



GRACE WINE HOLDINGS LIMITED 怡園酒業控股有限公司

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

STOCK CODE : 8146

SHARE OFFER

SOLE SPONSOR



JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS



英皇證券
Emperor Securities



SUCCESS SECURITIES LIMITED
實德證券有限公司



IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



Grace Wine Holdings Limited 怡園酒業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares	: 200,000,000 Shares
Number of Public Offer Shares	: 20,000,000 Shares (subject to reallocation)
Number of Placing Shares	: 180,000,000 Shares (subject to reallocation)
Offer Price	: Not more than HK\$0.40 per Offer Share and expected to be not less than HK\$0.30 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.001 per Share
Stock code	: 8146

Sole Sponsor



Joint Bookrunners and Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus and all related Application Forms, having attached thereto the documents specified in the "Appendix VI — Documents delivered to the Registrar of Companies and Available for Inspection" in this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is currently expected to be fixed by an agreement between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the Price Determination Date, which is scheduled on or about Friday, 15 June 2018, or such later date as may be agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters). If the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on Thursday, 21 June 2018 (or such later time and/or date as agreed by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters)), the Share Offer will not become unconditional and will lapse immediately.

The Offer Shares have not been and will not be registered under the US Securities Act and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in accordance with any applicable US state securities laws. The Offer Shares are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S.

Prior to making an investment decision, prospective investors should consider carefully all of the information contained in this prospectus, including the risk factors set out in "Risk Factors" in this prospectus.

Prospective investors of the Share Offer should note that the Joint Bookrunners are entitled to terminate their obligations under the Public Offer Underwriting Agreement by notice in writing to our Company given by the Joint Bookrunners upon the occurrence of any of the events set out under "Underwriting — Underwriting Arrangements and Expenses — Public Offer Underwriting Agreement — Grounds for termination" of this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Joint Bookrunners terminate its obligations under the Public Offer Underwriting Agreement in accordance with the terms of the Public Offer Underwriting Agreement, the Share Offer will not proceed and will lapse.

12 June 2018

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to higher market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications under
the **HK eIPO White Form** service through
the designated website at www.hkeipo.hk⁽²⁾ 11:30 a.m.
on Friday, 15 June 2018

Application lists of the Public Offer open⁽³⁾ 11:45 a.m.
on Friday, 15 June 2018

Latest time to lodge **WHITE** and **YELLOW** Application Forms
and to give **electronic application instruction** to HKSCC⁽⁴⁾ 12:00 noon
on Friday, 15 June 2018

Latest time to complete payment of **HK eIPO White Form**
applications by effecting internet banking transfer(s)
or PPS payment transfer(s) 12:00 noon
on Friday, 15 June 2018

Application lists of the Public Offer close⁽³⁾ 12:00 noon
on Friday, 15 June 2018

Expected Price Determination Date⁽⁵⁾ Friday, 15 June 2018

Announcement of the final Offer Price, the level of indication
of interest in the Placing, the level of applications
in the Public Offer, the basis of allocation of the
Public Offer Shares to be published on the website of
our Company at www.gracewine.com.hk and the website of
the Stock Exchange at www.hkexnews.hk on or before Tuesday, 26 June 2018

Results of allocations in the Public Offer (with successful
applicants' identification document numbers,
where applicable) to be available through a
variety of channels (see "How to Apply for
Public Offer Shares — 11. Publication of Results"
in this prospectus) from Tuesday, 26 June 2018

Results of allocations in the Public Offer will be available
at www.tricor.com.hk/ipo/result with a "search
by ID Number/Business Registration Number" function from Tuesday, 26 June 2018

Despatch/Collection of share certificates in respect of
wholly or partially successful applications pursuant
to the Public Offer on or about⁽⁵⁾⁽⁶⁾⁽⁷⁾ Tuesday, 26 June 2018

EXPECTED TIMETABLE⁽¹⁾

Despatch/Collection of refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Public Offer on or about⁽⁵⁾⁽⁷⁾ Tuesday, 26 June 2018

Despatch of **HK eIPO White Form** e-Auto Refund payment instructions and refund cheques in respect of wholly or partially unsuccessful applications pursuant to the Public Offer on or before⁽⁷⁾⁽⁸⁾ Tuesday, 26 June 2018

Dealings in Shares on the Stock Exchange expected to commence on Wednesday, 27 June 2018

Notes:

1. In this prospectus, unless otherwise stated, all times and dates refer to Hong Kong local times and dates.
2. You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application money) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “black” rainstorm warning signal or a tropical cyclone warning signal number 8 or above is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 15 June 2018, the application lists will not open on that day. For further information, see “How to Apply for Public Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists”.
4. Applicants who apply by giving **electronic application instructions** to HKSCC should refer to “How to Apply for Public Offer Shares — 6. Applying by giving **electronic application instructions** to HKSCC via CCASS”.
5. The Price Determination Date is scheduled on Friday, 15 June 2018 (or such later date as agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters)). If the Joint Bookrunners (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on the Price Determination Date, or such later date or time as may be agreed between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not become unconditional and will lapse.
6. Share certificates for the Offer Shares are expected to be issued on or about Tuesday, 26 June 2018 but will only become valid certificates of title provided that the Share Offer becomes unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms before 8:00 a.m. on the Listing Date. Investors who trade the Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

EXPECTED TIMETABLE⁽¹⁾

7. Applicants who have applied on **WHITE** Application Forms or through **HK eIPO White Form** service for 1,000,000 or more Public Offer Shares under the Public Offer may collect their refund cheques and share certificates (as applicable) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited from 9:00 a.m. to 1:00 p.m. on Tuesday, 26 June 2018. Applicants being individuals who are eligible for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations which are eligible for personal collection must attend by their authorised representatives bearing a letter of authorisation from their corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to our Hong Kong Branch Share Registrar.

Applicants who apply with **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer may collect their refund cheques (where relevant) in person but may not collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post and at the own risk of the applicants shortly after the expiry of the time for collection at the date of despatch of refund cheque as described in "How to apply for Public Offer Shares — 14. Despatch/Collection of share certificates and refund monies".

8. e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful application and also in respect of successful applications in the event that the final Offer Price is less than the price per Public Offer Share payable on application. Part of your Hong Kong identity card number/passport number or if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

Investors may obtain a printed copy of this prospectus, free of charge, during normal business hours from any of the designated branches of the receiving banks and the designated offices of the Sole Sponsor as set out in "How to apply for the Public Offer Shares". An electronic version of this prospectus (which is identical to the printed prospectus) can be accessed and downloaded from the websites of our Company at www.gracewine.com.hk and the Stock Exchange at www.hkexnews.hk under the section headed "HKExnews > Listed Company Information > Latest Listed Company Information".

Distribution of this prospectus into any jurisdiction other than Hong Kong may be restricted by law. Persons into whose possession this prospectus come (including, without limitation, agents, custodians, nominees and trustees) should inform themselves of, and observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction.

For details of the structure of the Share Offer, including the conditions of the Share Offer, and the procedures for application for the Public Offer Shares, you should read "Structure and Conditions of the Share Offer" and "How to Apply for Public Offer Shares", respectively.

If the Public Offer does not become unconditional or is terminated in accordance with its terms, the Public Offer will not proceed. In such case, our Company will make an announcement as soon as practicable thereafter.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus to make your investment decision.

Our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, advisers, agents, representatives or affiliates of any of them or any other persons or parties involved in the Share Offer.

The contents of our Company's website at www.gracewine.com.hk do not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read this prospectus in its entirety, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used herein are defined in “Definitions” and “Glossary”.

OVERVIEW

Branded as “Grace Vineyard (怡園酒莊)”, we are an award-winning, established wine maker based in Shanxi. Since our origins in 1997, we have been committed to making quality, value for money wine, catering to a wide range of customer taste and pricing preferences. During the Track Record Period, substantially all of our wine products were sold in the PRC and our biggest sales location was our home base in Shanxi, where we derived approximately 59.7% of our revenue on average and are the largest wine maker with a market share of approximately 14.9% in terms of retail sales revenue in 2016, according to the F&S Report.

In the overall PRC wine market, we are the 16th-ranked domestic wine maker in 2016 with a market share of 0.1% in terms of retail sales revenue, according to the F&S Report.

WINE PRODUCTS

Our wine product portfolio principally comprises red wine and can broadly be categorised into (1) the *higher-end* wine portfolio of mid to high-end wine products with a retail price ranging from RMB199 to RMB598 per 750 ml bottle, which targets at executive clientele and corporate customers, and (2) the *entry-level* wine portfolio, which has a more affordable retail price of RMB125 or below per 750 ml bottle and caters to the more price-conscious mass market. Our wine product mix varied between our *higher-end* wine portfolio and *entry-level* wine portfolio during the Track Record Period, which we adjust according to market landscape and customer demands. To suit our customers’ tastes and preferences, we also from time to time (1) make white and sparkling wine as well as seasonal series and special blends of red wine, and (2) import an insignificant volume of overseas-made wine. See “Business — Our Wine Product Portfolio” for details.

