisors of the Company could follow the requirement of *Rules of Board of Supervisors' Procedure*, insist the principle of responsibility to all shareholders, seriously perform their duties, effectively supervise and present their independent opinion on important issues, interrelated deals, financial status, the duty performance of directors and managers of the Company.

(5) About performance evaluation and incentive system

The engagement of managers was open and transparent, and accorded with laws and regulations. The Company has established and gradually improved the performance evaluation standard and formed efficient incentive system, so as to ensure the salary of staff to be linked with job performance.

(6) About stakeholders

The Company could fully respect and safeguard the legal rights of the party with relevant benefit, cooperate actively with the stakeholders, jointly drive the Company to develop continually and stably, pay great attention to the issues such as local environmental protection and public utilities etc., and assume full responsibilities for the social responsibility.

(7) About the information disclosure and transparency

The Company has appointed the secretary to Board of Directors to be responsible for investor relation management including information disclosure, investor relations management and reception of shareholders' visit and consultation. The Company has also assigned *China Securities Newspaper*, *Securities Times*, *Honkong Commercial Daily* and web site <http://www.cninfo.com.cn/> to disclose information, punctually, accurately and truly disclosed any information in the light of requirement of relevant laws and rules, and also ensured all shareholders to have same opportunity to acquire any information.

In order to further perfect the Company's governance system, during the report period, the Company formulates and improves *Equipment Management Specification of Self-supporting Base*, *Assessment Method of Equipment Management in Self-supporting Base*, *Changyu Company Construction Opinions of A Level Material Base*, *Popularized Technology for Each Company to Improve Internal Quality of Product in 2016*, *Daily Assessment Method of Product Quality in 2016*, *Monitoring Method of Quality Safety Risk for Changyu Products*, *Implementation Instruction about Management and Control of Risks at Different Levels for Wine Enterprise*, *Implementation Scheme about Investigation and Treatment of Hidden Danger for Wine Enterprise*, *Specification Opinions of Advancing the Accelerated Resolution of Market Feedback Problems*, *Management Methods of Preventing Infringements of Intellectual Property Rights* and *Management Methods of Litigation Warning*, etc.

Whether or not there is significant variance between the Company's actual situation of corporate governance and the normative documents about listed company governance issued by China Securities Regulatory Commission.

☐ Yes ☒ No

There is no significant variance between the Company's actual situation of corporate governance and the normative documents about listed company governance issued by China Securities Regulatory Commission.

2. Relative to the controlling shareholder, independence of the Company on business, personnel, assets, organization and finance

(1) Personnel Arrangement

The Company's general manager, vice general managers and other senior officers, all of whom were paid by the Company and did not hold any post in the controlling parties. The

Company was entirely independent in personnel arrangement, conclusion and adjustment of labor contracts thanks to its sound and independent system for labor, personal and salary management.

(2) Assets:

Tangible assets and Intangible assets including trademark, industrial property right and non-patent technologies were all clearly divided between the Company and the controlling shareholder, and all legal formalities were completed. The Company being a legal independent entity consistently conducted business activities legally and provided no guarantee in any form with its assets for its shareholders or individuals' liabilities or any other legal persons or natural persons. The Company owns trademarks including “黄金冰谷”, “爱斐堡”, “爱菲堡”, “爱斐” and “AFIP”, etc. However, due to some issues from the past, the Company permitted to use “Changyu” etc the intangible assets such as part of trademark ownership and patent still held by the controlling shareholders.

(3) Finance

The Company has independent finance department, chief account and financial staff, and also complete, independent and standardized accounting system. The Company has also established its own bank accounts, duly and legally paying taxes, workers insurance fund. All financial individuals do not hold any concurrent posts in associated companies and are able to make financial decisions independently. The Company has its own audit department, which is especially responsible for the internal audit work of the Company.

(4) Offices

The Company has set up a sound organizational framework, in which the Board of Directors and Board of Supervisors operate independently, no superior and subordinate relationship exists between the functional departments of the controlling shareholder. The Company has its own independent production & business offices, all functional departments are independent to exercise their powers and carry out the production and business activities independently.

(5) Operations

The operations of the Company are independent of the controlling shareholder. The Company owns itself completely independent systems covering research and development, accounting, workforce and labor, quality control, raw materials purchase, production and sales, and is possessed of self-run capabilities, and has neither relationship with the controlling shareholder in terms of supply and sales by proxy nor competition with the other.

3. Situation for Horizontal Competition

☐ Available ☒ Not available

4. Information for the shareholders' meeting and temporary shareholders' meeting held during the report period

(1) Information for the shareholders' meeting during the report period

Session	Meeting type	Participation ratio of	Convening date	Disclosure date	Disclosure Index
---------	--------------	------------------------	----------------	-----------------	------------------

		investors			
2015 Annual Shareholders' Meeting	Annual shareholders' meeting	62.28%	2016.05.26	2016.05.27	http://www.cninfo.com.cn Notice of 2015 Annual Shareholders' Meeting Resolution
Notice of 2016 First Extraordinary Shareholders' Meeting Resolution	Extraordinary Shareholders' Meeting	63.08%	2016.09.23	2016.09.24	http://www.cninfo.com.cn Notice of 2016 First Extraordinary Shareholders' Meeting Resolution

(2) Request for convening temporary shareholders' meeting by priority shareholders owing recovered voting right

☐ Available ☒ Not available

5. Performance of independent directors during the report period

(1) Attendance of independent directors for the board of directors and the shareholders' meeting

Attendance of independent directors for the board of directors						
Name	Required attendance time	Personal attendance	Communication attendance	Authorized attendance	Absence	Whether or not to attend the meetings personally for successive twice
Xiao Wei	4	3	1	0	0	No
Wang Shigang	6	3	3	0	0	No
Wang Zhuquan	6	3	3	0	0	No.
Luo Fei	2	0	2	0	0	No.
Liu Yan	2	0	2	0	0	No.
Attendance time of independent directors for the shareholders' meeting without voting rights		2				

Explanation for failed to personally attend the Board of Directors' meetings for successive two times

No

(2) Any objections for the Company's projects from the independent directors

Whether or not the independent directors raised any objection for the Company's projects

☐ Yes ☒ No

During the report period, the independent directors did not raise any objections for the Company's projects.

(3) Other explanations on independent directors' performance

Whether or not the independent directors' propositions are accepted by the Company

☒ Yes ☐ No

Explanation on acceptance or refusal of the independent directors' propositions to the Company

During the report period, some independent directors propose suggestions on prudent investment in tourism project of Changyu International Wine City. They thought that it is a higher risk in the current background of slower growth of domestic economy. The Company accepted the independent directors' opinions and decided to suspend construction of the project.

6. Performance of the special committees under the Board of Directors during the report period

(1) Summary report of the Board of Directors' Audit Committee regarding performance of duties

① On March 26th, 2016, after the certified public accountants responsible for annual audits had introduced their preliminary opinions, the independent directors on behalf of the Audit Committee communicated with them and made written comments which read that "we communicated in detail with the certified public accountants responsible for auditing of the Company's *2015 Annual Report* who expounded the main standards, main emphasis audited field, the problems and the matters necessary to adjust that were found during the auditing. We've noticed that the Company has adjusted the matters as the accountants suggested. On the basis of our communication results with the accountants, the production and operation situations that the Company's management reported to us as well as the progress of important events, we believe that we have no objection to the Company's *2015 Annual Financial Statement* preliminarily examined by Deloitte Hua Yong Certified Public Accounts Co., Ltd. and the preliminary audit opinions of that services."

② On 27th April 2016, the Board of Directors' Audit Committee deliberated and passed *2015 Annual Audit Report*, *Draft Proposal on 2015 Annual Profit Distribution*, *Proposal on Renewal of Contract with the Present Certified Public Accountants firm*, *2015 Annual Self-assessment Report on Internal Control* and *2016 Internal Audit Plan* issued by Deloitte Hua Yong Certified Public Accounts Co., Ltd.

All of committee members unanimously agree to submit the above proposals to the Company's 6th Session Board of Directors 12th Meeting for deliberation. The meeting reached the following consensus:

(A) The clean-opinion auditing report on the Company's *2015 Annual Financial Statement* issued by Deloitte Hua Yong Certified Public Accounts Co., Ltd reflects the Company's financial condition, operating results and cash flow truly, objectively and correctly.

(B) The profit distribution scheme that the Company formulated is relatively acceptable, taking the shareholders' interest into account while paying attention to the Company's long-term development.

(C) Considering the strict maintenance of objective and fair standpoint as well as the high audit quality and reasonable arrangement for audit progress during the process of the

Company's 2015 annual financial audit and internal control audit taken by Deloitte Hua Yong Certified Public Accounts Co., Ltd, it is proposed that the Company will reappoint Deloitte Hua Yong Certified Public Accounts Co., Ltd as the 2016 annual auditor of the Company. The employment period is one year and the audit will be taken from two aspects shown as follows.

On one hand, it is to take the audit of 2016 annual financial report and issue a Financial Audit Report. On the other hand, it is to take the audit of 2016 annual internal control and issue an Internal Control Audit Report.

The annual auditing fee for the above parts is CNY 1.98million, including travel expense and all service charges.

(D) The Company's *2015 Self-assessment Report on Internal Control* has truly and objectively mirrored out the present standing of the Company's internal control and can basically ensure the effective implementation of its policies and realization of its strategic goals.

(E) The Company's *2016 Internal Audit Plan* is comparatively perfect and practicable, based on which the Company's Audit Department will conduct the 2016 annual internal audit.

③ On 25th August 2016, the Board of Directors' Audit Committee deliberated and passed *2016 Semiannual Report and Proposal on 2016 Semiannual Profit Distribution*. The meeting reached the following consensus:

The Company's *2016 Semiannual Financial Statements* reflected the Company's financial condition, operating results and cash flow truly, objectively and correctly.

As the Company just realized *2015 Annual Profit Distribution Scheme* in middle July, we propose neither to distribute profits for the first half of 2016 nor to increase the Company's capital stock with accumulated public fund. The net profit made in the first half of this year will be reserved and distributed at the end of the year. Our Auditing Committee considers the suggestion to be reasonable.

All of Committee members unanimously agree to submit the above proposals to the Company's 7th Session Board of Directors 2nd Meeting for deliberation.

(2) Summary report of the Board of Directors' Emolument Committee regarding performance of duties

The Board of Directors' Emolument Committee is responsible for assessment of the economy responsibilities of the directors and the senior managers who receive salaries from the Company and examination of the salary policy and scheme designed for the Company's directors and senior managers.

① *Proposal on 2015 Assessment Results of the Company's Senior Officers' Performance* was deliberated and passed by the Board of Directors' Emolument Committee on 27th April 2016, who thought that this document was in compliance with *Performance Assessment Methods for Company's Senior Executive from 2014 to 2017* approved by the Company's 6th Session Board of Directors' 4th Meeting.

All committee members unanimously agree to submit the above proposals to the Company's 6th Session Board of Directors 12th Meeting for deliberation.

② During the report period, the Board of Directors' Emolument Committee also examined the 2015 annual payroll records of the directors and the senior managers who receive salaries from the Company and believes that the salaries of the Company's directors, supervisors and senior managers received from the Company is strictly assessed and delivered based on the

Company's economic responsibility assessment system. The salaries disclosed by the Company are in conformity with the actually paid amount.

7. The work of the Board of Supervisors

Whether or not the Board of Supervisors found any existence risk to the Company in oversight activities during the report period

☐ Yes ☒ No

The Board of Supervisors has no objections to supervision matters during the report period.

8. Performance Evaluation and Incentive situations of Senior Management

The Company has already established a sound system for evaluation of achievement of senior management and the related incentive system which linked the reward with the Company's benefit and personal achievement. The Emolument Committee under Board of Directors assumed the responsibility of stipulating the policy and appraising the scheme for salaries and rewards. Based on the Company's annual business planning goals, this committee examined senior personals and also their responsible subsidiaries or departments according to their management achievement and index and took these as criterion of awards or penalties. During the report period, because of not finishing the annual business plan deliberated and passed in the Board of Directors' meeting at the beginning of the year, the total salaries and rewards of the senior management are basically equal to that of last year.

9. Internal Control

(1) Specific situations for significant defects of the internal control found during the report period

☐ Yes ☒ No

(2) Self-assessment report on internal control

Disclosure date for full text of the internal control self-assessment report	2017.04.22
Disclosure index for full text of the internal control self-assessment report	<i>2016 Self Assessment Report on Internal Control</i> disclosed on <i>China Securities Journal</i> , <i>Securities Times</i> and www.cninfo.com.cn by the Company on 22 nd April, 2017.
Percentage of total unit assets included in scope of the assessment accounting for the Company's total assets of consolidated financial statements	94.51%
Percentage of unit operating income included in scope of the assessment accounting for the Company's operating income of consolidated financial	88.61%

statements		
Standards of Defect Identification		
Category	Financial report	Non-financial report
Qualitative criteria	<p>Significant defects: one defect of internal control, individually or together with other defects, has the reasonable probability to cause the significant misstatements, which can not be promptly prevented, or found and corrected timely in the financial report. For example: ① Company's Directors, Supervisors and Senior Management have fraudulent practices; ② The Company makes corrections for the published financial report; ③ The audit of external intermediary agent finds significant misstatement existing in the current financial report, but the Company does not realize it during the operation process; ④ Negative information frequently appears in the medias with involving a wide scope; ⑤ The Company's audit committee and internal audit department makes an inefficient supervision for internal control; ⑥ Other situations maybe cause significant misdirection which guides the report users to make the right judgment.</p> <p>Major defects: The defect of internal control, individually or together with other defects, has the reasonable probability to cause the significant misstatements, which can not be promptly prevented, or found and corrected timely in the financial report, although the misstatements neither achieves nor exceeds the importance level but still arising the attention of Board of Directors and management team. ① Failure to select and apply accounting regulations in accordance with generally accepted accounting principles; ② Failure to establish the anti-fraud procedures and control measures; ③ Failure to set up corresponding control mechanism or to carry out and take corresponding compensating control for the accounting treatments with irregular and special deal; ④ Negative news appears in the media with influencing a wide scope; ⑤ One or more defects exist in the control during the process of the ending financial report, and the</p>	<p>Significant defects: Any situations listed below appears, it can be regarded as significant defects. ① Operation: Unable to achieve all operation target or key business index, widely out of budget in various aspects. ② Safety accident effects: Cause no less than one person death, or more than 3 person serious injuries. ③ Major negative effects: Negative information frequently appears in the medias with involving a wide scope in the international and national mainstream media. ④ Environment effects: Create irreparable damages to environment, and cause massive public complains.</p> <p>Major defects: Any situations listed below appears, it can be regarded as major defects. ① Operation: Unable to achieve partly operation target, a big margin out of budget in various aspects. ② Safety accident effects: Without reaching the person loss or the number of serious injury of significant defects. ③ Major negative effects: Negative news appears in the media with influencing a wide scope in the provincial mainstream media. ④ Environment effects: Cause heavy environment damages and massive public complains, ought to carry out the significant remedial measures.</p> <p>General defects: Any situations listed below appears, it can be regarded as general defects. ① Operation: Other effects unable to constitute the significant defects or major defects. ② Safety accident effects: Personal injury less than the quantitative standards of major defects. ③ Major negative effects: Other defects unable to constitute the significant defects or major defects. ④ Environment effects: Other environment effects unable to constitute the significant defects or major defects.</p>

	target of achieving truthfulness and integrity cannot be reasonably guaranteed in the financial report; ⑥ General defects refer to the other control defects, which do not constitute the significant and major defects.	
Quantitative criterion	<p>For total assets/Owner's equity:</p> <p>① Significant defects: misstatements $\geq 1\%$</p> <p>② Major defects: $0.5\% \leq \text{misstatements} < 1\%$</p> <p>③ General defects: misstatements $< 0.5\%$</p> <p>For operation revenue:</p> <p>① significant defects: misstatements $\geq 1\%$</p> <p>② Major defects: $0.5\% \leq \text{misstatements} < 1\%$</p> <p>③ General defects: misstatements $< 0.5\%$</p> <p>For pretax profit:</p> <p>① Significant defects: misstatements $\geq 5\%$</p> <p>② Major defects: $2\% \leq \text{misstatements} < 5\%$</p> <p>③ General defects: misstatements $< 2\%$</p>	<p>For direct property loss:</p> <p>① Significant defects: More than CNY10 million</p> <p>② Major defects: CNY1 million-CNY10 million (including 1 million)</p> <p>③ General defects: Less than CNY1 million</p>
Number of significant defect in financial report		0
Number of significant defect in non-financial report		0
Number of major defect in financial report		0
Number of major defect in non-financial report		0

10. Internal control audit report

☒ Available ☐ Not available

Audit opinions of the internal control audit report	
We believe that Yantai Changyu Pioneer Wine Co., Ltd. kept effective internal control to financial report in all significant aspects in accordance with <i>General Criteria of Company's Internal Control</i> and other related rules on 31 st December, 2016.	
Disclosure of the internal control audit report	Disclosure
Disclosure date for the full text of the	22 nd April, 2017

internal control audit report	
Disclosure index for the full text of the internal control audit report	<i>Internal Control Audit Report</i> disclosed on <i>China Securities Journal</i> , <i>Securities Times</i> and www.cninfo.com.cn by the Company on 22 nd April, 2017.
Opinion type of the internal control audit report	Standard without reserved opinion
Whether or not exists significant defects in non-financial reports	No

Whether or not the accounting firm issued non-standard opinions for the audit report of internal control

☐ Yes ☒ No

Whether the audit report of internal control issued by the accounting firm is in consistency with the self-assessment report of the board of directors

☒ Yes ☐ No

X. Related Situation of Corporation Bonds

Whether or not the Company has the corporation bonds issued in public, listed in the stock exchange, not due on the annual report's authorized issue date or failed to pay in full on the due date.

XI. Financial Report

1. Audit Report

Type of audit opinion	Standard unqualified audit opinion
Date signed on audit report	20 th April, 2017
Audit agency name	Deloitte Hua Yong certified public accountants co., Ltd. (special general partnership)
Document No. of audit report	De Shi Bao (Shen) Zi (17) No. P01956
Certified public accountant's name	Li Xu, Li Yangang

AUDITOR'S REPORT

TO THE SHAREHOLDERS OF YANTAI CHANGYU PIONEER WINE COMPANY LIMITED

We have audited the accompanying financial statements of Yantai Changyu Pioneer Wine Company Limited which comprise the consolidated and company's balance sheets as at 31st December 2016, 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 shareholders' equity for the year then ended, and the notes to the financial statements.