Our “Grace Vineyard (怡園酒莊)” wine products are well-decorated with industry awards and accolades. In Shanxi, our primary sales market, we are a “Top Shanxi Brand” selected by the Shanxi Administration for Industry and Commerce. We also received a gold medal and the “best value for money” award from La Revue du Vin de France, Chinese Edition, in 2017, and our wine products are well-received by sommeliers in the PRC and Hong Kong and have been served in a number of multi-national luxury hotel chains. See “Business — Our Wine Product Portfolio — Awards and recognitions” for details.

SUMMARY

The table below shows the key operating and financial data of our *higher-end*, *entry-level* and other wine portfolio during the Track Record Period:

	FY2015				FY2016				FY2017			
	Revenue		Quantity		ASP ⁽²⁾		Revenue		Quantity		ASP ⁽²⁾	
	RMB'000	%	Bottle '000	RMB/Bottle	RMB'000	%	Bottle '000	RMB/Bottle	RMB'000	%	Bottle '000	RMB/Bottle
Entry-level wine portfolio	22,098	32.3	827	26.7	23,074	43.2	852	27.1	24,687	35.1	863	28.6
Higher-end wine portfolio	44,881	65.6	403	111.5	29,559	55.4	231	128.0	44,256	62.9	311	142.3
Others ⁽¹⁾	1,457	2.1	37	39.7	734	1.4	8	88.6	1,441	2.0	28	50.7
	<u>68,436</u>	<u>100.0</u>	<u>1,267</u>	<u>54.0</u>	<u>53,367</u>	<u>100.0</u>	<u>1,091</u>	<u>48.9</u>	<u>70,384</u>	<u>100.0</u>	<u>1,202</u>	<u>58.5</u>

Notes:

- (1) “Others” includes white and sparkling wine, seasonal renditions or special blendings of red wine, as well as imported overseas wine. See “Business — Our Wine Product Portfolio — Others” for further details.
- (2) ASP means the average selling price which is computed by dividing the sales revenue by the sales quantity of the relevant year. As we sell our wine products to our distributors at the wholesale price, the ASP is lower than the retail price of our wine products as set out in “Business — Our Wine Product Portfolio”. Our distributors, by having our Group’s prior approval, are generally permitted to price our Group’s wine products with immaterial deviations from our pricing guidelines.

GRAPE CULTIVATION

Our principal raw materials are grapes, which are either self-cultivated or externally-sourced from adjacent vineyards in Ningxia, which is one of the most prominent grape cultivation regions in the PRC. During the Track Record Period, self-cultivated grapes were grown at our Shanxi Vineyard and Ningxia Vineyard, which gross site area of approximately 480,488.53 sq.m. and 731,333.33 sq.m., respectively. Our self-cultivated grapes represented on weighted average approximately 61.5% of the total volume during the Track Record Period and approximately 100%, 71.2% and 40.6% of the total volume, respectively, for each of FY2015, FY2016 and FY2017, of the grapes we used to make wine.

We ceased to operate the Ningxia Vineyard and disposed of the Ningxia Vineyard Land Parcel in 1 June 2018. Our Shanxi Vineyard is thus our single source of self-cultivated grapes. It is our Directors’ current intention to substitute the cultivation capacity of the Ningxia Vineyard (which produced only a weighted average of approximately 22.7% (in terms of volume) of the grape we used to make wine during the Track Record Period) with grapes cultivated in our Shanxi Vineyard and increased purchase of externally-sourced grapes from adjacent vineyards in Ningxia. We have entered into non legally-binding letters of intent with nearby vineyards in Ningxia to guarantee the procurement of sufficient externally-sourced grapes, and will adjust the grape cultivation arrangements at our Shanxi Vineyard to produce sufficient quality grapes for our *higher-end* wine portfolio. Our Directors believe that the cessation of the Ningxia Vineyard will not have a material adverse effect on our operations and financial results. There will not be any transaction between our Group and the Ningxia Vineyard after the Listing.

SUMMARY

RAW MATERIALS AND SUPPLIERS

We also purchase grapes from external sources for our wine-making in Shanxi and Ningxia. During the Track Record Period, externally-sourced grapes purchased from Ningxia accounted for on weighted average 38.5% in terms of volume (being nil, 28.8% and 59.4% of the total volume, respectively for each of FY2015, FY2016 and FY2017) of the grapes we used to make wine. Our other raw materials include base wine, grape juice (each as necessary based on individual wine formula), yeast and additives, as well as packaging materials such as corks, bottles, bottle caps and boxes. In FY2015, FY2016 and FY2017, the costs of our materials used accounted for approximately 27.2%, 27.4% and 25.0% of our costs of sales, respectively.