1). Management' responsibility for the financial statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation of the financial statements; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

2). Auditor's responsibility

Our responsibility is to express an audit opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. China Standards on Auditing require that we comply with the Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, Certified Public Accountants consider the internal control relevant to the preparation and fair presentation of the financial statements 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. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3). *Opinion*

In our opinion, the financial statements of Yantai Changyu Pioneer Wine Company Limited present fairly, in all material respects, the consolidated and company's financial position as of 31st December 2016, and the consolidated and company's results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Deloitte Hua Yong Certified Public Accountants Co., Ltd
(Special General Partnership)
Shanghai, China

Chinese Certified Public Accountant
Li Xu
Li Yangang
20th April, 2017

2. Financial report

Unit: CNY

CONSOLIDATED BALANCE SHEETS YEAR ENDED 31 DECEMBER 2016

<u>ASSETS</u>	<u>Notes</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
CURRENT ASSETS			
Cash and bank	VI-1	1,391,517,607	1,285,362,414
Notes receivable	VI-2	210,470,027	113,988,122
Accounts receivable	VI-3	173,062,628	197,795,091
Prepayments	VI-4	2,175,606	3,591,098
Interest receivable	VI-5	24,200	8,019,338
Other receivables	VI-6	18,880,800	46,146,487
Inventories	VI-7	2,248,609,740	2,260,852,964
Non-current assets held for sale	VI-8	2,000,197	-
Other current assets	VI-9	169,522,242	48,449,551
Total current assets		4,216,263,047	3,964,205,065
NON-CURRENT ASSETS			

Available-for-sale financial assets	VI-10	340,263	402,814
Fixed assets	VI-11	4,683,187,493	3,089,245,185
Construction in progress	VI-12	1,346,281,737	2,005,990,308
Bearer biological assets	VI-13	201,428,980	192,198,283
Intangible assets	VI-14	483,815,080	463,899,916
Goodwill	VI-15	121,265,866	105,504,426
Long-term prepaid expenses	VI-16	162,206,229	175,124,167
Deferred tax assets	VI-17	295,937,037	302,406,656
Other non-current assets	VI-18	17,352,239	45,234,641
Total non-current assets		<u>7,311,814,924</u>	<u>6,380,006,396</u>
Total assets		<u>11,528,077,971</u>	<u>10,344,211,461</u>

CONSOLIDATED BALANCE SHEETS
YEAR ENDED 31 DECEMBER 2016 - continued

<u>LIABILITIES AND EQUITY</u>	<u>Notes</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
CURRENT LIABILITIES			
Short-term borrowings	VI-19	662,388,882	665,581,921
Notes payable	VI-20	38,900,000	29,000,000
Accounts payable	VI-21	545,231,319	569,278,368
Receipts in advance	VI-22	425,246,421	234,566,504
Employee benefits payable	VI-23	206,431,734	190,239,451
Taxes payable	VI-24	144,042,600	41,285,107
Interest payable		563,613	977,304
Deferred income	VI-25	11,163,883	11,241,873
Other payables	VI-26	546,305,310	509,226,395
Non-current liabilities due within one year	VI-27	71,799,093	156,335,647
Total current liabilities		2,652,072,855	2,407,732,570
NON-CURRENT LIABILITIES			
Long-term borrowings	VI-28	49,140,555	71,686,629
Long-term payables	VI-29	293,000,000	-
Deferred income	VI-25	101,775,243	69,836,411
Deferred tax liabilities	VI-17	24,908,410	34,350,349
Other non-current liabilities	VI-30	7,696,222	4,047,476
Total non-current liabilities		476,520,430	179,920,865
Total liabilities		3,128,593,285	2,587,653,435
EQUITY			
Share capital	VI-31	685,464,000	685,464,000
Capital reserve	VI-32	565,955,441	565,955,441
Other comprehensive income	VI-33	(5,259,014)	(10,442,512)
Surplus reserve	VI-34	342,732,000	342,732,000
Retained earnings	VI-35	6,620,118,562	5,980,390,074
Equity attributable to shareholders of the Company		8,209,010,989	7,564,099,003
Non-controlling interests		190,473,697	192,459,023
Total equity		8,399,484,686	7,756,558,026
Total liabilities and equity		11,528,077,971	10,344,211,461

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

The financial statements on pages 3 to 100 were signed by the following:

Legal Representative: _____

Person in Charge of the Accounting Body: _____

Chief Accountant: _____

BALANCE SHEET OF THE COMPANY
YEAR ENDED 31 DECEMBER 2016

<u>ASSETS</u>	<u>Notes</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
CURRENT ASSETS			
Cash and bank	XIV-1	269,460,060	280,818,833
Notes receivable	XIV-2	1,114,200	38,429,319
Accounts receivable	XIV-3	3,326,683	2,392,870
Prepayments	XIV-4	702,647	445,619
Interest receivable	VI-5	24,200	8,019,338
Dividend receivable	XIV-5	531,819,113	788,092,349
Other receivables	XIV-6	3,582,532,862	5,734,456,129
Inventories	XIV-7	792,732,418	728,173,107
Non-current assets held for sale	VI-8	2,000,197	-
Other current assets		20,085,058	22,700,317
Total current assets		<u>5,203,797,438</u>	<u>7,603,527,881</u>
NON-CURRENT ASSETS			
Available-for-sale financial assets	VI-10	-	-
Long-term equity investments	XIV-8	1,834,341,541	1,423,725,152
Fixed assets	XIV-9	347,481,417	369,506,014
Construction in progress	XIV-10	500,000	7,990,777
Bearer biological assets	XIV-11	123,036,693	110,961,189
Intangible assets	XIV-12	72,002,372	74,381,525
Deferred tax assets	XIV-13	26,985,252	37,938,692
Other non-current assets	XIV-14	2,617,457,460	-
Total non-current assets		<u>5,021,804,735</u>	<u>2,024,503,349</u>
Total assets		<u>10,225,602,173</u>	<u>9,628,031,230</u>

BALANCE SHEET OF THE COMPANY
YEAR ENDED 31 DECEMBER 2016 - continued

<u>LIABILITIES AND EQUITY</u>	<u>Notes</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
CURRENT LIABILITIES			
Short-term borrowings	XIV-15	500,000,000	601,297,447
Accounts payable	XIV-16	247,568,857	273,091,182
Receipts in advance	XIV-17	6,000,000	-
Employee benefits payable	XIV-18	70,812,761	71,058,615
Taxes payable	XIV-19	33,266,225	19,331,311
Interest payable		563,613	977,304
Deferred income		1,767,054	1,767,054
Other payables	XIV-20	368,310,362	994,821,281
Non-current liabilities due within one year	XIV-21	29,227,200	127,345,600
Total current liabilities		1,257,516,072	2,089,689,794
NON-CURRENT LIABILITIES			
Long-term borrowings	VI-28	-	56,761,600
Deferred income		19,933,699	21,824,352
Other non-current liabilities		2,499,403	1,944,955
Total non-current liabilities		22,433,102	80,530,907
Total liability		1,279,949,174	2,170,220,701
EQUITY			
Share capital	VI-31	685,464,000	685,464,000
Capital reserve	XIV-22	557,222,454	557,222,454
Surplus reserve	VI-34	342,732,000	342,732,000
Retained earnings		7,360,234,545	5,872,392,075
Total equity		8,945,652,999	7,457,810,529
Total liabilities and equity		10,225,602,173	9,628,031,230

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB	2015 RMB
I. Revenue	VI-36	4,717,596,472	4,649,722,368
Less: Cost of sales	VI-36	1,575,770,979	1,512,503,035
Taxes and surcharges	VI-37	269,716,646	258,013,524
Selling expenses	VI-38	1,253,260,668	1,211,127,163
Administrative expenses	VI-39	309,783,548	313,968,409
Impairment loss of assets	VI-40	3,279,266	2,823,115
Financial expenses	VI-41	21,968,859	11,287,685
II. Operating profit		1,283,816,506	1,339,999,437
Add: Non-operating income	VI-42	55,172,160	50,065,317
Including: gains from disposal of non-current assets			157,846
		192,945	
Less: Non-operating expenses	VI-43	1,369,826	1,904,889
Including: losses from disposal of non-current assets			143,127
		56,884	
III. Profit before tax		1,337,618,840	1,388,159,865
Less: Income tax	VI-44	357,029,446	357,884,235
IV. Profit for the year		980,589,394	1,030,275,630
Attribute to shareholders of the Company		982,460,488	1,030,073,860
Minority interest income		(1,871,094)	201,770
V. Other comprehensive income (post-tax)			
Other comprehensive income attributable to shareholders of the Company			
Other comprehensive income to be reclassified to profit and loss			
Foreign currency statement translation difference			5,183,498
			(7,639,241)
Other comprehensive income attributable to minority interest		432,191	(102,535)
Other comprehensive income (post-tax)		5,615,689	(7,741,776)
VI. Total comprehensive income			
Attribute to shareholders of the Company		987,643,986	1,022,434,619
Attribute to minority interest of the Company			(1,438,903)
		99,235	
Total comprehensive income		986,205,083	1,022,533,854
VII. Earnings per share			
(I) Basic earnings per share	VI-45	1.43	1.50
(II) Diluted earnings per share	VI-45	N/A	N/A

INCOME STATEMENT OF THE COMPANY
YEAR ENDED 31 DECEMBER 2016

	<u>Notes</u>	<u>2016</u> RMB	<u>2015</u> RMB
I. Revenue	XIV-23	1,415,104,946	1,383,184,483
Less: Cost of sales	XIV-23	1,152,076,500	1,154,834,509
Taxes and surcharges	XIV-24	106,469,217	128,127,130
Administrative expenses	XIV-25	85,962,137	131,187,795
Financial expenses	XIV-26	34,226,452	18,852,697
Investment income	XIV-27	1,798,129,418	1,587,303,643
II. Operating Profit		1,834,500,058	1,537,485,995
Add: Non-operating income		7,433,751	5,229,734
Including: gains from disposal of non-current assets	160,609		157,846
Less: Non-operating expenses		405,899	921,076
Including: losses from disposal of non-current assets	44,269		46,484
III. Profit before tax		1,841,527,910	1,541,794,653
Less: Income tax		10,953,440	(11,725,445)
IV. Profit for the year and total comprehensive income		1,830,574,470	1,553,520,098

CONSOLIDATED CASH FLOW STATEMENT YEAR ENDED 31 DECEMBER 2016

	<u>Notes</u>	<u>2016</u> RMB	<u>2015</u> RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from the sale of goods and the rendering of services		4,441,041,101	5,005,115,064
Receipts of tax refunds		17,860,500	17,833,465
Other cash receipts relating to operating activities	VI-46(1)	66,707,865	22,373,016
Sub-total of cash inflows from operating activities		4,525,609,466	5,045,321,545
Cash payments for goods purchased and services received		961,128,796	1,106,430,193
Cash payments to and on behalf of employees		435,621,220	400,245,285
Payment of various types of taxes		1,133,232,957	1,312,212,563
Other cash payments relating to operating activities	VI-46(2)	1,105,714,523	1,083,387,137
Sub-total of cash outflows from operating activities		3,635,697,496	3,902,275,178
Net cash flows from operating activities	VI-47(1)	889,911,970	1,143,046,367
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in term deposits over 3 months		98,021,025	58,245,260
Proceeds from return on investments		7,723,126	9,337,943
Proceeds from disposal of fixed assets		7,208,774	3,373,254
Sub-total of cash inflows from investing activities		112,952,925	70,956,457
Cash paid for acquisition of properties, plants and equipment, intangible assets and other long-term assets		704,834,302	775,468,190
Cash paid for term deposits over 3 months		92,021,025	20,000,000
Cash paid for the purchase subsidiaries and other equity	VI-46(3)	3,539,144	207,868,406
Other cash payment relating to investing activities		-	5,474,540
Sub-total of cash outflows from investing activities		800,394,471	1,008,811,136
Net cash flows from investing activities		(687,441,546)	(937,854,679)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from borrowings		1,011,089,858	598,060,185
Other cash received from financing activities	VI-46(4)	180,477,587	4,000,000
Sub-total of cash inflows from financing activities		1,191,567,445	602,060,185
Cash paid for dividends, profits and interests		372,529,256	326,060,259
Cash paid for borrowings		839,962,581	325,272,800
Cash paid for acquisition minority interest		-	150,000
Cash paid from other financing activities	VI-46(5)	20,000,000	28,150,000
Sub-total of cash outflows from financing activities		1,232,491,837	679,633,059
Net cash flows from financing activities		(40,924,392)	(77,572,874)
Effect of foreign exchange rate changes on cash and cash equivalents		3,154,611	4,150,573
NET INCREASE OF CASH AND CASH EQUIVALENTS		164,700,643	131,769,387
Add: cash and cash equivalents at beginning of the year	VI-47(3)	1,092,241,661	960,472,274
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	VI-47(3)	1,256,942,304	1,092,241,661

CASH FLOW STATEMENT OF THE COMPANY

YEAR ENDED 31 DECEMBER 2016

	<u>Notes</u>	<u>2016</u> RMB	<u>2015</u> RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from the sale of goods and the rendering of services		1,260,184,309	1,407,696,475
Other cash receipts relating to operating activities		232,328,473	1,050,628
Sub-total of cash inflows from operating activities		1,492,512,782	1,408,747,103
Cash payments for goods purchased and services received		887,413,606	944,400,045
Cash payments to and on behalf of employees		121,662,409	149,896,172
Cash payment of various types of taxes		132,372,497	191,387,102
Other cash payment relating to operating activities		805,127,368	1,128,236,602
Sub-total of cash outflows from operating activities		1,946,575,880	2,413,919,921
Net cash flows from operating activities	XIV-28	(454,063,098)	(1,005,172,818)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash receipts from equity investment		-	350,000
Cash receipts from deposits over 3 months		18,021,025	46,245,260
Cash receipts from return on investments		1,530,872,587	1,211,082,256
Cash receipts from disposals of fixed assets		9,705,026	190,205
Sub-total of cash inflows from investing activities		1,558,598,638	1,257,867,721
Cash payments for acquisition of fixed assets, intangible assets and other long-term assets		28,351,843	42,104,159
Cash payments for term deposits over 3 months		12,021,025	20,000,000
Cash payments for subsidiary investment		468,882,418	325,163,585
Other cash payment relating to investing activities		-	5,474,540
Sub-total of cash outflows from investing activities		509,255,286	392,742,284
Net cash flows from investing activities		1,049,343,352	865,125,437
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from borrowings		500,000,000	595,268,270
Cash inflows from financing activities		135,584,347	-
Sub-total of cash inflows from financing activities		635,584,347	595,268,270
Cash paid for dividends, profits and interests		372,039,591	325,424,652
Cash paid for borrowings		764,619,892	323,051,320
Sub-total of Cash outflows from financing activities		1,136,659,483	648,475,972
Net cash flows from financing activities		(501,075,136)	(53,207,702)
Effect of foreign exchange rate changes on cash and cash equivalents		-	3,807,697
NET INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS		94,205,118	(189,447,386)
Add: cash and cash equivalents at beginning of the year	XIV-29	143,798,080	333,245,466
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	XIV-29	238,003,198	143,798,080

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY YEAR ENDED 31 DECEMBER 2016

	2016						
	Attributable to shareholders of the Company					Non-controlling interests RMB	Total RMB
	Issued capital RMB	Capital surplus RMB	Other comprehensive income RMB	Surplus reserve RMB	Retained earnings RMB		
I. Opening balance of the current year	685,464,000	565,955,441	(10,442,512)	342,732,000	5,980,390,074	192,459,023	7,756,558,026
II. Changes for the year							
(I) Total comprehensive income							
1. Net Profit	-	-	-	-	982,460,488	(1,871,094)	980,589,394
2. Other comprehensive income (VI-33)	-	-	5,183,498	-	-	432,191	5,615,689
(II) Profit distribution							
Distributions to shareholders (VI-35)	-	-	-	-	(342,732,000)	(546,423)	(343,278,423)
III. Closing balance of the current year	685,464,000	565,955,441	(5,259,014)	342,732,000	6,620,118,562	190,473,697	8,399,484,686

	2015						
	Attributable to shareholders of the Company					Non-controlling interests RMB	Total RMB
	Issued capital RMB	Capital surplus RMB	Other comprehensive income RMB	Surplus reserve RMB	Retained earnings RMB		
I. Opening balance of the current year	685,464,000	563,139,042	(2,803,271)	342,732,000	5,251,920,374	162,740,779	7,003,192,924
II. Changes for the year							
(I) Total comprehensive income							
1. Net Profit	-	-	-	-	1,030,073,860	201,770	1,030,275,630
2. Other comprehensive income (VI-33)	-	-	(7,639,241)	-	-	(102,535)	(7,741,776)
(II) Shareholders investment and Divestment							
1. Acquisition subsidiary (VII-1)	-	-	-	-	-	32,585,408	32,585,408
2. Transaction with non-controlling interests	-	2,816,399	-	-	-	(2,966,399)	(150,000)
(III) Profit distribution							
Distributions to shareholders (VI-35)	-	-	-	-	(301,604,160)	-	(301,604,160)
III. Closing balance of the current year	685,464,000	565,955,441	(10,442,512)	342,732,000	5,980,390,074	192,459,023	7,756,558,026

STATEMENT OF CHANGES IN EQUITY OF THE COMPANY
YEAR ENDED 31 DECEMBER 2016

	2016				
	<u>Issued capital</u> RMB	<u>Capital reserve</u> RMB	<u>Surplus reserve</u> RMB	<u>Retained earnings</u> RMB	<u>Total</u> RMB
I. Opening balance of the current year	685,464,000	557,222,454	342,732,000	5,872,392,075	7,457,810,529
II. Changes for the year					
(I) Total comprehensive income	-	-	-	1,830,574,470	1,830,574,470
(II) Profit distribution					
Distributions to shareholders (VI-35)	-	-	-	(342,732,000)	(342,732,000)
III. Closing balance of the current year	685,464,000	557,222,454	342,732,000	7,360,234,545	8,945,652,999
	2015				
	<u>Issued capital</u> RMB	<u>Capital reserve</u> RMB	<u>Surplus reserve</u> RMB	<u>Retained earnings</u> RMB	<u>Total</u> RMB
I. Opening balance of the current year	685,464,000	557,222,454	342,732,000	4,620,476,137	6,205,894,591
II. Changes for the year					
(I) Total comprehensive income	-	-	-	1,553,520,098	1,553,520,098
(II) Profit distribution					
Distributions to shareholders (VI-35)	-	-	-	(301,604,160)	(301,604,160)
III. Closing balance of the current year	685,464,000	557,222,454	342,732,000	5,872,392,075	7,457,810,529

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

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 2016 the total shares issued by the Company amounts to 685,464,000 shares. Please refer to Note VI-31 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 20 April 2017. According to the Company's articles of association, the financial statements will be reviewed by shareholders on the shareholder's meeting.

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

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

1. Basis of preparation

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

2. Basis of accounting and principle of measurement

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

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

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS - continued

2. Basis of accounting and principle of measurement - continued

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

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

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

3. Going concern

As at 31 December 2016, 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 2016, financial performance and cash flow in 2016 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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

4. Reporting currency

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

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.

The cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is treated as an asset and recognised as goodwill, which is measured at cost on initial recognition. Within the 12 month after acquisition, adjustment for the provisional recognised value will be regarded as the recognition and measurement at acquisition date.

At the end of the year for acquisition, if the fair value for qualified identifiable assets, liabilities and contingent liabilities can be determined temporarily, temporally determined fair value will be recognised as consideration for recognition and measurement of acquisition.

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

6. Preparation of consolidated financial statements

6.1 Preparation of consolidated financial statements

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

6. Preparation of consolidated financial statements - continued

6.1 Preparation of consolidated financial statements - continued

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 a subsidiary disposed of by the Group, the operating results and cash flows before the date of disposal (the date when control is lost) are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

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.

For the transaction that Purchase minority interest or disposal part of the equity does not loss the control of the subsidiaries, it should treated as equity transaction, and adjust the equity attributable to shareholders and minority interest in order to reflex the changes of equity in subsidiaries. The difference between minority interest adjustment and fair value of received/paid consideration will adjust in capital reserve, and if capital reserve is not enough for offset, will adjust surplus reserve.

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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

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

8.1 Transactions denominated in foreign currencies - continued

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.

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

8.2 Translation of financial statements denominated in foreign currencies

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

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

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

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.

9.2 Classification, recognition and measurement of financial assets

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

9.2.1 Loans and receivables

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

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

9.2.2 Available-for-sale financial assets

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

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

9. Financial instruments - continued

9.3 Impairment of financial assets

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

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

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

- Impairment of financial assets measured at amortised cost

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

9. Financial instruments - continued

9.3 Impairment of financial assets - continued

- Impairment of financial assets measured at amortised cost - continued

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

- Impairment of available for sale assets measured at cost

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

9.4 Transfer of financial assets

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

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

9.5 Classification, recognition and measurement of financial liabilities

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

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

9. Financial instruments - continued

9.5 Classification, recognition and measurement of financial liabilities - continued

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.

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

10.1 Receivables that are individually significant and for which bad debt provision is individually assessed

A receivable that exceeds RMB 3,000,000 is deemed as an individually significant receivable by the Group.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

10. Accounts Receivable - continued

10.1 Receivables that are individually significant and for which bad debt provision is individually assessed - continued

For receivables that are individually significant, the Group assesses the receivables individually for impairment. For a financial asset that is not impaired individually, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Receivables for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

10.2 Receivables that are not individually significant but for which bad debt provision is individually assessed

For receivables that are not individually significant but for which bad debt provision is individually assessed, when objective evidence suggests that the Group cannot collect receivables in accordance with original clauses, the Group would recognize impairment loss and provide bad debts according to the difference between carrying amount and present value of future cash flows.

11. Inventories

11.1 Categories of inventories

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

11.2 Valuation method of inventories upon delivery

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

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

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

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

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

11. Inventories - continued

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

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

11.4 Inventory count system

The perpetual inventory system is maintained for stock system.

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

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

12. Non-current assets held for sale

A certain non-current asset of the Group (excluding deferred tax asset) is accounted for as non-current asset held for sale if all of the following conditions are satisfied at the same time: the non-current asset can be disposed immediately at its current state solely based on the general terms for disposal of similar non-current assets; a resolution has been made for the disposal of the non-current asset; an irrevocable transfer agreement has been entered into with the transferee; and it is highly probable that the transfer will be completed within one year. Non-current assets held for sale are not depreciated or amortized, and are measured at the lower of the carrying amount and the fair value less costs to sell.

13. Long term equity investments

13.1 Basis for determining control, joint control and significant influence

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

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. Where the acquiree's equity is obtained at stages through multiple deals and finally a business combination not involving enterprises under common control is achieved, the deals are accounted for considering whether they are respectively attributable to "a package deal": where the deals are attributable to "a package deal", the deals are treated as deals to obtain control.

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. Fixed assets

14.1 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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

14. Fixed assets - continued

14.2 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	5-20years	0-5%	4.8%-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.

14.3 Other explanations

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

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

15. Construction in progress

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

16. Borrowing costs

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

17. Biological assets

17.1 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%

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

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

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

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

18. Intangible assets

Intangible assets include land use rights, software, etc.

An intangible asset is measured initially at cost method. When an intangible asset with a finite useful life is available for use, its original cost less net residual value and any accumulated impairment losses is amortised over its estimated useful life using the straight-line method. 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%

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

19. Impairment of long-term assets

The Group and the Company review the impairment status of long-term equity investments, fixed assets, construction in progress, bearer biological asset and intangible assets with finite useful life at the end of each year. If the assets exist impairment, the Group estimates the recoverable amount of the assets.

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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

20. Long term prepaid expenses

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

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

21. Employee benefits

21.1 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.

21.2 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.

21.3 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 reconstructing.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

22. Revenue

22.1 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.

22.2 Revenue from rendering of services

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

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

23. Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. The income is accounted for as either a government grant related to an asset or a government grant related to income based on its nature.

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.

23.1 Government grant related to an asset

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

23.2 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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

24. Deferred tax assets/deferred tax liabilities

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

24.1 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.

24.2 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.

III. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING - continued

24. Deferred tax assets/deferred tax liabilities - continued

24.2 Deferred tax assets and deferred tax liabilities - continued

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.

24.3 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.

25. 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.

Operating lease accounting methods

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

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

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

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

Significant accounting judgments and accounting estimates

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

Deferred tax assets

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

Depreciation

As set out in Note III-14, the depreciation is calculated on the straight line basis to write-off the cost of each item of fixed assets to its residual value over its estimated useful life. The Group's management determines the estimated useful lives for its fixed assets. This estimate is based on the historical experience of the actual useful lives of fixed assets of similar nature and functions. If the previous estimates have significant changes, and depreciation expenses will be adjusted in the future periods.

Useful life of intangible assets

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

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

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

Significant accounting judgments and accounting estimates - continued

Impairment of non-current assets

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

The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from an asset. As it is difficult for the Group to obtain the quoted market price of the assets (or assets group), the fair value of the assets cannot be reliably estimated. When the management make estimation on the expected future cash flows from the asset or cash generating unit, estimates should be made on choosing a suitable production volume, selling price and related operating costs discount rate in order to calculate the present value of those cash flows. When recoverable amounts are undertaken, management may use all available for use information, including the forecast on production volume, selling price and related operating costs in reasonable and supportable assumptions.

Estimated provision for accounts receivable

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

Inventory provision based on net realizable value

The inventory 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.

V. TAXES_

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

(1) China

Value added tax	VAT is levied at 6% and 17% on the invoiced amount after deduction of eligible input VAT.
Consumption tax	The consumption tax of the group is levied on gross revenue at rates ranging from 10% to 20%.
Business tax	The Group is subject to a business tax of 5% on its taxable revenue.
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.

V. TAXES - continued

(2) China - continued

As approved by the State Council, according to "*Circular on Nationwide Implementation of Pilot for Change from Business Tax to VAT*" (Cai Shui [2016] No.36), since 1 May 2016, all the business tax payers engaged in construction, real estate, finance and living services etc. are included in the scope of pilot and pay VAT instead of business tax (the "change from business tax to VAT"). Thereinto, the VAT rate for living services industry is 6%. The Group has been paying VAT instead of business tax for its revenue from tour, accommodation, catering etc. since the "change from business tax to VAT".

(3) France

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

(4) 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.(2015:30%)

Other than tax incentives stated in Note V-2, applicable tax rates of the Group in 2016 and 2015 are all stated as above.

2. Tax incentives and relative permit

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

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

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

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**1. Cash and bank**

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Cash	117,507	179,488
Bank balance	1,240,607,797	1,103,705,354
Other currency fund	150,792,303	181,477,572
Total	<u>1,391,517,607</u>	<u>1,285,362,414</u>

At 31 December 2016, the balance of restricted cash of the Group is as follows:

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
The Company's housing fund	2,711,926	2,643,181
	<u>2,711,926</u>	<u>2,643,181</u>

As at 31 December 2016, the Group's other monetary assets is as follows:

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Research and Development Co., Ltd ("R&D Centre") pledged deposit	46,100,000	151,100,000
Refundable deposit for notes payable	38,900,000	30,000,000
Deposit for letter of credit	25,694,735	370,000
Alipay account balance	40,047,367	-
Company cards deposit guarantee	50,201	7,572
	<u>150,792,303</u>	<u>181,477,572</u>

As at 31 December 2016, the balance of restricted of the alipay account is RMB 18,118,441 (31 December 2015: RMB: Nil).

As at 31 December 2016, the Group's overseas cash and bank deposit is RMB 16,080,618 (31 December 2015: RMB 6,019,640).

As at 31 December 2016, The Group's term deposits with original maturity of more than three months when acquired is RMB 3,000,000 (31 December 2015: RMB 9,000,000) with interest rate 1.65%.

2.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Notes receivable

(1) Categories of notes receivable

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Bank acceptances	<u>210,470,027</u>	<u>113,988,122</u>

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

As at 31 December 2016, there was no pledged notes receivable (31 December 2015: Nil).

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

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Bank acceptances	<u>198,302,531</u>	<u>84,677,596</u>

As at 31 December 2016, notes endorsed by the Group to other parties which are not yet due at the end of the period is RMB 198,302,531 (31 December 2015: RMB 84,677,596). The notes are used for payment to suppliers. The Group believes that due to good reputation of bank, the risk of notes not accepting by bank on maturity is very low, and almost all the risks and rewards on ownership of the notes receivable have been transferred to the supplier, therefore derecognise the note receivables endorsed. If the bank is unable to pay the notes on maturity, according to the relevant laws and regulations of China, the Group would undertake limited liability for the notes.

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

As at 31 December 2016, no notes receivable were reclassified as accounts receivable due to the default of drawer (31 December 2015: Nil).

3. Accounts receivable

(1) Disclosure of accounts receivable by categories:

	<u>Closing balance</u>					<u>Opening balance</u>				
	<u>Amount</u>		<u>Bad debts provision</u>		<u>Carrying amount</u>	<u>Amount</u>		<u>Bad debts provision</u>		<u>Carrying amount</u>
	<u>Amount</u> RMB	<u>Proportion</u> %	<u>Amount</u> RMB	<u>Ratio</u> %		<u>Amount</u> RMB	<u>Proportion</u> %	<u>Amount</u> RMB	<u>Ratio</u> %	<u>Amount</u> RMB
Accounts receivable that are individually significant and for which bad debt provision has been assessed individually	75,230,493	43.5	-	-	75,230,493	74,538,738	37.7	-	-	74,538,738
Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually	97,832,135	56.5	-	-	97,832,135	123,256,353	62.3	-	-	123,256,353
Total	173,062,628	100.0	-	-	173,062,628	197,795,091	100.0	-	-	197,795,091

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**3. Accounts receivable - continued****(1) Disclosure of accounts receivable by categories: - continued**

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

As at 31 December 2016, ownership restricted accounts receivable is RMB 30,732,944 (31 December 2015: 23,880,775), referring to Note VI-48.

The aging analysis is as follows:

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Within 1 year	172,610,351	197,653,190
1 to 2 years	452,277	141,901
	<u>173,062,628</u>	<u>197,795,091</u>

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

As at 31 December 2016, there was no bad debt provision for accounts receivable (31 December 2015: Nil). There was no bad debt provision made, reversed or written-off by management in 2016 (2015: 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> %
DIA Market	Third party	13,687,807	Within 1 year	7.9
Nongongshang Supermarket (Group) Co., Ltd	Third party	13,625,761	Within 1 year	7.9
Wal-Mart (China) Investment Co., Ltd.	Third party	6,416,066	Within 1 year	3.7
Fujian Minhou glorison Co., Ltd	Third party	6,025,970	Within 1 year	3.5
Suguo Supermarket Co., Ltd	Third party	5,731,598	Within 1 year	3.3
		<u>45,487,202</u>		<u>26.3</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**4. Prepayments**

(1) The aging analysis is as follows:

	<u>Closing balance</u>		<u>Opening balance</u>	
	<u>Amount</u> RMB	<u>Ratio</u> %	<u>Amount</u> RMB	<u>Ratio</u> %
Within 1 year	2,175,606	100.0	3,096,223	86.2
1 to 2 years	-	-	494,875	13.8
	<u>2,175,606</u>	<u>100.0</u>	<u>3,591,098</u>	<u>100.0</u>

(2) As at 31 December 2016, the top 5 of prepayments were as follows:

	<u>Relationship with the Group</u>	<u>Amount</u> RMB	<u>Aging</u>	<u>Reason for being outstanding</u>	<u>Percentage of total advances to suppliers</u> %
Shandong Electricity Company					
Yantai branch	Third party	502,670	Within 1 year	electricity purchase	23.1
DONELLIVINI S.P.A	Third party	367,148	Within 1 year	goods not received	16.9
Xinjiang Hua Xing Glass Co., Ltd	Third party	116,267	Within 1 year	goods not received	5.3
Shanghai Zi Ri Packing Co., Ltd	Third party	104,832	Within 1 year	goods not received	4.8
Chongqing Hao Sheng glass incorporated company	Third party	93,456	Within 1 year	goods not received	4.3
		<u>1,184,373</u>			<u>54.4</u>

5. Interest receivable

(1) Categories of interest receivable

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Interests of term deposits	<u>24,200</u>	<u>8,019,338</u>

(2) Overdue interest

As at 31 December 2016, there was no overdue interest receivable (31 December 2015: Nil).

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**6. Other receivables****(1) Disclosure of other receivables by categories**

	Closing balance					Opening balance				
	Amount		Bad debts provision		Carrying amount	Amount		Bad debts provision		Carrying amount
	Amount RMB	Proportion %	Amount RMB	Ratio %		Amount RMB	Proportion %	Amount RMB	Ratio %	Amount RMB
Other receivables that are individually significant and for which bad debt provision has been assessed individually	7,417,220	39.3	-	-	7,417,220	32,390,931	60.7	(7,199,521)	22.2	25,191,410
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	11,463,580	60.7	-	-	11,463,580	20,955,077	39.3	-	-	20,955,077
Total	18,880,800	100.0	-	-	18,880,800	53,346,008	100.0	(7,199,521)	14.0	46,146,487

	Closing balance				Opening balance			
	Amount		Bad debts provision	Carrying amount	Amount		Bad debts provision	Carrying amount
	Amount RMB	Proportion %			Amount RMB	Proportion %		
Within 1 year	8,204,303	43.5	-	8,204,303	36,271,669	68.0	-	36,271,669
1 to 2 years	7,715,992	40.8	-	7,715,992	2,725,644	5.1	-	2,725,644
2 to 3 years	1,929,613	10.2	-	1,929,613	6,840,476	12.8	-	6,840,476
Over 3 years	1,030,892	5.5	-	1,030,892	7,508,219	14.1	(7,199,521)	308,698
Total	18,880,800	100.0	-	18,880,800	53,346,008	100.0	(7,199,521)	46,146,487

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

No bad debt accrued or reversed in 2016 (2015: bad debt was reversed RMB: Nil).

(3) Other receivables written off in the reporting period

Other receivables were written off RMB 7,199,521 in 2016. (2015: Nil).

(4) Disclosure of other receivables by categories

	Closing balance RMB	Opening balance RMB
Deposit	13,191,851	27,424,926
Investment fund	-	7,199,521
Petty cash receivable	2,934,424	6,679,122
Refund of consumption tax, real estate tax	573,586	635,482
Others	2,180,939	11,406,957
	18,880,800	53,346,008

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

6. Other receivables - continued

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

As at 31 December 2016, the top 5 of other receivables are as follows:

	<u>Nature</u>	<u>Amount</u> RMB	<u>Aging</u>	<u>Percentage of total</u> <u>other receivables</u> %	<u>Bad debt</u> <u>Amount</u> RMB
Yantai Development Zone Finance Bureau	Construction deposit	7,417,220	Within 2 years	39.3	-
Yantai Development Zone Construction Industry Association	Construction deposit	2,151,300	Within 3 years	11.4	-
Canada Oros Ice-wine Co., Ltd	Foreign investment fund	2,050,000	1-2 years	10.9	-
Shandong Electricity Company					
Yantai branch	Electricity deposit	1,385,200	2-3years	7.3	-
Yantai Economic and Technological Development Zone Thermal Co., Ltd	Deposit	500,000	Over 1 years	2.6	-
		<u>13,503,720</u>		<u>71.5</u>	<u>-</u>

7. Inventories

(1) Disclosure of inventories by categories

	<u>Closing balance</u>			<u>Opening balance</u>		
	<u>Balance</u> RMB	<u>Provision</u> RMB	<u>Net carrying</u> <u>amount</u> RMB	<u>Balance</u> RMB	<u>Provision</u> RMB	<u>Net carrying</u> <u>amount</u> RMB
Raw material	72,011,633	-	72,011,633	89,256,433	-	89,256,433
Work in progress	1,253,218,347	-	1,253,218,347	1,247,023,301	-	1,247,023,301
Finished goods	944,806,516	(21,426,756)	923,379,760	942,720,720	(18,147,490)	924,573,230
	<u>2,270,036,496</u>	<u>(21,426,756)</u>	<u>2,248,609,740</u>	<u>2,279,000,454</u>	<u>(18,147,490)</u>	<u>2,260,852,964</u>

(2) Inventory provision

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Finished goods	<u>18,147,490</u>	<u>3,279,266</u>	<u>-</u>	<u>21,426,756</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

8. Non-current assets held for sale

	<u>Closing balance</u> RMB	<u>Fair value</u> RMB	<u>Expected disposal fees</u> RMB	<u>Expected disposal time</u>
Zhen Shan Tun Department	2,000,197	16,282,224	3,878,560	Within 1 year

Note: The Company has signed an irrevocable agreement for disposal of fixed assets, with the amount of RMB 16,282,224, according to which the disposal is expected to be completed in 2017.

9. Other current assets

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Prepaid taxes	26,238,092	28,201,991
Pending deduct VAT on purchase	135,316,274	3,580,354
Prepaid rent	7,967,876	16,667,206
	<u>169,522,242</u>	<u>48,449,551</u>

10. Available-for-sale financial assets

(1) Available-for-sale financial assets

	<u>Closing balance</u>			<u>Opening balance</u>		
	<u>Amount</u> RMB	<u>Impairment</u> RMB	<u>Carrying amount</u> RMB	<u>Amount</u> RMB	<u>Impairment</u> RMB	<u>Carrying amount</u> RMB
Available-for-sale equity instruments measured at cost	10,340,263	(10,000,000)	340,263	10,402,814	(10,000,000)	402,814

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

<u>Investee</u>	<u>Carrying amount</u>				<u>Provision for impairment losses</u>				<u>Proportion of voting power in the investee (%)</u>	<u>Cash dividend for the period</u> RMB
	<u>Opening</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing</u> RMB	<u>Opening</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing</u> RMB		
Yantai Ding Tao Construction and Development Co., Ltd (Note 1).	10,000,000	-	-	10,000,000	10,000,000	-	-	10,000,000	18.0	-
Other(Note 2)	402,814	-	(62,551)	340,263	-	-	-	-	Less than 1%	-
	<u>10,402,814</u>	<u>-</u>	<u>(62,551)</u>	<u>10,340,263</u>	<u>10,000,000</u>	<u>-</u>	<u>-</u>	<u>10,000,000</u>		

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

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

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**11. Fixed assets****(1) Details of fixed assets**

	<u>Buildings</u> RMB	<u>Machinery</u> RMB	<u>Motor Vehicles</u> RMB	<u>Total</u> RMB
I. Total original carrying amount				
1. Opening balance	2,647,418,685	1,498,619,150	28,457,393	4,174,495,228
2. Increase				
(1)Purchase	6,350,850	33,119,747	4,341,981	43,812,578
(2)Transfer from CIP	1,300,071,628	442,163,898	817,566	1,743,053,092
(3)Acquisition increase	5,935,266	2,114,634	-	8,049,900
3. Decrease				
Disposal	-	(6,881,854)	(4,287,799)	(11,169,653)
Classified as Non-current assets held for sale (VI-8)	(3,599,221)	-	-	(3,599,221)
4. Closing balance	3,956,177,208	1,969,135,575	29,329,141	5,954,641,924
II. Total accumulated depreciation				
1. Opening balance	336,439,433	725,768,456	23,042,154	1,085,250,043
2. Increase				
Additions	75,321,191	120,291,861	2,165,958	197,779,010
3. Decrease				
Disposal	-	(5,902,188)	(4,073,410)	(9,975,598)
Classified as Non-current assets held for sale (VI-8)	(1,599,024)	-	-	(1,599,024)
4. Closing balance	410,161,600	840,158,129	21,134,702	1,271,454,431
III. Total carrying amount				
1. Closing carrying amount	3,546,015,608	1,128,977,446	8,194,439	4,683,187,493
2. Opening carrying amount	2,310,979,252	772,850,694	5,415,239	3,089,245,185

As at 31 December 2016, fixed assets with ownership restricted are RMB 68,658,094 (31 December 2015: 18,405,000). Please refer to Notes VI-48 in detail.