Our major suppliers principally provide us with raw materials and packaging materials. In FY2015, FY2016 and FY2017, our five largest suppliers (by purchase amount) accounted for approximately 48.1%, 45.5% and 59.0%, respectively of our purchases. During the Track Record Period, we also engaged a food processor to crush our self-cultivated grapes harvested in Ningxia before transporting them to our Shanxi Winery, mainly to avoid decay and reduce transportation costs.

WINE-MAKING PROCESS AND FACILITIES

Our wine-making process, which is detailed in “Business — Wine-making Process”, principally comprises destemming and crushing of grapes, cold soaking, fermentation, blending and, for our *higher-end* wine portfolio only, ageing. The production lead-time for our *higher-end* wine portfolio is generally 16 to 18 months on average, and our *entry-level* wine portfolio, seven to ten months.

Our wine products are principally made at our Shanxi Winery, which had a GFA of approximately 29,064.27 sq.m. and 125 wine-making tanks as at the Latest Practicable Date. The capacity and utilisation of our wine-making facilities is principally driven by the availability of our wine-making tanks, which may be occupied by our work-in-progress during fermentation process or semi-finished wine of previous vintages for the entirety or a portion of our wine-making season each year, depending on individual grapes type and wine formula. For the wine-making seasons in FY2015, FY2016 and FY2017, the estimated occupancy rates of our tanks and barrels were approximately 95.2%, 80.6% and 75.8%, respectively. We consider that we in general sufficiently utilise our Shanxi Winery and require new wine-making facilities to attain future growth. See “Business — Wine-making Facilities” for details.

During the Track Record Period, we began to construct a new winery in Ningxia. Ningxia is considered as one of the most prominent wine-making regions in the PRC over the past few years, giving us exposure to ample sales and marketing opportunities for our wine products and abundant supply of externally-sourced grapes to sustain the additional wine-making capacity at our Ningxia Winery. Grossing an aggregate site area of approximately 72,800 sq.m. and 75 wine-making tanks together with the second phase, our Ningxia Winery is expected to give us additional wine-making capacity and operational efficiency, greater exposure and brand exposure within the PRC wine market, as well as new sales channels and opportunities. The first phase construction of our Ningxin Winery (with a GFA of approximately 8,600 sq.m. and 41 wine-making tanks) was completed in December 2017 and is expected to be fully operational after the 2018 grape harvest season. The second phase, which will be funded by a substantial

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portion of the net proceeds from the Share Offer, is expected to be operational by the end of 2020. See “Business — Business Strategies” for the detailed commercial benefits anticipated from our Ningxia Winery.

SALES AND DISTRIBUTION

Our principal sales channel is a network of 13 distributors, which wholesale or retail our wine products mainly to the PRC and also to Hong Kong and other international markets. During the Track Record Period, approximately 61.8% of our revenue was derived from wine products on average were sold in Shanxi primarily through an exclusive distributor, Shanxi Jiajia, with whom we have a long-established business relationship of more than 12 years. We consider that we do not unduly rely on Shanxi Jiajia as our business relationship has been mutually-beneficial, amicable and sustainable. See “Business — Sales and Distribution — Distributors — Relationship with our distributors” for further details. Aside from Shanxi, our other key sales markets in the PRC are Fujian, Zhejiang, Henan, Hunan and Guangdong provinces. Our other sales channels are (1) online sales through scalable, third-party operated online virtual space in the PRC such as JD.com and TMall, and (2) direct sales to end-users mainly to cater to personal, corporate and business events. Sales to our distributors had remained as our principal sales channel throughout the Track Record Period and our distributors are accounted for as our customers in our financial statements.

The table below shows the revenue contribution of each sales channel during the Track Record Period:

	FY2015				FY2016				FY2017			
	Revenue		Quantity		ASP		Revenue		Quantity		ASP	
	RMB'000	%	Bottle '000	RMB/Bottle	RMB'000	%	Bottle '000	RMB/Bottle	RMB'000	%	Bottle '000	RMB/Bottle
Distributors	49,190	71.9	1,077	45.7	52,144	97.7	1,080	48.3	63,133	89.7	1,135	55.6
Online sales	—	—	—	—	—	—	—	—	3,169	4.5	15	210.0
Direct sales to end-users	19,246	28.1	190	101.5	1,223	2.3	11	109.5	4,082	5.8	52	78.7
	<u>68,436</u>	<u>100.0</u>	<u>1,267</u>	<u>54.0</u>	<u>53,367</u>	<u>100.0</u>	<u>1,091</u>	<u>48.9</u>	<u>70,384</u>	<u>100.0</u>	<u>1,202</u>	<u>58.5</u>

CUSTOMERS

Our customers are broadly categorised into (1) distributors, which we have a buyer and seller relationship with, (2) online customers, and (3) direct sales end-users. In FY2015, FY2016 and FY2017, our five largest customers (by revenue) accounted for approximately 90.8%, 97.3% and 86.4% of our revenue, respectively and were mostly distributors.