As at 31 December 2016, Classified as available for sale assets are RMB 2,000,197 (31 December 2015:Nil), there was no temporary idle fixed assets, no fixed assets leased under finance leases , no leased out under operating leases and no held for sale at the end of the period.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

11. Fixed assets - continued

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

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

	<u>Amount</u> RMB	<u>Reasons why certificates of title have not been obtained</u>
Research and Development Co, Ltd Industry Production Centre	1,210,828,009	Processing
Changan Chateau Dormitory building, main building	265,374,545	Processing
Xinjiang Shihezi Chateau factory building	256,782,251	Processing
Beijing Chateau European town, main, service building	220,650,663	Processing
Ding Luo Te Chateau main building	90,847,654	Processing
Sales Company office buildings	21,896,020	Processing
Xinjiang Tianzhu fermentations and storage warehouse	19,057,557	Processing
Ice Wine Chateau office building and packing workshop	9,814,003	Processing
Jingyang factory fermentation building	4,389,119	Processing
Fermentation centre office, experiment building and workshop	3,994,837	Processing
Kylin Packaging finished goods warehouse and workshop	2,578,206	Processing
	<u>2,106,212,864</u>	

12. Construction in progress

(1) Construction in progress

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
R&D Centre (“Changyu Wine integrational Construction”) Project	1,227,968,480	1,799,097,086
Ningxia Chateau Construction Project	36,717,169	13,709,767
Shihezi Chateau Construction Project	30,600,684	28,105,618
Sales Company construction project	26,011,600	55,645,386
Xianyang Chateau Construction Project	10,346,598	61,308,522
Ding Luo Te Chateau Project	4,871,422	5,000,221
AFIP plaza reconstruction project	3,713,945	3,659,245
Jingyang Wine fermentation workshop reconstruction project	2,331,559	997,645
Other companies construction project	2,299,684	973,216
Huanren factory construction project	920,596	29,502,825
The Company's reconstruction project	500,000	7,990,777
	<u>1,346,281,737</u>	<u>2,005,990,308</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

12. Construction in progress - continued

(2) Changes in significant construction in progress:

	Budget RMB	Opening balance RMB	Addition RMB	Transfer to PPE RMB	Transfer to intangible assets RMB	Closing balance RMB	Status %	Total accumulated Capitalizing interest RMB	Capitalizing interest for this period RMB	Interest capitalization rate %	Financed by
R&D Centre ("Changyu Wine integrational Construction") Project	4,505,780,000	1,799,097,086	1,003,719,738	(1,574,848,344)	-	1,227,968,480	62.2	2,289,723	2,289,723	1.2	Loans from financial institutions and Self-raised
Changan Chateau Construction Project	620,740,000	61,308,522	17,783,086	(68,745,010)	-	10,346,598	95.0	-	-	-	Self-raised
Sales Company construction project	161,350,000	55,645,386	11,407,602	(27,335,730)	(13,705,658)	26,011,600	90.0	-	-	-	Self-raised
Shihezi Chateau Construction Project	780,000,000	28,105,618	14,565,801	(12,070,735)	-	30,600,684	87.9	-	-	-	Self-raised
Ningxia Chateau Construction Project	414,150,000	13,709,767	31,819,787	(8,812,385)	-	36,717,169	95.0	-	-	-	Self-raised
Ding Luo Te Chateau project	192,400,000	5,000,221	4,468,303	(4,597,102)	-	4,871,422	95.7	-	-	-	Self-raised
Huanren factory construction project	31,000,000	29,502,825	4,319,991	(32,902,220)	-	920,596	95.0	-	-	-	Self-raised
		<u>1,992,369,425</u>	<u>1,088,084,308</u>	<u>(1,729,311,526)</u>	<u>(13,705,658)</u>	<u>1,337,436,549</u>		<u>2,289,723</u>	<u>2,289,723</u>		

The interest capitalized in construction in progress is 2,289,723 in 2016(2015: Nil).

(3) As at 31 December 2016, there was no indication of impairment, therefore no provision was made.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**13. Bearer biological assets**

Bearer biological assets are Vines, which measured in cost method.

	<u>Immature biological assets</u> RMB	<u>Mature biological assets</u> RMB	<u>Total</u> RMB
I. Total original carrying amount			
1. Opening balance	132,806,510	70,761,347	203,567,857
2. Increase			
(1) Purchase	751,300	-	751,300
(2) Cultivated increase	18,737,361	-	18,737,361
(3) Acquisition increase	1,519,808	250,080	1,769,888
(4) Transfer to mature assets from immature assets	<u>(70,197,077)</u>	<u>70,197,077</u>	<u>-</u>
3. Decrease			
(1) Disposal	<u>(5,775,942)</u>	<u>-</u>	<u>(5,775,942)</u>
4. Closing balance	<u>77,841,960</u>	<u>141,208,504</u>	<u>219,050,464</u>
II. Total accumulated depreciation			
1. Opening balance	-	11,369,574	11,369,574
2. Increase Additions	<u>-</u>	<u>6,251,910</u>	<u>6,251,910</u>
3. Closing balance	<u>-</u>	<u>17,621,484</u>	<u>17,621,484</u>
III. Total net carrying amount			
1. Closing net carrying amount	<u>77,841,960</u>	<u>123,587,020</u>	<u>201,428,980</u>
2. Opening net carrying amount	<u>132,806,510</u>	<u>59,391,773</u>	<u>192,198,283</u>

As at 31 December 2016, there was no biological asset with ownership restricted.

As at 31 December 2016, there was no indication that biological assets may be impaired, and no provision was made.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**14. Intangible assets****(1) Intangible asset**

	<u>Land use rights</u> RMB	<u>Software use rights</u> RMB	<u>Trademark</u> RMB	<u>Total</u> RMB
I. Total original carrying amount				
1. Opening balance	467,605,436	37,653,788	15,237,653	520,496,877
2. Increase				
(1)Purchase	23,884,633	1,076,223	201,924	25,162,780
(2)Transfer from CIP	-	13,705,658	-	13,705,658
(3)Acquisition increase	-	-	2,488	2,488
3. Closing balance	491,490,069	52,435,669	15,442,065	559,367,803
II. Total accumulated depreciation				
1. Opening balance	46,649,712	9,826,191	121,058	56,596,961
2. Increase				
Additions	10,153,718	2,722,092	6,079,952	18,955,762
3. Closing balance	56,803,430	12,548,283	6,201,010	75,552,723
III. Total carrying amount				
1. Closing carrying amount	434,686,639	39,887,386	9,241,055	483,815,080
2. Opening carrying amount	420,955,724	27,827,597	15,116,595	463,899,916

As at 31 December 2016, the intangible asset with restricted ownership was RMB 145,937,719, Please refer to Note VI-48 in detail.

(2) Land use right without ownership certificate

As at 31 December 2016, details of land use right without ownership certificates are listed as below:

	<u>Carrying amount</u> RMB	<u>Reasons</u>
A-49 Residential Community of Yantai Development Zone	23,690,000	In progress

15. Goodwill

<u>Investee</u>	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Etablissements Roullet				
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
Total	105,504,426	15,761,440	-	121,265,866

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued**15. Goodwill - continued**

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

The recoverable amount of an asset group is determined based on the present value of expected future cash flows. Future cash flow projections are made based on financial budgets approved by management covering a 5-year period (projecting period) and presume that cash flows after the projecting period (subsequent period) remain unchanged. According to the corporate financial structure and local corporate income tax rate, discount rate used in calculating the recoverable amounts of Fransac Sales, Dicot and Mirefleurs are 10.3%, 8.5% and 10.3% (2015: 8.8%, 7.5%, N/A). respectively. One key assumption in projecting future cash flows is the growth rate in projecting period, which is computed based on the expected growth rate of the industry. Growth rate of sales in subsequent period is 2%. Management of the Group believes that any reasonable changes in the above assumptions will not cause book values of these subsidiaries exceeds their recoverable amounts.

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

16. Long-term prepaid expenses

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Amortization</u> RMB	<u>Closing balance</u> RMB
Land lease prepayments	59,328,587	-	(1,481,601)	57,846,986
Land requisition fee	46,409,764	-	(1,216,864)	45,192,900
Greening fee	34,229,777	25,363,472	(5,132,278)	54,460,971
Leasehold improvement	23,957,390	1,871,939	(24,737,750)	1,091,579
Others	11,198,649	1,532,588	(9,117,444)	3,613,793
	<u>175,124,167</u>	<u>28,767,999</u>	<u>(41,685,937)</u>	<u>162,206,229</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued**17. 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) Recognised deferred tax assets not presented at the net amount after offset:

	<u>Closing balance</u>		<u>Opening balance</u>	
	<u>Temporary differences</u>	<u>Deferred tax assets</u>	<u>Temporary differences</u>	<u>Deferred tax assets</u>
	RMB	RMB	RMB	RMB
Unrealized profit from intra - company transactions	676,375,006	169,093,751	691,741,084	172,935,271
Unpaid bonus	154,895,784	38,723,946	133,017,447	33,254,362
Retirement benefit	13,115,948	3,278,987	16,147,369	4,036,842
Asset impairment provision	31,426,756	7,856,689	35,347,011	8,836,753
Deductable losses	176,273,380	44,068,345	265,793,269	66,448,318
Deferred income	112,939,126	25,230,521	81,078,284	16,895,110
Accrued Rebate	30,739,192	7,684,798	--	---
	<u>1,195,765,192</u>	<u>295,937,037</u>	<u>1,223,124,464</u>	<u>302,406,656</u>

(2) Recognised deferred tax liabilities not presented at the net amount after offset:

<u>Item</u>	<u>Closing balance</u>		<u>Opening balance</u>	
	<u>Taxable temporary difference</u>	<u>Deferred tax liability</u>	<u>Taxable temporary difference</u>	<u>Deferred tax liability</u>
	RMB	RMB	RMB	RMB
Revaluation surplus in business combination				
Not under common control	<u>90,877,162</u>	<u>24,908,410</u>	<u>117,475,753</u>	<u>34,350,349</u>

(3) Deferred tax assets and liabilities not recognized:

	<u>Closing balance</u>	<u>Opening balance</u>
	RMB	RMB
Deductable losses	<u>135,957,252</u>	<u>41,690,051</u>

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

	<u>Closing balance</u>	<u>Opening balance</u>
	RMB	RMB
2019	7,311,273	-
2020	45,960,766	41,690,051
2021	82,685,213	-
	<u>135,957,252</u>	<u>41,690,051</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued**18. Other non-current assets**

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Receivable from transfer of biological assets	17,352,239	17,137,746
Prepaid investment fund for Mirefleurs	-	22,622,355
Others	-	5,474,540
	<u>17,352,239</u>	<u>45,234,641</u>

19. Short-term borrowings

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Credit loans	631,655,938	640,290,788
Mortgaged loans	30,732,944	25,291,133
	<u>662,388,882</u>	<u>665,581,921</u>

As at 31 December 2016, 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</u> %
Credit loans (RMB)	600,000,000	1.0000	600,000,000	Floating	3.48%~3.92%
Credit loans (EUR)	4,332,394	7.3068	31,655,938	Fixed	0.89%~1.65%
mortgaged loans (EUR)	4,206,074	7.3068	30,732,944	Fixed	0.90%~1.80%
			<u>662,388,882</u>		

As at 31 December 2016, mortgaged loans were Dicot Partners, S.L (“Dicot”) factoring of accounts receivable from Banco de Sabadell, S.A. etc. EUR 4,206,074 (translated as RMB 30,732,944)(31 December 2015:RMB 23,880,775). There was no mortgage loans with fixed assets in 31 December 2016 (31 December 2015:RMB 1,410,358).

20. Notes payable

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Bank acceptances	<u>38,900,000</u>	<u>29,000,000</u>

As at 31 December 2016, there was no due notes payable unpaid (31 December 2015: Nil). Notes payable are all due within one year.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**21. Accounts payable**

The aging analysis of accounts payable are as follows

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Within 1 year	544,128,280	567,791,049
1 to 2 years	1,103,039	1,487,319
	<u>545,231,319</u>	<u>569,278,368</u>

22. Advances from customers

The aging analysis of advances from customers are as follows

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Within 1 year	419,382,071	229,993,684
1 to 2 years	2,046,166	286,001
2 to 3 years	108,748	530,799
Over 3 years	3,709,436	3,756,020
	<u>425,246,421</u>	<u>234,566,504</u>

23. Employee benefit payable

(1) Employee benefit payable as follows:

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Short-term payroll	174,061,906	410,151,564	(390,912,851)	193,300,619
Post-demotion benefits				
- predetermined provision plan	30,176	40,067,340	(40,082,349)	15,167
Termination benefits	16,147,369	1,594,599	(4,626,020)	13,115,948
	<u>190,239,451</u>	<u>451,813,503</u>	<u>(435,621,220)</u>	<u>206,431,734</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**23. Employee benefit payable - continued****(2) Employee benefit payable:**

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Salaries and bonus	174,767,931	375,367,681	(352,486,022)	197,649,590
Staff benefit	179,078	11,865,885	(11,422,228)	622,735
Staff welfare	268,019	15,065,068	(15,075,838)	257,249
Includes:				
Medical insurance	268,019	12,691,920	(12,702,690)	257,249
Injury insurance	-	1,342,010	(1,342,010)	-
Maternity insurance	-	1,031,138	(1,031,138)	-
Housing fund	47,318	10,313,104	(10,322,750)	37,672
Union fee and education fee	2,847,036	3,263,856	(3,517,883)	2,593,009
Total	178,109,382	415,875,594	(392,824,721)	201,160,255
Less: Non-current liabilities	4,047,476			7,696,222
Short-term payroll	174,061,906			193,300,619

(3) Predetermined provision plan

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Pension	29,995	38,404,278	(38,419,295)	14,978
Unemployment insurance	181	1,663,062	(1,663,054)	189
	30,176	40,067,340	(40,082,349)	15,167

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 14%-21% and 1%-2% 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 38,404,278 and RMB 1,663,062 (2015: RMB 29,499,285 and RMB 1,648,525) respectively into pension insurance and unemployment insurance. As at 31 December 2016, the Group has unpaid pension and unemployment insurance of RMB 14,978 and RMB 189 respectively (31 December 2015: RMB 29,995 and RMB 181), 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.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

24. Taxes payable

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Value added tax	23,496,328	(45,821,559)
Consumption tax	30,361,471	18,638,837
Business tax	-	509,491
Corporation income tax	69,388,730	49,020,665
Urban land use tax	2,651,262	2,812,536
Individual income tax	7,811,301	6,587,254
City construction tax	4,248,115	4,197,401
Property tax	1,071,223	855,668
Others	5,014,170	4,484,814
	<u>144,042,600</u>	<u>41,285,107</u>

25. Deferred income

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Government grants		
Current liabilities	11,163,883	11,241,873
Non-current liabilities	101,775,243	69,836,411
	<u>112,939,126</u>	<u>81,078,284</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**25. Deferred income - continued****Government grants**

	Opening RMB	Addition RMB	Recognized in non-operating income RMB	Closing RMB	Related to Assets/Income
Wine base liquor brewage project	7,609,243	-	(1,434,943)	6,174,300	Assets
Shihezi chateau project funds	13,836,600	-	(2,280,000)	11,556,600	Assets
reconstruction specific funds	19,908,000	-	(1,422,000)	18,486,000	Assets
Ningxia industry revitalization and technology reconstruction funds	7,676,000	-	(3,295,000)	4,381,000	Assets
Wine grape subsidies	470,000	-	(94,000)	376,000	Income
Modern agriculture grape production development subsidies	324,000	-	(64,800)	259,200	Income
WuYouYiXin industrial cluster specific funds	60,000	-	(60,000)	- 000	Assets
Agricultural technology subsidies	822,000	-	(822,000)	-	Income
Industry revitalization and technology (Huanren) wine production construction funds	4,000,000	-	-	4,000,000	Assets
Wine electronic tracking system specific funds	4,526,419	-	(667,054)	3,859,365	Assets
Miyun Propaganda Department transfer	2,666,835	-	(888,945)	1,777,890	Assets
Wine industry specific funds	930,000	-	-	930,000	Assets
Shandong Peninsula Blue Economic Area construction funds	10,000,000	-	-	10,000,000	Assets
863 Program subsidy funds for scientific research	59,890	283,200	-	343,090	Income
Information system construction project technology funds	4,640,000	-	(580,000)	4,060,000	Assets
Integration projects subsidies	28,800	-	-	28,800	Income
Cross-border e-Business projects subsidies	1,660,497	125,100	(299,800)	1,485,797	Income
Red wine phenolics research projects funds	300,000	-	(4,399)	295,601	Income
Grape base construction project	1,560,000	-	(520,000)	1,040,000	Assets
Water pollution abatement project	-	200,000	(66,267)	133,733	Income
Infrastructure construction project	-	1,500,000	(31,250)	1,468,750	Assets
Industrial development support project	-	41,000,000	-	41,000,000	Assets
Subsidy for updating of economic and energy-saving technology	-	1,283,000	-	1,283,000	Assets
Total	81,078,284	44,391,300	(12,530,458)	112,939,126	
Less: Non-current liabilities due within one year	11,241,873			11,163,883	
Other non-current liabilities	69,836,411			101,775,243	

As at 31 December 2016, 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**26. Other payables****(1) Natures of other payables are as follows**

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Deposit from distributors	128,539,352	114,475,163
Payables for equipment and construction	77,261,072	92,580,929
Payables for transportation	36,690,764	29,713,956
Royalty fee	78,572,540	86,001,287
Advertising costs	79,414,075	76,818,144
Accrued rebate	30,739,192	-
Capital increment from minority interest (Note)	29,847,320	22,522,636
Employee deposit	16,296,186	16,078,904
Deposits from suppliers	2,206,379	5,644,909
Payables for contracting fee	31,011,929	32,936,900
Others	35,726,501	32,453,567
	<u>546,305,310</u>	<u>509,226,395</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	23,983,072	unfinished capital increment(Note)
Beijing Qinglang agriculture science and technology development limited company	11,074,240	Payables for contracting fee
Yantai De'an Investment Company Limited	5,864,248	unfinished capital increment (Note)
Yantai De'an Investment Company Limited	4,729,122	Payables for contracting fee
	<u>45,650,682</u>	

Note: Unfinished capital increment is the investment fund from minority shareholders for the subsidiary of the Company. As at 31 December 2016, capital increment procedures have not finished.

27. Non-current liabilities due within one year

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Long-term borrowings due within one year	59,799,093	156,335,647
Long-term payables due within one year	12,000,000	-
	<u>71,799,093</u>	<u>156,335,647</u>

As at 31 December 2016, Long-term borrowings due within one year refers to Note VI-28, Long-term payables due within one year refers to Note VI-29.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

28. Long-term borrowings

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Credit loan	40,304,811	66,868,836
Mortgaged loan	8,835,744	4,817,793
	<u>49,140,555</u>	<u>71,686,629</u>

As at 31 December 2016, loans detail is as follows:

	<u>Loans amount</u>	<u>Exchange rate</u>	<u>RMB</u>	<u>Nature of interest</u>	<u>Interest rate %</u>	<u>Due within one year</u>	<u>Due over one year</u>
Credit loans (EUR)	4,000,000	7.3068	29,227,200	Floating	3.70%	29,227,200	-
Credit loans (EUR)	1,200,724	7.3068	8,773,451	Floating	1.75%-2.10%	7,261,465	1,511,987
Credit loans (EUR)	8,139,378	7.3068	59,472,805	Fixed	1.00%-4.42%	20,679,980	38,792,824
Mortgaged loans (EUR)	1,569,249	7.3068	11,466,192	Fixed	2.10%	2,630,448	8,835,744
			<u>108,939,648</u>			<u>59,799,093</u>	<u>49,140,555</u>

Note: As at 31 December 2016, mortgaged loans were Atrio using fixed assets EUR 3,765,967 (translated as RMB 27,517,168) as collateral for loans from Popular Español, EUR 1,569,249 (translated as RMB 11,466,192), (31 December 2015: RMB 6,068,519).

29. Long-term payables

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Agricultural Development Fund of China("CADF")	<u>293,000,000</u>	<u>-</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. The group take this investment as long-term payables, which measured in amortized cost. Refer to Note VI-48 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> RMB	<u>Due after 1 year</u> RMB	<u>Mortgaged and pledged assets</u>
87,000,000	1.2%	12 January 2016	24 December 2025	10,000,000	77,000,000	Cash and bank and intangible assets
198,000,000	1.2%	29 February 2016	28 February 2026	-	198,000,000	Fixed assets and intangible assets
20,000,000	1.2%	16 June 2016	22 May 2026	2,000,000	18,000,000	Cash and bank
<u>305,000,000</u>				<u>12,000,000</u>	<u>293,000,000</u>	

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**30. Other non-current liabilities**

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Employee benefit	<u>7,696,222</u>	<u>4,047,476</u>

As at 31 December 2016, employee benefit represents deposit from bonus accrued for managers and above. According to the bonus payment schedule of 2016, the bonus is expected to be paid during 2018 to 2020.

31. Share capital

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

32. Capital reserve

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

33. Other comprehensive income

<u>2016</u>	<u>2016</u>						<u>Closing balance</u>
	<u>Opening balance</u>	<u>Before-tax amount</u>	<u>Less: last year other comprehensive income in P/L current year</u>	<u>Less: tax expense</u>	<u>Post-tax attributable to parent</u>	<u>Post-tax attributable to NCI</u>	
Other comprehensive income to be reclassified to profit and loss	(10,442,512)	5,615,689	-	-	5,183,498	432,191	(5,259,014)
Foreign currency statement translation difference	<u>(10,442,512)</u>	<u>5,615,689</u>	<u>-</u>	<u>-</u>	<u>5,183,498</u>	<u>432,191</u>	<u>(5,259,014)</u>

34. Surplus reserve

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

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued**34. Surplus reserve - continued**

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 2016.

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.

35. Retained earnings

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Retained earnings brought forward	5,980,390,074	5,251,920,374
Profit attributable to shareholders of the Company	982,460,488	1,030,073,860
Less: Dividends paid in respect prior year's profit	<u>(342,732,000)</u>	<u>(301,604,160)</u>
Retained earnings carried forward	<u>6,620,118,562</u>	<u>5,980,390,074</u>

(1) Appropriation to surplus reserve by subsidiaries

As at 31 December 2016, the balance of the Group's unappropriated profits include appropriation to surplus reserve by subsidiaries amounting to RMB 71,360,640 (31 December 2015: RMB 54,946,701).

(2) Cash dividends approved by general meeting

According to the annual general meeting on 26 May 2016, 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 20 April 2017, on the basis of 685,464,000 issued shares in 2016, cash dividends of RMB 5.0 (including taxes) for every 10 share will be distributed to all the shareholders. The aggregate amount of cash dividend is RMB 342,732,000. The above proposal regarding dividends distribution is yet to be approved in a shareholders' meeting.

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**36. Operating income and costs**

Operating income is analysed as follows:

	<u>2016</u> RMB	<u>2015</u> RMB
Principal operating income	4,646,909,704	4,589,025,348
Other operating income	70,686,768	60,697,020
	<u>4,717,596,472</u>	<u>4,649,722,368</u>

Operating cost is analysed as follows:

	<u>2016</u> RMB	<u>2015</u> RMB
Principal operating cost	1,552,022,043	1,484,994,084
Other operating cost	23,748,936	27,508,951
	<u>1,575,770,979</u>	<u>1,512,503,035</u>

The operating income for the Group is mainly from the sales of wine, brandy and sparkling wine. In 2016, Over 94% (2015: over 98%) of the sales generated in PRC.

37. Taxes and surcharges

	<u>2016</u> RMB	<u>2015</u> RMB
Consumption tax	161,411,393	160,472,712
Business Tax	1,358,414	3,613,680
City construction tax	46,375,109	50,491,173
Education fee and surcharges	33,975,886	36,625,254
Property tax	8,221,152	-
Land use tax	9,146,595	-
stamp tax	2,659,421	-
Others	6,568,676	6,810,705
	<u>269,716,646</u>	<u>258,013,524</u>

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

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**38. Selling expenses**

	<u>2016</u> RMB	<u>2015</u> RMB
Advertising costs	536,552,061	547,276,390
Salary and employee benefit	258,845,366	237,132,890
Freight	135,375,515	124,662,391
Trademark fee	74,125,038	83,734,976
Warehouse leasing expenses	73,141,275	70,352,917
Depreciation cost	29,477,270	18,866,370
Labor fee	29,411,296	25,367,133
Travelling expenses	27,589,397	25,946,093
Renovation costs	25,292,999	19,140,522
Water and electricity fee	8,160,610	5,344,561
Office allowance	6,166,163	6,794,673
Packing cost	5,651,814	5,090,563
Security and sanitation fee	4,244,698	3,617,320
Business entertainment	3,871,778	2,227,544
Greening fee	3,651,567	2,993,204
Property management fee	3,320,577	4,487,152
Others	28,383,244	28,092,464
	<u>1,253,260,668</u>	<u>1,211,127,163</u>

39. General and administrative expense

	<u>2016</u> RMB	<u>2014</u> RMB
Salary and employee benefit	98,464,931	90,478,250
Depreciation	45,605,723	38,123,017
Contracting fee	20,635,049	19,144,698
Maintenance fee	18,625,443	15,686,214
Administrative expenses	15,829,574	16,772,528
Amortization	14,795,181	12,129,490
Greening fee	11,509,618	15,154,393
Fire charge	10,923,600	-
Leasing expenses	10,702,734	9,190,948
Property tax, stamp duty and other taxes	10,169,607	28,441,366
Entertainment fee	7,253,858	5,660,174
Security and sanitation fee	5,889,095	6,573,075
Service fee	5,194,426	14,878,018
Travelling expenses	4,961,661	5,018,296
Others	29,223,048	36,717,942
	<u>309,783,548</u>	<u>313,968,409</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

40. Loss on impairment of assets

	<u>2016</u> RMB	<u>2015</u> RMB
Inventory impairment	<u>3,279,266</u>	<u>2,823,115</u>

41. Financial income

	<u>2016</u> RMB	<u>2015</u> RMB
Interest income	(15,397,901)	(16,778,280)
Exchange loss	7,632,532	4,349,534
Less: Interest expenses	27,831,179	21,957,762
Bank charges	<u>1,903,049</u>	<u>1,758,669</u>
	<u>21,968,859</u>	<u>11,287,685</u>

42. Non-operation income

	<u>2016</u> RMB	<u>2015</u> RMB	Recognized in extraordinary profit and loss RMB
Gains on disposal of non-current assets	157,846	192,945	157,846
Including: gain on disposal of plant property and equipment	157,846	192,945	157,846
Government grants	49,130,643	38,952,919	49,130,643
Penalty income	2,617,684	7,246,157	2,617,684
Others	<u>3,265,987</u>	<u>3,673,296</u>	<u>3,265,987</u>
	<u>55,172,160</u>	<u>50,065,317</u>	<u>55,172,160</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**42. Non-operation income - continued**

Government grants recognized in the income statement is as follows:

	<u>2016</u> RMB	<u>2015</u> RMB	Assets/income related
Major projects support fund	7,040,888	7,134,819	Assets related
Small and medium enterprises support fund	4,138,304	4,107,054	Assets related
Tax refund	17,860,500	17,833,465	Income related
Others	20,090,951	9,877,581	Income related
	<u>49,130,643</u>	<u>38,952,919</u>	

43. Non-operation expenses

	<u>2016</u> RMB	<u>2015</u> RMB	Recognized in extraordinary profit and loss RMB
Loss on disposal of non-current assets	143,127	56,884	143,127
Including: losses from disposal of fixed assets	143,127	56,884	143,127
Compensation and penalty loss	618,190	1,102,893	618,190
Donation	305,080	288,009	305,080
Others	303,429	457,103	303,429
	<u>1,369,826</u>	<u>1,904,889</u>	<u>1,369,826</u>

44. Income tax

	<u>2016</u> RMB	<u>2015</u> RMB
Current income tax	360,001,766	407,380,757
Deferred income tax	(2,972,320)	(49,496,522)
	<u>357,029,446</u>	<u>357,884,235</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued**44. Income tax - continued**

Reconciliation between income tax expenses and profits is as follows:

	<u>2016</u> RMB	<u>2015</u> RMB
Profit before tax	1,337,618,840	1,388,159,865
Income tax expense at statutory tax rate 25% (2015:25%)	334,404,710	347,039,966
Effect of different tax rates applied by certain subsidiaries	(4,829,468)	(3,509,042)
Special tax incentives for oversea subsidiaries	(2,520,771)	-
Changes in opening balances of deferred tax liabilities due to tax rate adjustment	(1,992,564)	-
Unrecognised deductible loss	20,671,303	10,422,513
Reversal of recognized deductible losses	2,895,497	-
Non-deductible expenses	6,892,488	3,930,798
Others	1,508,251	-
Income tax expenses at the Group's effective tax rate	<u>357,029,446</u>	<u>357,884,235</u>

45. 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>2016</u> RMB	<u>2015</u> RMB
Earnings		
Consolidated profit attributable to ordinary shareholders of the Company	<u>982,460,488</u>	<u>1,030,073,860</u>
Shares		
Weighted average number of outstanding ordinary shares	<u>685,464,000</u>	<u>685,464,000</u>
Basic earnings per share	<u>1.43</u>	<u>1.50</u>

The Company does not have potential dilutive ordinary shares.

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

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

46. Notes to consolidated cash flow statement

(1) Cash received relating to other operating activities:

	<u>2016</u> RMB	<u>2015</u> RMB
Government grants	19,347,985	9,774,028
Interest income	2,808,735	1,679,535
Penalty income	2,617,684	7,246,157
Refundable deposits of notes payable	38,130,000	-
Others	3,803,461	3,673,296
	<u>66,707,865</u>	<u>22,373,016</u>

(2) Cash paid relating to other operating activities:

	<u>2016</u> RMB	<u>2015</u> RMB
Selling expenses	942,936,949	949,202,920
General and administrative expenses	113,297,901	110,003,182
Refundable deposits of notes payable	47,030,000	20,000,000
Others	2,449,673	4,181,035
	<u>1,105,714,523</u>	<u>1,083,387,137</u>

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

	<u>2016</u> RMB	<u>2015</u> RMB
Cash paid for acquisition of Dicot	-	190,148,125
Less: cash and cash equivalents for Dicot at acquisition date	-	4,902,074
Prepaid investment fund for Mirefleurs	3,540,923	22,622,355
Less: cash and cash equivalents for Mirefleurs at acquisition date	1,779	-
	<u>3,539,144</u>	<u>207,868,406</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

46. Notes to consolidated cash flow statement – continued

(4) Cash received relating to other financing activities:

	<u>2016</u> RMB	<u>2015</u> RMB
Pledged borrowing deposits and interest	135,584,347	-
Received government grants related to assets	43,783,000	4,000,000
Interest income from restricted deposits of R&D Centre	1,110,240	-
	<u>180,477,587</u>	<u>4,000,000</u>

(5) Cash paid relating to other financing activities:

	<u>2016</u> RMB	<u>2015</u> RMB
Time deposits pledged of long-term borrowings of R&D Centre	20,000,000	26,100,000
Canada Oros investment fund return	-	2,050,000
	<u>20,000,000</u>	<u>28,150,000</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

47. Supplementary information to consolidated cash flow statement

(1) Supplementary information to consolidated cash flow statement

	<u>2016</u> RMB	<u>2015</u> RMB
Cash flows from operating activities calculated by adjusting the net profit:		
Net profit	980,589,394	1,030,275,630
Add: Loss for impairment of assets	3,279,266	2,823,115
Depreciation of fixed assets	197,779,010	163,322,504
Amortization of intangible assets	18,955,762	13,163,757
Amortization of Biological assets	6,251,910	1,708,554
Amortization of long-term prepaid expenses	41,685,937	32,050,283
Gains on disposal of property plant and equipment	(14,719)	(136,061)
Finance expense	25,919,561	6,516,142
Decrease/ (increase) in deferred tax assets	6,469,619	(48,219,833)
Decrease in deferred tax liabilities	(9,441,939)	(1,276,689)
Decrease in inventories	18,897,985	3,921,192
Increase in operating receivables	(737,321,198)	(175,316,875)
Increase in operating payables	336,861,382	114,214,648
Net cash flows from operating activities	<u>889,911,970</u>	<u>1,143,046,367</u>

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

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Payment of intangible assets and other long-term assets by bank acceptances	<u>503,817,808</u>	<u>158,702,666</u>

(3) Cash and cash equivalent

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Closing balance of cash and bank	1,391,517,607	1,285,362,414
Less:		
Restricted bank deposits	2,711,926	2,643,181
Restricted other monetary funds	128,863,377	181,477,572
Deposit with a period of over three months	3,000,000	9,000,000
Closing balance of cash and cash equivalents	<u>1,256,942,304</u>	<u>1,092,241,661</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

47. Supplementary information to consolidated cash flow statement - continued

(3) Cash and cash equivalent - continued

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Cash	1,256,942,304	1,092,241,661
Including: Cash on hand	117,507	179,488
Bank deposits on demand	<u>1,256,824,797</u>	<u>1,092,062,173</u>
Closing balance of cash and cash equivalents	<u>1,256,942,304</u>	<u>1,092,241,661</u>

48. Assets with restriction of ownership

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Cash and bank	131,575,303	184,120,753
Account receivable	30,732,944	23,880,775
Fixed assets	68,658,094	18,405,000
Intangible assets	<u>145,937,719</u>	<u>-</u>

As at 31 December 2016, cash and bank balances with restriction of ownership as follows:

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Pledged time deposits for R&D Centre	46,100,000	151,100,000
Refundable deposits of notes payable	38,900,000	30,000,000
Refundable deposits of letter of credit	25,694,735	370,000
Balance in Alipay account	18,118,441	-
The Company's housing fund	2,711,926	2,643,181
Margin for entity card	<u>50,201</u>	<u>7,572</u>
Total	<u>131,575,303</u>	<u>184,120,753</u>

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued**48. Assets with restriction of ownership - continued**

Among the aforementioned items, the amount of RMB 18,118,441 which is the blocked balances of goods payment in Alipay account can be unlocked after 15 days.

As at 31 December 2016, the amount of accounts receivable with restricted ownership is EUR 4,206,074 (translated as RMB 30,732,944), which refers to accounts receivable Atrio conducted for factoring from Banco de Sabadell, S.A. etc.

As at 31 December 2016, the net carrying amount of fixed assets that the Company has pledged for long-term borrowings and long-term accounts payables is RMB 68,658,094.

As at 31 December 2016, the net carrying amount of intangible assets with restricted ownership is RMB 145,937,719, which mainly refers to the land use rights that Company has pledged for long-term borrowings.

45. Foreign monetary items**(1) Foreign monetary items**

The foreign monetary items located within China are as follows:

	<u>Closing foreign currency balance</u>	<u>Exchange rate</u>	<u>Closing translated RMB balance</u>
Cash and bank			
EUR	77,487	7.3068	566,182
HKD	215	0.8945	192
	<hr/>	<hr/>	<hr/>
Long-term borrowings due within one year			
EUR	4,000,000	7.3068	29,227,200
	<hr/>	<hr/>	<hr/>

(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 Atrio and Francs Champs have no foreign monetary items at the year end.

VII. CHANGE IN CONSOLIDATION SCOPE

1. Business combination under different control

(1) Business combination under different control in current period

Name of acquisition company	Equity acquisition date	Equity acquisition cost	Equity acquisition ratio (%)	Equity acquisition method	Acquisition date	Basis of acquisition date	Revenue from acquisition date to year end	Net profit from acquisition date to year end
Mirefleurs	1 Jan 2016	EUR 3,816,000	100	Purchase	1 Jan 2016	Finish payment and acquire equity	RMB 8,016,542	RMB 807,079

Other detail information:

Pursuant to the Equity Transfer Agreement entered into between the Group and Vignobles et Domaines Castel S.L ("VDC S.L.") on 12 May 2015, the Group acquired 100% shares held by VDC S.L in Mirefleurs by cash consideration of EUR 3,816,000 (equivalent to RMB 26,163,278). As at 31 December 2015, the Company satisfied the prerequisite for the entire equity transfer. As at 1 January 2016, the Company obtained the control over the financial and operating policies of Mirefleurs through allocation of directors based on the Articles of Association of the Company. The Company invested EUR 3,330,000 (equivalent to RMB22,622,355) for the advanced payment on 24 November 2015 and EUR 486,000 (equivalent to RMB3,540,923) for the remaining payment in December 2016.

(2) Consideration and Goodwill

Consideration

	<u>Mirefleurs</u> RMB
Cash	26,163,278
Total consideration	26,163,278
Less: acquired provisional value of net assets	10,401,838
Goodwill	<u>15,761,440</u>

VII. CHANGE IN CONSOLIDATION SCOPE - continued

1. Business combination under different control - continued

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

<u>date</u>	Mirefleurs	
	Fair value	Book value
	<u>at acquisition date</u>	<u>at acquisition</u>
	RMB	RMB
Assets		
Cash and bank	1,779	1,779
Accounts receivable	3,555	3,555
Other receivables	62,151	62,151
Inventories	9,934,027	9,934,027
Other current assets	1,191,401	1,191,401
Fixed assets	8,049,900	8,049,900
Biological assets	1,769,888	1,769,888
Intangible assets	2,488	2,488
Total assets	21,015,189	21,015,189
Liabilities		
Accounts payable	911,071	911,071
Other payables	9,378,334	9,378,334
Employee compensation payable	323,946	323,946
Total liabilities	10,613,351	10,613,351
Net assets	10,401,838	10,401,838
Less: Non-controlling interests	-	-
Acquired net assets	10,401,838	10,401,838

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

<u>Name</u>	<u>Place and date of registration</u>	<u>Legal representative</u>	<u>Business nature</u>	<u>Registered capital</u>	<u>Principal activities</u>	<u>Incorporate code</u>
Guangzhou Changyu Pioneer Sales Co. Ltd ("Lanzhou Pioneer") *	22 July 2015 Guangzhou Guangdong, China	Wang, Hongshan	Sales	RMB 10,000,000	Wholesale trade	91440105347476120M

* As at 31 December 2015, these subsidiaries had completed registration but paid share capital in 2016, therefore they are included in the consolidation scope of the Group in 2016.

VIII. INTERESTS IN OTHER ENTITIES

1. Structure of the Group

Name	Address	Place of registration	Nature	Equity interest owned by the company		Acquisition method
				Direct	Indirect	
Xinjiang Tianzhu (a)	Shihezi, Xinjiang, China	Shihezi, Xinjiang, China	Manufacturing	60%	-	Subsidiary acquired in business combination under non-common control
Fransac Sales	Cognac, France	Cognac, France	Trading	-	100%	Subsidiary acquired in business combination under non-common control
Mirefleurs	Bordeaux, France	Bordeaux, France	Trading		100%	Subsidiary acquired in business combination under non-common control
Atrio (b)	Navarra, Spain	Navarra, Spain	Sales	75%		Subsidiary acquired in business combination under non-common control
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") (c)	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") (d)	Langfang, Hebei, China	Langfang, Hebei, China	Manufacturing	39%	10%	Subsidiaries acquired by establishment
Changyu (Jingyang) Wine Sales Co., Ltd. ("Jingyang Sales")	Xianyang, Shanxi, China	Xianyang, Shanxi, China	Sales	10%	90%	Subsidiaries acquired by establishment
Langfang Changyu Pioneer Wine Sales Co., Ltd ("Langfang Sales")	Langfang, Hebei, China	Langfang, Hebei, China	Sales	10%	90%	Subsidiaries acquired by establishment
Shanghai Changyu Sales and distribution Co., Ltd. ("Shanghai Sales")	Shanghai, China	Shanghai, China	Sales	30%	70%	Subsidiaries acquired by establishment
Beijing Changyu AFIP Agriculture development Co., Ltd ("Agriculture Development")	Miyun, Beijing, China	Miyun, Beijing, China	Sales	-	100%	Subsidiaries acquired by establishment
Beijing Chateau (e)	Beijing, China	Beijing, China	Manufacturing	70%	-	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") (f)	Benxi, Liaoning, China	Benxi, Liaoning, China	Manufacturing	51%	-	Subsidiaries acquired by establishment
Yantai Development Zone Changyu Trading Co., Ltd ("Development Zone Trading")	Yantai, Shandong, China	Yantai, Shandong, China	Sales	-	100%	Subsidiaries acquired by establishment
Shenzhen Changyu Wine Marketing Ltd. ("Shenzhen Marketing")	Shenzhen, Guangdong, China	Shenzhen, Guangdong, China	Sales	-	100%	Subsidiaries acquired by establishment
Yantai Changyu Fushan Trading Company ("Fushan Trading")	Yantai, Shandong, China	Yantai, Shandong, China	Sales	-	100%	Subsidiaries acquired by establishment
Beijing AFIP Meeting Center ("Meeting Center")	Miyun, Beijing, China	Miyun, Beijing, China	Service	-	100%	Subsidiaries acquired by establishment
Beijing AFIP Tourism and Culture ("AFIP Tourism")	Miyun, Beijing, China	Miyun, Beijing, China	Tourism	-	100%	Subsidiaries acquired by establishment
Ningxia Wine Co. Ltd. ("Ningxia Wine")	Yinchuan, Ningxia, China	Yinchuan, Ningxia, China	Manufacturing	100%	-	Subsidiaries acquired by establishment
Yantai Changyu DingLuoTe Chateau. ("Ding Luo Te Chateau")	Yantai, Shandong, China	Yantai, Shandong, China	Retail and Sales	65%	35%	Subsidiaries acquired by establishment
Qing Tong Xia Changyu Wine Marketing Ltd ("Qing Tong Xia Sales")	Qing Tong Xia, Ningxia, China	Qing Tong Xia, Ningxia, China	Sales	-	100%	Subsidiaries acquired by establishment
Shihezi Chateau	Shihezi, Xinjiang, China	Shihezi, Xinjiang, China	Manufacturing	100%	-	Subsidiaries acquired by establishment
Ningxia Moser 15th Changyu Wine Chateau Co., Ltd. ("Ningxia Chateau")	Yinchuan, Ningxia, China	Yinchuan, Ningxia, China	Manufacturing	100%	-	Subsidiaries acquired by establishment
Shanxi Changyu Rina Castle Chateau Co., Ltd. ("Chang'an Chateau")	Xianyang, Shanxi, China	Xianyang, Shanxi, China	Manufacturing	100%	-	Subsidiaries acquired by establishment
R&D Centre (g)	Yantai, Shandong, China	Yantai, Shandong, China	Manufacturing	62%	-	Subsidiaries acquired by establishment
Changyu (HuanRen) Wine Co., Ltd ("Huan Ren Wine")	Benxi Liaoning China	Benxi Liaoning China	Wine production	100%	-	Subsidiaries acquired by establishment
Xinjiang Sales	Shihezi Xinjiang China	Shihezi Xinjiang China	Projecting	-	100%	Subsidiaries acquired by establishment
Xinjiang Changyu Winery Co., Ltd ("Xinjiang Winery")	Shihezi Xinjiang China	Shihezi Xinjiang China	Manufacturing	-	100%	Subsidiaries acquired by establishment
Ningxia Changyu Trading Co., Ltd ("Ningxia Trading")	Yinchuan Ningxia China	Yinchuan Ningxia China	Sales	-	100%	Subsidiaries acquired by establishment
Shanxi Changyu Rina Wine Sales Co., Ltd ("Shanxi Sales")	Xianyang Shanxi China	Xianyang Shanxi China	Sales	-	100%	Subsidiaries acquired by establishment
Penglai Changyu Wine Sales Co., Ltd ("Penglai Sales")	Penglai Shandong China	Penglai Shandong China	Sales	-	100%	Subsidiaries acquired by establishment
Laizhou Changyu Wine Sales Co., Ltd ("Laizhou Sales")	Laizhou Shandong China	Laizhou Shandong China	Sales	-	100%	Subsidiaries acquired by establishment
Frances Champs	Cognac, France	Cognac, France	Investment and trading	100%	-	Subsidiaries acquired by establishment
Lanzhou Changyu Wine Sales Co., Ltd ("Lanzhou Sales")	Lanzhou Gansu, China	Lanzhou Gansu, China	Sales	-	100%	Subsidiaries acquired by establishment
Beijing Retailing Co. Ltd ("Beijing Retailing")	Beijing, China	Beijing, China	Sales	-	100%	Subsidiaries acquired by establishment
Tianjin Changyu Pioneer Sales Co., Ltd ("Tianjin Pioneer")	Tianjin, China	Tianjin, China	Sales	-	100%	Subsidiaries acquired by establishment
Fuzhou Changyu Pioneer Sales Co., Ltd ("Fuzhou Pioneer")	Fuzhou Fujian, China	Fuzhou Fujian, China	Sales	-	100%	Subsidiaries acquired by establishment
Nanjing Changyu Pioneer Sales Co., Ltd ("Nanjing Pioneer")	Nanjing, Jiangsu, China	Nanjing, Jiangsu, China	Sales	-	100%	Subsidiaries acquired by establishment
Xianyang Changyu Pioneer Sales Co., Ltd ("Xianyang Pioneer")	Xianyang, Shanxi, China	Xianyang, Shanxi, China	Sales	-	100%	Subsidiaries acquired by establishment
Shenyang Changyu Pioneer Sales Co., Ltd ("Shenyang Pioneer")	Shenyang, Liaoning, China	Shenyang, Liaoning, China	Sales	-	100%	Subsidiaries acquired by establishment
Jinan Changyu Pioneer Sales Co., Ltd ("Jinan Pioneer")	Jinan, Shandong, China	Jinan, Shandong, China	Sales	-	100%	Subsidiaries acquired by establishment
Shanghai Changyu Pioneer Sales Co., Ltd ("Shanghai Pioneer")	Shanghai, China	Shanghai, China	Sales	-	100%	Subsidiaries acquired by establishment
Fuzhou Changyu Pioneer Sales Co., Ltd ("Fuzhou Pioneer")	Fuzhou, Jiangxi, China	Fuzhou, Jiangxi, China	Sales	-	100%	Subsidiaries acquired by establishment
Shijiazhuang Changyu Pioneer Sales Co., Ltd ("Shijiazhuang Pioneer")	Shijiazhuang, Hebei, China	Shijiazhuang, Hebei, China	Sales	-	100%	Subsidiaries acquired by establishment
Hangzhou Yuzefeng Sales Co., Ltd ("Hangzhou Yuzefeng")	Hangzhou, Zhejiang, China	Hangzhou, Zhejiang, China	Sales	-	100%	Subsidiaries acquired by establishment
Jilin Changyu Pioneer Sales Co., Ltd ("Jilin Pioneer")	Changchun, Jilin, China	Changchun, Jilin, China	Sales	-	100%	Subsidiaries acquired by establishment
Beijing Changyu Pioneer Sales Co., Ltd ("Beijing Pioneer")	Beijing, China	Beijing, China	Sales	-	100%	Subsidiaries acquired by establishment
Haerbin Changyu Pioneer Sales Co., Ltd ("Haerbin Pioneer")	Haerbin, Heilongjiang, China	Haerbin, Heilongjiang, China	Sales	-	100%	Subsidiaries acquired by establishment

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	
Hunan Changyu Pioneer Sales Co., Ltd ("Hunan Pioneer")	Changsha, Hunan, China	Changsha, Hunan, China	Sales	-	100%	Subsidiaries acquired by establishment
Yinchuan Changyu Pioneer Sales Co., Ltd ("Yinchuan Pioneer")	Yinchuan, Ningxia, China	Yinchuan, Ningxia, China	Sales	-	100%	Subsidiaries acquired by establishment
Kunming Changyu Pioneer Sales Co., Ltd ("Kunming Pioneer")	Kunming, Yunnan, China	Kunming, Yunnan, China	Sales	-	100%	Subsidiaries acquired by establishment
Chongqing Changyu Pioneer Sales Co., Ltd ("Chongqing Pioneer")	Chongqing, China	Chongqing, China	Sales	-	100%	Subsidiaries acquired by establishment
Zhengzhou Changyu Pioneer Sales Co., Ltd ("Zhengzhou Pioneer")	Zhengzhou, Henan, China	Zhengzhou, Henan, China	Sales	-	100%	Subsidiaries acquired by establishment
Wuhan Changyu Pioneer Sales Co., Ltd ("Wuhan Pioneer")	Wuhan, Hubei, China	Wuhan, Hubei, China	Sales	-	100%	Subsidiaries acquired by establishment
Taiyuan Changyu Pioneer Sales Co., Ltd ("Taiyuan Pioneer")	Taiyuan, Shanxi, China	Taiyuan, Shanxi, China	Sales	-	100%	Subsidiaries acquired by establishment
Huhehaote Changyu Pioneer Sales Co., Ltd ("Huhehaote Pioneer")	Huhehaote Inner Mongolia, China	Huhehaote Inner Mongolia, China	Sales	-	100%	Subsidiaries acquired by establishment
Chengdu Changyu Pioneer Sales Co., Ltd ("Chengdu Pioneer")	Chengdu, Sichuan, China	Chengdu, Sichuan, China	Sales	-	100%	Subsidiaries acquired by establishment
Nanning Changyu Pioneer Sales Co., Ltd ("Nanning Pioneer")	Nanning, Guangxi, China	Nanning, Guangxi, China	Sales	-	100%	Subsidiaries acquired by establishment
Lanzhou Pioneer	Lanzhou Gansu, China	Lanzhou Gansu, China	Sales	-	100%	Subsidiaries acquired by establishment
Yantai Fulangduo	Yantai Shandong, China	Yantai Shandong, China	Sales	-	100%	Subsidiaries acquired by establishment
Hefei Pioneer	Hefei, Anhui, China	Hefei, Anhui, China	Sales	-	100%	Subsidiaries acquired by establishment
Urumchi Pioneer	Urumchi Xinjiang, China	Urumchi Xinjiang, China	Sales	-	100%	Subsidiaries acquired by establishment
Guiyang Pioneer	Guiyang Guizhou, China	Guiyang Guizhou, China	Sales	-	100%	Subsidiaries acquired by establishment
Guangzhou Pioneer	Guangzhou Guangdong China	Guangzhou Guangdong 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 31 December 2018.
- (b) As at 12 September 2016, Dicot has completed an internal reorganization. Hacienda y Vinedos Marques del Atrio, S.L.U. consolidated Enotec S.L, Hostaler I S.L., Faustino Rivero Ulecia S.L. by Absorption merger. After the completion of the reorganization, Atrio became the only surviving company.
- (c) 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.
- (d) Langfang Chateau is a Sino-foreign joint venture established by the Company and a foreign investor, accounting for 49% of Langfang Chateau's equity interest by the Company and subsidiaries. Through agreement arrangement, the Company has the full power to control Langfang Chateau's strategic operating, investing and financing policies. The agreement arrangement will be terminated on 31 December 2022.
- (e) Beijing Chateau is a limited liability company established by the Company and domestic investors, accounting for 70% of Beijing Chateau's equity interest. Through agreement arrangement, the Company has the full power to control Beijing Chateau's strategic operating, investing and financing policies. The agreement arrangement will be terminated on 2 September 2019.
- (f) 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.

VIII. INTERESTS IN OTHER ENTITIES - continued

1. Structure of the Group - continued

- (g) R&D Centre is a joint venture established by the Company and CADF, accounting for 62% of R&D Centre's equity interest at 31 December 2016. As mentioned in Note VI-29 , in 2016, RMB 305,000,000 from CADF was invested in R&D Centre's, CADF accounted for 37.9% of the registered capital. According to the investment agreement, CADF will recovery investment funds over 10 years, the investment income received equal to 1.2% of the remaining unpaid principal per annum. In addition to the fixed income, CADF will no longer enjoy other profits or bear the loss of R&D Centre. Therefore although the investment in R&D Centre, nominally equity investment, is actually a debt investment. The group take this investment as long-term payables, which measured in amortized cost. The company is fully responsible for the operation, investment and financial policies of the R&D Centre in the form of such agreements. The agreement will expire on 22 May 2026.

2. Non-wholly owned subsidiaries

Name	Minority shareholder ratio	Profit and loss belongs to minority interest	Distributions to shareholders	Closing balance of minority interest
Xinjiang Tianzhu	40%	-	-	56,093,912
Atrio	25%	(1,438,903)	(546,423)	30,699,317
Changyu Chateau	30%	-	-	12,365,016
Langfang Castel	51%	-	-	22,702,522
Beijing Chateau	30%	-	-	35,293,868
Ice Chateau	49%	-	-	33,319,062
Total		(1,438,903)	(546,423)	190,473,697

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

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

Name	Closing balance						Opening balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Xinjiang Tianzhu	80,126,247	77,008,886	157,135,133	23,266,974	5,336,114	28,603,088	101,018,712	81,709,715	182,728,427	15,554,068	5,336,114	20,890,182
Changyu Chateau	173,934,285	116,396,690	290,330,975	210,904,481	-	210,904,481	156,538,810	118,256,609	274,795,419	191,898,436	-	191,898,436
Langfang Castel	26,528,622	19,890,293	46,418,915	10,233,932	-	10,233,932	30,867,940	22,471,694	53,339,634	7,913,957	-	7,913,957
Beijing Chateau	88,294,417	502,368,404	590,662,821	431,222,472	888,945	432,111,417	216,643,935	523,151,845	739,795,780	588,733,969	1,777,890	590,511,859
Ice Chateau	38,239,653	27,545,615	65,785,268	13,756,944	100,000	13,856,944	43,224,419	29,322,675	72,547,094	12,623,467	100,000	12,723,467
Atrio	333,455,551	131,921,130	465,376,681	272,843,155	69,572,335	342,415,490	277,879,914	157,297,623	435,177,537	259,625,473	44,813,493	304,438,966

Name	2016				2015			
	Revenue	Net profit (loss)	Total comprehensive income	Operating activities cash flows	Revenue	Net profit (loss)	Total comprehensive income	Operating activities cash flows
Xinjiang Tianzhu	118,253,496	11,561,969	11,561,969	5,647,080	107,683,230	(37,548)	(37,548)	44,250,338
Changyu Chateau	102,588,593	13,184,637	13,184,637	16,751,337	98,894,499	7,573,641	7,573,641	22,609,230
Langfang Castel	41,948,391	731,204	731,204	8,681,926	51,602,897	862,103	862,103	1,995,967
Beijing Chateau	178,662,315	29,417,483	29,417,483	55,561,102	170,037,611	25,424,015	25,424,015	72,629,545
Ice Chateau	43,742,412	(5,895,304)	(5,895,304)	4,922,305	51,657,543	(4,223,249)	(4,223,249)	3,294,895
Atrio	281,328,100	(7,484,378)	(8,473,348)	(28,411,777)	76,202,513*	807,079*	396,939*	(3,682,122)*

* This is amount incurred in the period between acquisition date and 31 December 2015.

IX. FINANCIAL INSTRUMENT AND RISK MANAGEMENT

The Group's major financial instruments include cash and bank, notes receivable, accounts receivable, interest receivables, other receivables, available-for-sale financial assets, other non-current assets, short-term borrowings, notes payable, 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.

1. Risk management objectives and policies

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.

1.1 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 HKD. Several of the Group's subsidiaries have purchases and sales denominated in EUR and HKD while the Group's other principal activities are denominated and settled in RMB. As at 31 December 2016, the balance of the Group's assets and liabilities are both denominated in RMB except that the assets and liabilities set out below are denominated in EUR and HKD. Currency risk arising from the assets and liabilities denominated in foreign currencies may have impact on the Group's performance.

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Bank and cash (EUR)	566,182	151,746,825
Bank and cash (HKD)	192	96,777
Short-term borrowings (HKD)	-	103,297,447
Non-current liabilities due within one year (HKD)	-	127,345,600
Non-current liabilities due within one year (EUR)	29,227,200	-
Long-term borrowings (EUR)	-	56,761,600

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:

		<u>Current year</u>		<u>Prior year</u>	
	<u>Change in exchange rate</u>	<u>Effect on profit</u>	<u>Effect on shareholders' equity</u>	<u>Effect on profit</u>	<u>Effect on shareholders' equity</u>
	RMB	RMB	RMB	RMB	RMB
HKD	5% increase against RMB	10	10	(11,527,314)	(11,527,314)
HKD	5% decrease against RMB	(10)	(10)	11,527,314	11,527,314
EUR	5% increase against RMB	(1,433,051)	(1,433,051)	4,749,261	4,749,261
EUR	5% decrease against RMB	1,433,051	1,433,051	(4,749,261)	(4,749,261)

Note: As at 31 December 2015, the Group's management anticipated a change of 5% in exchange rate for USD to RMB.

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-19, Note VI-27 and Note VI-28 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

		<u>Current year</u>		<u>Prior year</u>	
	<u>Change in interest rate</u>	<u>Effect on profit</u>	<u>Effect on owners' equity</u>	<u>Effect on profit</u>	<u>Effect on owners' equity</u>
Bank borrowings	50% increase	(1,774,725)	(1,774,725)	(2,528,430)	(2,528,430)
Bank borrowings	50% decrease	1,774,725	1,774,725	2,528,430	2,528,430

Note: As at 13 December 2015, the Group's management anticipated a change of 50 basis points in the bank's variable interest rate.

IX. FINANCIAL INSTRUMENT AND RISK MANAGEMENT - continued**1. Risk management objectives and policies - continued****1.2 Credit risk**

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties.

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

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. As at 31 December 2016, 26.3% of the Group trade receivables are due from top 5 customers (31 December 2015: 28.4%). 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	3,777,392	145,518,875	533,769,281	-	-	683,065,548
Notes payable	-	34,900,000	4,000,000	-	-	38,900,000
Account payables	128,480,966	256,961,933	159,788,420	-	-	545,231,319
Other payables	182,570,536	85,110,213	278,624,561	-	-	546,305,310
Interest payables	563,613	-	-	-	-	563,613
Long-term borrowings	980,746	1,783,374	58,881,143	50,793,667	-	112,438,930
Long-term payables	-	915,000	14,785,833	136,864,767	171,303,367	323,868,967
	<u>316,373,253</u>	<u>525,189,395</u>	<u>1,049,849,238</u>	<u>187,658,434</u>	<u>171,303,367</u>	<u>2,250,373,687</u>

IX. FINANCIAL INSTRUMENT AND RISK MANAGEMENT - continued**1. Risk management objectives and policies - continued****1.4 Fair value disclosure - Financial assets and liabilities not measured using fair value**

As at 31 December 2016, management of the Group believes that book value of financial assets measured under amortised cost method is approximately equal to their fair value.

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</u> RMB	<u>Percentage of shares</u> %	<u>Percentage of voting rights</u> %	<u>Incorporate Code</u>
Controlling Company	Parent Company	Limited Company	Yantai	SunLiqiang	Manufacturing	50,000,000	50.4	50.4	265645824

During the year ended 31 December 2016, there is no change in parent company's registered capital, shares holding or voting power.

2. Subsidiaries: Please refer to Notes VIII.**3. Other related parties**

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

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS - continued**4. Significant related party transactions****(1) Purchases from and sales to related parties**Purchase from related parties

	The content of related <u>party transactions</u>	<u>2016</u> RMB	<u>2015</u> RMB
ShenMa Packing	product purchase	150,590,287	153,891,013
Zhongya Pharmaceutical	product purchase	12,567,066	9,856,685
Wine Culture Museum	product purchase	10,210,089	6,047,453
Window of the Wine City	product purchase	2,032,847	730,488
		<u>175,400,289</u>	<u>170,525,639</u>

All related party transactions are based on the negotiated price.

In 2016, purchases from related parties accounted for 13.2% of the Group's total purchase (2015: 10.5%)

Sales to related parties

	The content of related <u>party transactions</u>	<u>2016</u> RMB	<u>2015</u> RMB
Wine Culture Museum	goods sales	15,670,982	7,371,180
Window of the Wine City	goods sales	10,945,578	7,578,711
Zhongya Pharmaceutical	goods sales	3,387,900	2,723,976
ShenMa Packing	goods sales	1,496,669	1,820,232
		<u>31,501,129</u>	<u>19,494,099</u>

In 2016, sales to related parties accounted for less than 1% of the Group's total sales (2015: less than 1%).

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS - continued**4. Significant related party transactions - continued****(2) Property leased from a related party**The Group as Lessee

<u>2016</u>	<u>Assets leased</u>	<u>Beginning date</u>	<u>Ending date</u>	<u>Rental expense</u>
Changyu Group Company	Warehouse and office building	1 January 2012	31 December 2016	5,858,000
Changyu Group Company	office building	31 January 2016	31 December 2020	1,692,724
				<u>7,550,724</u>

Pursuant to the lease agreement entered into between the Company and Changyu Group Company on 1 January 2012, starting from 1 January 2012, the Company rented properties from Changyu Group Company for operation purposes at a basic annual rental of RMB 5,858,000, and till 31 December 2016. For the year ended 31 December 2016, the rental payable to Changyu Group Company amounted to RMB 5,858,000 (2015: RMB 5,858,000).

Pursuant to the lease agreement entered into between the Group and Changyu Group Company on 1 January 2016, starting from 1 January 2016, the Group rented properties from Changyu Group Company for operation purposes at a basic annual rental of RMB 1,692,724, and till 31 December 2020. For the year ended 31 December 2016, the rental payable to Changyu Group Company amounted to RMB 1,692,724 (2015: Nil).

(3) Other significant related party transactions

<u>The content of related party transactions</u>		<u>Note</u>	<u>2016</u> RMB	<u>2015</u> RMB
Changyu Group Company	Royalty fee	(a)	74,125,038	83,734,976
Changyu Group Company	Patents fee	(b)	50,000	50,000
Zhongya Pharmaceutical	Sales of fixed assets	(c)	411,407	-

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 2016, royalty fee paid to related company accounted for 100% of the Group (2015: 100%).

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS - continued**4. Significant related party transactions - continued****(3) Other significant related party transactions - continued****(b) Patents fee**

Pursuant to a patents implementation license dated 18 May 1997, starting from 18 September 1997, the Company may use the patents of Changyu Group Company. The annual patents usage fee payable by the Company to Changyu Group Company was RMB 50,000. The contract was expired on 20 December 2005. The Company renewed the contract on 20 August 2006 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 2016, the patents usage fee payable to Changyu Group Company is amounted to RMB 50,000 (2015: RMB 50,000).

During 2016, patent fee paid to related company accounted for 100% of the Group (2015: 100%).

(c) Sales of fixed assets

As at 28 December 2016, fixed assets sold by the Group to Zhongya Pharmaceutical amounted to RMB 411,407 (31 December 2015: nil), accounting for 34.0% (31 December 2015: nil).

(4) Remuneration of the management

	<u>2016</u> RMB	<u>2015</u> RMB
Remuneration of the management	<u>9,166,918</u>	<u>9,744,790</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>Closing balance</u>		<u>Opening balance</u>	
	<u>Balance</u> RMB	<u>Provision</u> RMB	<u>Balance</u> RMB	<u>Provision</u> RMB
Zhongya Pharmaceutical	3,913,997	-	2,240,282	-
Shen Ma Packing.	50,700	-	169,300	-
Window of the Wine City	1,833,273	-	7,812	-
Wine Culture Museum	876,724	-	-	-
	<u>6,674,694</u>	<u>-</u>	<u>2,417,394</u>	<u>-</u>

The above amounts due from related parties are unsecured, interest-free and have no fixed terms of repayment.

(2) Balance due to related parties

<u>Accounts payable</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Shen Ma Packing	59,058,023	53,735,915
Zhongya Pharmaceutical	4,328,184	7,272,656
Wine Culture Museum	3,038,520	1,928,504
Window of the Wine City	619,578	145,861
Total	<u>67,044,305</u>	<u>63,082,936</u>

<u>Other payable</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Royalty fee payable to parent company	<u>78,572,540</u>	<u>86,001,287</u>

The above amounts due to related parties are unsecured, interest-free and have no fixed terms of repayment.

XI. COMMITMENT

1. Important commitments

(1) Capital commitments

	<u>Closing balance</u> RMB'000	<u>Opening balance</u> RMB'000
Capital commitment for purchasing non-current assets	<u>1,508,310</u>	<u>1,580,280</u>

(2) Operating lease commitment

As lessee

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

	<u>Closing balance</u> RMB'000	<u>Opening balance</u> RMB'000
Within 1 year	44,631	50,369
1 to 2 years	20,262	35,100
2 to 3 years	12,836	24,265
3 years and above	<u>36,533</u>	<u>44,466</u>
	<u>114,262</u>	<u>154,200</u>

2. Contingent liability

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

XII. POST BALANCE SHEET DATE EVENT

According to the board of the director resolution raised on 20 April 2017, the Company proposed a cash dividend of RMB 5.0 (including taxes) for every 10 shares in respect of 2016 based on the issued shares of 685,464,000. The aggregate amount of cash dividend is RMB 342,732,000. The resolution is to be approved by the annual general meeting.

XIII. OTHER SIGNIFICANT EVENTSSegment report

The Group is principally engaged in the production and sales of wine, brandy, and champagne in China, France and Spain. In accordance with the Group's internal organization structure, management requirements and internal reporting system, the Group's operation is divided into three parts: China, France and Spain. The management periodically evaluates segment results, in order to allocate resources and evaluate performances. In 2016, more than 94.4% revenue and more than 99.9% profit derived from China, and more than 93.9% assets are located in China. Therefore the Group does not need to disclose additional segment report information.

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS**1. Cash and bank**

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Cash	6,631	10,804
Bank balance	243,708,493	155,430,457
Other currency fund	25,744,936	125,377,572
Total	<u>269,460,060</u>	<u>280,818,833</u>

As at 31 December 2016, the balance of restricted cash of the Company is RMB 2,711,926 (31 December 2015: RMB 2,643,181), which is the Group's housing fund.

As at 31 December 2016, other currency fund of the Company include: deposit of RMB 25,694,735 for letter of credit and deposit of RMB 50,201 for entity card (31 December 2015: RMB 7,572).

As at 31 December 2016, the Company's term deposits with original maturity from three months to six months when acquired is RMB 3,000,000 (31 December 2015: RMB 9,000,000) with interest rate 1.65%.

2. Notes receivable**(1) Categories of notes receivable**

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Bank acceptances	<u>1,114,200</u>	<u>38,429,319</u>

(2) Pledged notes receivable

As of 31 December 2016, there was no pledged notes receivable (31 December 2015: Nil).

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued**2. Notes receivable - continued****(3) Notes endorsed by the Group to other parties which are not yet due at the end of the period**

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Bank acceptances	29,199,486	59,952,558

As at 31 December 2016, notes endorsed by the Company to other parties which are not yet due at the end of the period is RMB 29,199,486 (31 December 2015: RMB 59,952,558). It is for the payment to suppliers. The Company believes that due to bank good reputation, the risk of maturity cannot be cashed is very low, these notes receivable ownership of the risks and rewards have been transferred to the supplier, therefore confirm the termination of the endorsement notes receivable. If bank is unable to settle the notes on maturity, according to the relevant laws and regulations of China, the Group would undertake limited liability for the notes.

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

As at 31 December 2016, there was no notes receivable were reclassified as accounts receivable due to the default of drawer (31 December 2015: Nil).

3. Accounts receivable**(1) Disclosure of accounts receivable by categories:**

	<u>Closing balance</u>			<u>Opening balance</u>		
	<u>Balance</u>		<u>Carrying Amount</u>	<u>Balance</u>		<u>Carrying Amount</u>
	<u>Amount</u> RMB	<u>Proportion</u> (%)		<u>Amount</u> RMB	<u>Proportion</u> (%)	
Accounts receivable that are individually not significant and for which bad debt provision has been assessed individually	3,326,683	100.0	3,326,683	2,392,870	100.00	2,392,870

The normal credit term of trade receivables is one month, which can be extended to one year for certain major customers. The trade receivables are interest free.

There was no individually significant and for which bad debt provision has been assessed individually accounts receivable.

(2) The aging analysis is as follows:

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Within 1 year	3,326,683	2,392,870

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued**3. Accounts receivable - continued****(3) Provision, reversals and collections during the current period:**

As at 31 December 2016, there was no provision provided for trade receivables (31 December 2015: Nil). The Company did not provide, reverse or write off any provision during 2016 (31 December 2015: Nil).

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

	<u>Relationship with the Group</u>	<u>Amount RMB</u>	<u>Aging</u>	<u>Proportion of total receivables %</u>
Zhongya Pharmaceutical	Other related parties	<u>3,326,683</u>	Within 1 year	<u>100.0</u>

4. Prepayments**(1) The aging analysis is as follows:**

	<u>Closing balance</u>		<u>Opening balance</u>	
	<u>Amount RMB</u>	<u>Proportion %</u>	<u>Amount RMB</u>	<u>Proportion %</u>
Within 1 year	<u>702,647</u>	<u>100.0</u>	<u>445,619</u>	<u>100.0</u>

(2) Top four entities with the largest balances of prepayments

	<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>
Shandong Electricity Company Yantai branch	Third party	502,671	Within 1 year	electric fee	71.6
Shanghai ziri Packing Co. Ltd.	Third party	104,832	Within 1 year	Goods not received	14.9
Chongqing Hao Sheng glass Limited by Share Ltd	Third party	93,456	Within 1 year	Goods not received	13.3
China Petroleum Chemical Co				prepayment	
Shandong Yantai Petroleum Branch	Third party	<u>1,688</u>	Within 1 year	Gasoline fee	<u>0.2</u>
		<u>702,647</u>			<u>100.0</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued**5. Dividend receivables****(1) Dividend receivables**

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Within 1 year				
Including: Sales Company	724,259,189	1,515,829,419	(1,837,422,530)	402,666,078
Wines Sales	20,465,163	82,388,043	(42,502,188)	60,351,018
Xinjiang Tianzhu	-	46,502,728	(46,502,728)	-
Langfang Castel	-	9,971,897	(9,971,897)	-
Changyu Chateau	-	16,655,125	(5,284,518)	11,370,607
Ice Chateau	-	2,000,000	(2,000,000)	-
Beijing Chateau	-	20,000,000	(20,000,000)	-
Shihezi Chateau	-	62,844,089	(57,002,086)	5,842,003
Kylin Packaging	-	16,000,000	(16,000,000)	-
Jingyang Sales	-	2,000,000	(2,000,000)	-
National Wines	-	10,000,000	(10,000,000)	-
Atrio	-	1,475,343	-	1,475,343
More than 1 year				
Including: Pioneer International	43,367,997	12,462,774	(5,716,707)	50,114,064
Total	788,092,349	1,798,129,418	(2,054,402,654)	531,819,113

(2) Significant Dividend Receivable more than 1 year

	<u>Closing balance</u>	<u>Aging</u> <u>outstanding</u>	<u>Reason for being</u> <u>impairment</u>	<u>Whether</u> RMB
Pioneer International	50,114,064	More than 1 year	Not paid	No

6. Other receivables**(1) Disclosure of other receivables by categories:**

	<u>Balance</u>		<u>Closing balance</u>		<u>Carrying Amount</u>	<u>Balance</u>		<u>Opening balance</u>		<u>Carrying Amount</u>
	<u>Amount</u> RMB	<u>Proportion</u> (%)	<u>Amount</u> RMB	<u>Proportion</u> (%)		<u>Amount</u> RMB	<u>Proportion</u> (%)	<u>Amount</u> RMB	<u>Proportion</u> (%)	
Other receivables that are individually significant and for which bad debt provision has been assessed individually	3,572,802,092	99.7	-	-	3,572,802,092	5,727,534,401	99.8	(7,199,521)	0.1	5,720,334,880
Other receivables that are not individually significant and for which bad debt provision has been assessed individually	9,730,770	0.3	-	-	9,730,770	14,121,249	0.2	-	-	14,121,249
Total	3,582,532,862	100.0	-	-	3,582,532,862	5,741,655,650	100.0	(7,199,521)	0.1	5,734,456,129

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

6. Other receivables - continued

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

The aging analysis is as follows:

	Closing balance			Opening balance		
	Balance		Bad debts provision	Balance		Carrying amount
	Amount	Proportion		Amount	Proportion	
	RMB	%	Amount	RMB	%	Amount
			RMB			RMB
Within 1 year	2,138,473,742	59.7	-	2,138,473,742	84.5	-
1 to 2 years	1,443,856,430	40.3	-	1,443,856,430	15.4	-
2 to 3 years	37,123	0.0	-	37,123	0.0	-
Over 3 years	165,567	0.0	-	165,567	0.1	(7,199,521)
	3,582,532,862	100.0	-	3,582,532,862	100.0	(7,199,521)
				5,741,655,650		5,734,456,129

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

No bad debt accrued or reversed in 2016 (2015:Nil.).

(3) Other receivables written off current year

Other receivables is written off RMB 7,199,521 (2015: Nil)

(4) Disclosure of other receivables by nature

	Closing balance	Opening balance
	RMB	RMB
Receivable from subsidiary	3,580,805,532	5,732,654,756
Investment fund	-	7,199,521
Receivable deposit	8,000	103,834
Others	1,719,330	1,697,539
	3,582,532,862	5,741,655,650

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

As at 31 December 2016, the particulars of top five other receivables are as follows:

	Nature	Amount	Aging	Proportion of total
		RMB		prepayments
				%
Sales Company	Internal balance	1,000,076,488	Within 2 year	27.9
Changan Chateau	Internal balance	753,079,312	Within 2 year	21.0
Ningxia Chateau	Internal balance	435,507,892	Within 2 year	12.2
Beijing Chateau	Internal balance	382,245,667	Within 2 year	10.7
Pioneer International	Internal balance	223,539,679	Within 2 year	6.2
		2,794,449,038		78.0

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

7. Inventories

	Closing balance			Opening balance		
	Balance RMB	Provision RMB	Net carrying amount RMB	Balance RMB	Provision RMB	Net carrying amount RMB
Raw material	4,190,928	-	4,190,928	5,200,748	-	5,200,748
Work in progress	747,521,822	-	747,521,822	680,061,444	-	680,061,444
Finished goods	41,019,668	-	41,019,668	42,910,915	-	42,910,915
	<u>792,732,418</u>	<u>-</u>	<u>792,732,418</u>	<u>728,173,107</u>	<u>-</u>	<u>728,173,107</u>

8. Long-term equity investments

2016	Cost RMB	Opening balance RMB	Movement for the year RMB	Closing balance RMB	Share holding %	Voting power %	Cash Dividends for the year RMB
Cost Method							
Xinjiang Tianzhu (a)	60,000,000	60,000,000	-	60,000,000	60	100	46,502,728
Kylin Packaging	23,176,063	23,176,063	-	23,176,063	100	100	16,000,000
Changyu Chateau (a)	28,968,100	28,968,100	-	28,968,100	70	100	16,655,125
Pioneer International (b)	3,500,000	3,500,000	-	3,500,000	70	100	12,462,774
Ningxia Growing	1,000,000	1,000,000	-	1,000,000	100	100	-
National Wines	2,000,000	2,000,000	-	2,000,000	100	100	10,000,000
Ice Chateau (b)	30,440,500	30,440,500	-	30,440,500	51	100	2,000,000
Beijing Chateau (b)	77,000,000	77,000,000	-	77,000,000	70	100	20,000,000
Sales Company	7,200,000	7,200,000	-	7,200,000	100	100	1,515,829,419
Langfang Sales (b)	100,000	100,000	-	100,000	10	100	-
Langfang Castel (a)	19,835,730	19,835,730	-	19,835,730	39	100	9,971,897
Wine Sales	4,500,000	4,500,000	-	4,500,000	100	100	82,388,043
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	2,000,000
Jingyang Wine (b)	900,000	900,000	-	900,000	90	100	-
Ningxia Wine	1,000,000	1,000,000	-	1,000,000	100	100	-
Ningxia Chateau	2,000,000	2,000,000	-	2,000,000	100	100	-
Dingluote Chateau (b)	80,000,000	80,000,000	-	80,000,000	65	100	-
Shihezi Chateau	550,000,000	150,000,000	400,000,000	550,000,000	100	100	62,844,089
Changan Chateau	20,000,000	20,000,000	-	20,000,000	100	100	-
R&D Centre (a)	805,000,000	500,000,000	-	500,000,000	62	100	-
Huanren Wine	11,000,000	11,000,000	-	11,000,000	100	100	-
Francis Champs	220,320,604	209,706,634	10,613,970	220,320,604	100	100	-
Atrio	190,150,544	190,148,125	2,419	190,150,544	75	100	1,475,343
	<u>2,139,341,541</u>	<u>1,423,725,152</u>	<u>410,616,389</u>	<u>1,834,341,541</u>			<u>1,798,129,418</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 2016, there was no significant restriction on the remittance of fund from the investees to the Company.

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued**9. Fixed assets****(1) Fixed assets**

	<u>Buildings</u> RMB	<u>Machinery</u> RMB	<u>Motor vehicles</u> RMB	<u>Total</u> RMB
I. Total original carrying amount				
1. Opening balance	305,649,899	592,702,673	13,179,007	911,531,579
2. Increase				
Purchase	320,033	7,195,257	3,675,768	11,191,058
CIP transfer	-	7,490,777	-	7,490,777
3. Decrease				
Disposal	-	(30,301,520)	(4,092,433)	(34,393,953)
Classified as Non-current assets held for sale (VI-8)	(3,599,221)	-	-	(3,599,221)
4. Closing balance	302,370,711	577,087,187	12,762,342	892,220,240
II. Total accumulated depreciation				
1. Opening balance	113,220,552	418,201,108	10,603,905	542,025,565
2. Increase				
Additions	9,967,875	24,455,088	689,608	35,112,571
3. Decrease				
Disposal	-	(26,912,479)	(3,887,810)	(30,800,289)
Classified as Non-current assets held for sale (VI-8)	(1,599,024)	-	-	(1,599,024)
4. Closing balance	121,589,403	415,743,717	7,405,703	544,738,823
III. Total net carrying amount				
1. Closing net carrying amount	180,781,308	161,343,470	5,356,639	347,481,417
2. Opening net carrying amount	192,429,347	174,501,565	2,575,102	369,506,014

As at 31 December 2016, fixed assets with restricted ownership is RMB 27,145,520, referring to Note VI-48 for details.

As at 31 December 2016, net amount of fixed assets classified as Non-current assets held for sale was RMB 2,000,197, and the Company has no temporary idle fixed assets, fixed assets leased in under finance leases and fixed assets leased out under operating leases.

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

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

	<u>Amount</u> RMB	<u>Reasons why</u> <u>certificates of title have</u> <u>not been obtained</u>
Fermentation centre office, experiment building and workshop	3,994,837	Processing

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

10. Construction in progress

(1) Construction in progress

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Reconstruction of boiler heating systems	<u>500,000</u>	<u>7,990,777</u>

(2) Current year movement on important construction

	<u>Budget</u> RMB	<u>Opening balance</u> RMB	<u>Addition</u> RMB	<u>Transfer to PPE</u> RMB	<u>Closing balance</u> RMB	<u>Accumulated expenditure/budget</u> %	<u>The progress of construction</u>	<u>Financed by</u>
Reconstruction of boiler heating systems	13,000,000	<u>7,990,777</u>	<u>-</u>	<u>(7,490,777)</u>	<u>500,000</u>	61.5	90.0	Self-raised

There was no interest capitalized in construction in progress in 2016.

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

11. Bearer biological asset

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

	<u>Immature biological assets</u> RMB	<u>Mature biological assets</u> RMB	<u>Total</u> RMB
I. Total original carrying amount			
1. Opening balance	103,624,879	14,961,025	118,585,904
2. Increase			
(1) Purchase	601,300	-	601,300
(2) Cultivated increase	14,731,590	-	14,731,590
(3) Transfer to mature assets from immature assets	<u>(64,091,555)</u>	<u>64,091,555</u>	<u>-</u>
3. Closing balance	<u>54,866,214</u>	<u>79,052,580</u>	<u>133,918,794</u>
II. Total accumulated depreciation			
1. Opening balance	-	7,624,715	7,624,715
2. Increase Additions	<u>-</u>	<u>3,257,386</u>	<u>3,257,386</u>
3. Closing balance	<u>-</u>	<u>10,882,101</u>	<u>10,882,101</u>
III. Total net carrying amount			
1. Closing net carrying amount	<u>54,866,214</u>	<u>68,170,479</u>	<u>123,036,693</u>
2. Opening net carrying amount	<u>103,624,879</u>	<u>7,336,310</u>	<u>110,961,189</u>

XIV NOTES TO COMPANY FINANCIAL STATEMENTS - continued**11. Bearer biological asset - continued**

As at 31 December 2016, there is no biological asset with ownership restricted.

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

12. Intangible assets

Intangible assets

	<u>Land use right</u> RMB
I. Total original carrying amount	
Opening and closing balance	96,594,766
II. Total accumulated depreciation	
1. Opening balance	22,213,241
2. Increase	
Additions	2,379,153
3. Closing balance	24,592,394
III. Total net carrying amount	
1. Closing net carrying amount	72,002,372
2. Opening net carrying amount	74,381,525

As at 31 December 2016, Intangible assets with restricted ownership are RMB 11,220,838, Please refer to Note VI-48 in detail.

13. Deferred tax assets

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

Item	Closing balance		Opening balance	
	Deductible	Deferred	Deductible	Deferred
	<u>temporary difference</u> RMB	<u>tax assets</u> RMB	<u>temporary difference</u> RMB	<u>tax assets</u> RMB
Unrealized profit from intra				
- company transactions	5,333,339	1,333,335	9,159,340	2,289,835
Unpaid bonus	35,607,406	8,901,851	26,378,467	6,594,617
Retirement benefit	10,754,547	2,688,637	12,914,345	3,228,586
Asset impairment provision	10,000,000	2,500,000	17,199,521	4,299,880
Deductable losses	24,544,964	6,136,241	62,511,688	15,627,922
Deferred income	21,700,753	5,425,188	23,591,406	5,897,852
	<u>107,941,009</u>	<u>26,985,252</u>	<u>151,754,767</u>	<u>37,938,692</u>

XIV NOTES TO COMPANY FINANCIAL STATEMENTS – continued**14. Other non-current assets**

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Receivables from subsidiaries	<u>2,617,457,460</u>	<u>-</u>

15. Short-term borrowings

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Credit loans	<u>500,000,000</u>	<u>601,297,447</u>

As at 31 December 2016, short-term borrowings detail is as follows:

<u>Loan bank</u>	<u>Loans amount</u> RMB	<u>Loan term</u>	<u>Interest rate</u> %
HSBC (China) Co., Ltd.			
Qingdao branch	100,000,000	25.Nov.2016 - 24. Feb.2017	3.48
ICBC Yantai branch	100,000,000	7.July 2016 - 4.July 2017	3.92
ICBC Yantai branch	100,000,000	24.June 2016 - 20 June 2017	3.92
ICBC Yantai branch	<u>200,000,000</u>	<u>30 May 2016 – 24.May 2017</u>	<u>3.92</u>

16. Accounts payable

The aging analysis of accounts payable are as follows

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Within 1 year	246,743,228	271,603,863
1 to 2 years	<u>825,629</u>	<u>1,487,319</u>
	<u>247,568,857</u>	<u>273,091,182</u>

17. Advances from customers

The aging analysis of advances from customers are as follows

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

XIV NOTES TO COMPANY FINANCIAL STATEMENTS – continued**18. Employee benefit payable****(1) Employee benefit payable**

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Short-term salaries and welfare	58,144,270	109,527,458	(107,613,514)	60,058,214
Post-demission benefits				
- predetermined provision plan	-	10,227,042	(10,227,042)	-
Termination benefit	12,914,345	1,662,055	(3,821,853)	10,754,547
	<u>71,058,615</u>	<u>121,416,555</u>	<u>(121,662,409)</u>	<u>70,812,761</u>

(2) Short-term salaries and welfare

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Salaries and bonus	57,454,172	95,025,808	(92,441,612)	60,038,368
Staff benefit	2,520	7,235,084	(7,044,204)	193,400
Staff welfare	-	4,940,763	(4,940,763)	-
Includes:				
Medical insurance	-	3,878,517	(3,878,517)	-
Injury insurance	-	661,206	(661,206)	-
Maternity insurance	-	401,040	(401,040)	-
Housing fund	-	3,189,445	(3,189,445)	-
Union fee and education fee	2,632,533	550,794	(809,677)	2,373,650
Total	<u>60,089,225</u>	<u>110,941,894</u>	<u>(108,425,701)</u>	<u>62,605,418</u>
Less: Non-current liabilities	<u>1,944,955</u>			<u>2,499,403</u>
Short-term salaries and welfare	<u>58,144,270</u>			<u>60,058,214</u>

(3) Predetermined provision plan

	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Pension	-	9,488,517	(9,488,517)	-
Unemployment insurance	-	738,525	(738,525)	-
	<u>-</u>	<u>10,227,042</u>	<u>(10,227,042)</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 1% 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 9,488,517 and RMB 738,525 (2015: RMB 10,505,200 and RMB 853,498) respectively into pension insurance and unemployment insurance. As at 31 December 2016, the Company does not have unpaid pension and unemployment insurance (31 December 2015: Nil) which is due to the pension insurance and unemployment insurance plan and not paid at the end of the reporting period.

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

19. Taxes payable

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Value added tax	2,199,892	(2,238,737)
Consumption tax	18,887,846	11,536,745
Corporation income tax	211,105	651,459
Urban land use tax	802,207	837,367
Individual income tax	7,289,253	6,136,634
City construction tax	1,941,063	1,084,656
Property tax	270,492	270,408
Others	1,664,367	1,052,779
	<u>33,266,225</u>	<u>19,331,311</u>

20. Other payables

(1) Natures of other payables are as follows

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Payable to subsidiaries	359,161,772	983,151,732
Payables for equipment and construction	2,772,304	4,600,199
Payables for transportation	-	495,093
Deposits from suppliers	589,300	537,800
Others	5,786,986	6,036,457
	<u>368,310,362</u>	<u>994,821,281</u>

(2) As at 31 December 2016, there were no significant outstanding balance aged over than one year.

21. Non-current liabilities due within one year

	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Long-term borrowings due within one year	<u>29,227,200</u>	<u>127,345,600</u>

As at 31 December 2016, long-term borrowings due within one year refer to the borrowings to the Company from Yantai Branch of ICBC amounting to EUR 4,000,000 (equivalent to RMB 29,227,200), with a validity period from 1 October 2014 to 29 September 2017 at the interest rate of six-month LIBOR plus 355 basis points. The relevant interest is paid monthly. As at 31 December 2016, the interest rate of such borrowings is 3.7%.

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

22. Capital reserve

<u>2016</u>	<u>Opening balance</u> RMB	<u>Increase</u> RMB	<u>Decrease</u> RMB	<u>Closing balance</u> RMB
Share premium	557,222,454	-	-	557,222,454

23. Operating income and costs

Operating income is analysed as follows:

	<u>2016</u> RMB	<u>2015</u> RMB
Principal operating income	1,415,104,946	1,383,184,483

Operating cost is analysed as follows:

	<u>2016</u> RMB	<u>2015</u> RMB
Principal operating cost	1,152,076,500	1,154,834,509

24. Taxes and surcharges

	<u>2016</u> RMB	<u>2015</u> RMB
Consumption tax	86,244,674	106,640,172
City construction tax	8,665,672	11,533,643
Education fee and surcharges	6,189,856	8,306,059
Property tax	1,229,545	-
Land use tax	2,534,985	-
stamp tax	315,520	-
Others	1,288,965	1,647,256
	106,469,217	128,127,130

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

25. General and administrative expense

	<u>2016</u> RMB	<u>2015</u> RMB
Salary and employee benefit	34,475,802	59,518,458
Maintenance fee	8,755,646	9,276,965
Leasing expenses	6,525,996	6,575,996
Administrative expenses	5,041,108	7,413,606
Depreciation	4,266,502	4,423,980
Property insurance fees	3,594,451	1,025,924
Greening fee	2,779,497	2,290,397
Amortization	2,333,153	3,012,058
Service fee	2,008,619	12,329,601
Property tax, stamp duty and other taxes	1,952,995	6,105,794
Shuttle bus	1,914,130	2,287,960
Security and sanitation fee	1,727,077	2,049,508
Postal charges	1,689,281	2,305,846
Travelling expenses	1,657,767	3,441,134
Others	7,240,113	9,130,568
	<u>85,962,137</u>	<u>131,187,795</u>

26. Financial Expense

	<u>2016</u> RMB	<u>2015</u> RMB
Interest income	(3,704,355)	(11,868,515)
Exchange loss(gain)	10,474,409	8,543,586
Less: Interest expenses	26,658,795	21,322,155
Bank charges	797,603	855,471
	<u>34,226,452</u>	<u>18,852,697</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS – continued**27. Investment income**

	<u>2016</u> RMB	<u>2015</u> RMB
Long-term equity investment income accounted for by using the cost method	1,798,129,418	1,587,303,643

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>2016</u> RMB	<u>2015</u> RMB
Sales Company	1,515,829,419	1,404,700,197
Wine Sales	82,388,043	65,465,162
	<u>1,598,217,462</u>	<u>1,470,165,359</u>

As at 31 December 2016 and at 31 December 2015, there was no significant restriction on the remittance of investment income to the Company.

28. Supplement to cash flow statement

	<u>2016</u> RMB	<u>2015</u> RMB
(1) Cash flows from operating activities calculated by adjusting the net profit:		
Net profit	1,830,574,470	1,553,520,098
Add: Depreciation of fixed assets	35,112,571	37,173,740
Amortization of intangible assets	2,379,153	2,379,153
Amortization of biological assets	3,257,386	586,905
Gains on disposal of property, plant and equipment	(111,362)	(116,340)
Finance expenses	34,300,141	7,609,550
Investment income	(1,798,129,418)	(1,587,303,643)
Decrease/(increase) in deferred tax assets	10,953,440	(10,885,121)
Increase in inventories	(64,559,311)	(46,476,333)
Increase/(decrease) in trade receivables	130,012,325	(973,578,831)
Decrease/(increase) in trade payables	(637,852,493)	11,918,004
Net cash flows from operating activities	<u>(454,063,098)</u>	<u>(1,005,172,818)</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS – continued

28. Supplement to cash flow statement - continued

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

	<u>2016</u> RMB	<u>2015</u> RMB
Change the claim on Shihezi Chateau into Long-term equity investments	400,000,000	-
Increase the investment in subsidiaries with bank acceptances	523,977,060	-
Recover the investment in subsidiaries with bank acceptances	(523,977,060)	-
	<u>400,000,000</u>	<u>-</u>

29. Cash and cash equivalents

	<u>2016</u> RMB	<u>2015</u> RMB
Closing balance of cash and bank	269,460,060	280,818,833
Less:		
Restricted bank deposits	2,711,926	2,643,181
Restricted other monetary assets	25,744,936	125,377,572
Deposit with a period of over three months	3,000,000	9,000,000
Closing balance of cash and cash equivalents	<u>238,003,198</u>	<u>143,798,080</u>

	<u>2016</u> RMB	<u>2015</u> RMB
Cash and bank	238,003,198	143,798,080
Including: Cash on hand	6,631	10,804
Bank deposits on demand	<u>237,996,567</u>	<u>143,787,276</u>
Closing balance of cash and cash equivalents	<u>238,003,198</u>	<u>143,798,080</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued**30. Related party transactions****(1) Purchase of materials**

	<u>2016</u> RMB	<u>2015</u> RMB
Subsidiaries	397,141,028	319,040,340
Other related parties	109,448,605	111,273,050
	<u>506,589,633</u>	<u>430,313,390</u>

(2) Sales of goods

	<u>2016</u> RMB	<u>2015</u> RMB
Subsidiaries	1,399,002,536	1,374,745,130
Other related parties	16,102,410	8,439,353
	<u>1,415,104,946</u>	<u>1,383,184,483</u>

(3) Sales of Fixed assets

	<u>2016</u> RMB	<u>2015</u> RMB
Subsidiaries	2,971,880	-
Other related parties	411,407	-
	<u>3,383,287</u>	<u>-</u>

(4) Guarantee for related parties

The company acting as the guarantor:

<u>Guaranteed party</u>	<u>Amount of guarantee</u>	<u>Inception date</u>	<u>Maturity date</u>	<u>If the guarantee completed</u>
Sales company	<u>100,000,000</u>	2 November 2017	2 November 2019	No

31. Receivables and payables to related parties**(1) Trade receivables**

<u>Trade receivables</u>	<u>Closing balance</u>		<u>Opening balance</u>	
	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB
Other related parties	<u>3,326,683</u>	<u>-</u>	<u>1,341,924</u>	<u>-</u>

XIV. NOTES TO COMPANY FINANCIAL STATEMENTS - continued

31. Receivables and payables to related parties - continued

(1) Trade receivables – continued

<u>Other receivables</u>	<u>Closing balance</u>		<u>Opening balance</u>	
	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB
Subsidiaries	3,580,805,532	-	5,732,654,756	-
<u>Other non-current assets</u>	<u>Closing balance</u>		<u>Opening balance</u>	
	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB	<u>Balance</u> RMB	<u>Bad debts provision</u> RMB
Subsidiaries	2,617,457,460	-	-	-

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

(2) Trade payables

<u>Trade Payables</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Other related parties	46,834,283	36,377,928
<u>Other payables</u>	<u>Closing balance</u> RMB	<u>Opening balance</u> RMB
Subsidiaries	452,689,614	983,151,732

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

32. Contingent liability

As stated in Note XIV-30(4), the Company has no other contingent liability.

APPENDIX I SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2016

I. DETAILS OF EXTRAORDINARY PROFIT AND LOSS

	<u>2016</u> RMB
Loss on disposal of non-current assets, including reversal of accrued impairment provision	14,719
Government grants credited in profit and loss (except for those recurring government grants that are closely related to the Group's operation, in line with related regulations and have proper basis of calculation)	49,130,643
Other non-operating income and expense	4,656,972
Corporate income tax effect	(13,072,324)
	<hr/> 40,730,010 <hr/> <hr/>

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

All non-operation income and non-operation expenses are non-operating profit in 2016. Please refer to Note VI-42 and VI-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>2016</u>	Weighted average <u>ROE</u> %	<u>Basic EPS</u> RMB
Net profit attributable to shareholders of the Company	12.55	1.43
Net profit attributable to shareholders of the Company deducting extraordinary profit and loss	12.03	1.37
	<hr/>	<hr/>
	<hr/>	<hr/>

The Company did not have any potential dilutive shares.

<u>2016</u>	Weighted average <u>ROE</u> %	<u>Basic EPS</u> RMB
Net profit attributable to shareholders of the Company	14.40	1.50
Net profit attributable to shareholders of the Company deducting extraordinary profit and loss	13.89	1.45
	—	—
	—	—

The Company did not have any potential dilutive shares.

XII. Reference Documents

- (1) The original of Annual Report autographed by the chairman.
- (2) The Financial Statements autographed and signed by the chairman, chief accountant and accountants in charge.
- (3) The *Prospectus* and *Public Offering Announcement* for Stock B in 1997; The *Prospectus* and *The Shares' Change & Public Offering Announcement* for Stock A in 2000.
- (4) The originals of all documents and announcements that the Company made public during the report period in the newspapers designated by China Securities Regulatory Commission.

Yantai Changyu Pioneer Wine Co. Ltd.

Board of Directors

22nd April, 2017