Among our major customers is Shanxi Jiajia, our sole and exclusive distributor in Shanxi, which contributed to approximately 48.6%, 70.6% and 66.4% of our revenue in FY2015, FY2016 and FY2017, respectively and was our single largest customer (by revenue) throughout our Track Record Period. We have had a mutually-beneficial, amicable and sustainable relationship with Shanxi Jiajia for more than 12 years and our sales concentration on it traces back to our

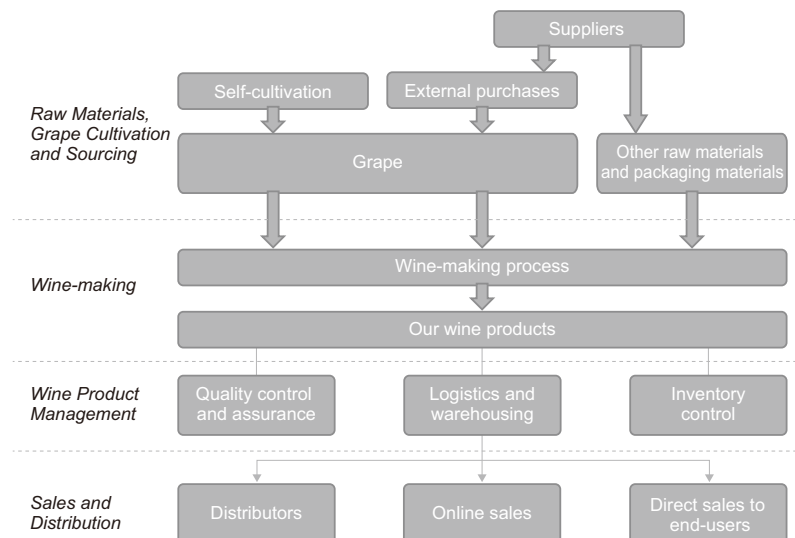
SUMMARY

origins and home base in Shanxi. We consider that we do not unduly rely on Shanxi Jiajia. See “Business — Sales and Distribution — Distributors” for further details. Among our other major customers during the Track Record Period were Fuzhou Liyuan, which is an Independent Third Party previously wholly-owned by Ms. Chan, an executive Director and a Controlling Shareholder, prior to December 2016, as well as Xiamen Taofu, our online sales entity which was acquired by us from Ms. Chan in February 2017. See “Business — Sales and Distribution” for further details.

Because we generally appoint no more than one distributor for each geographical sales location, we have a certain degree of reliance on each distributor in respect of our sales in each such location.

BUSINESS MODEL

The chart below summarises our principal business model as described above:



COMPETITIVE STRENGTHS

We believe that we have a number of key strengths that differentiate our business from that of our competitors, including: (1) award-winning “Grace Vineyard (怡園酒莊)” brand and quality wine products giving us high profile and public awareness in the PRC; (2) diverse wine-product portfolio catering to a broad range of customer pricing preferences; (3) strategic presence in Shanxi and Ningxia giving us a vertically integrated production chain and the ability to grow; (4) reliable network of distributors and growing online sales capability contributing to our sales performance; (5) dedicated and responsive marketing efforts that continues to raise our brand image; and (6) energetic management and technical teams with in-depth experience and exposure to international wine making businesses.

BUSINESS STRATEGIES

We intend to continue solidifying our market position within the wine market in the PRC and enhancing our market penetration into different customer segments and preferences. To attain

SUMMARY

growth, improve our financial performance and maintain sustainable sales pipelines, we intend to deploy the following strategies: (1) enhancement of our wine-making capacity with our new Ningxia Winery, (2) diversification of our wine product mix and market responsive optimisation of our product mix to suit customer preferences and achieve market share growth; (3) enhancing our “Grace Vineyard (怡園酒莊)” brand awareness to widen our customer base; and (4) extending our product outreach by optimising our distributorship model and expanding our online sales capability.

INDUSTRY LANDSCAPE AND IMPACTS ON OUR HISTORICAL FINANCIAL PERFORMANCE

According to the F&S Report, the wine market in the PRC had dipped both in terms of sales volume and sales revenue from 2012 to 2014 with a negative CAGR of 10.9% and 6.1%, respectively, principally due to the government’s frugality campaigns in the PRC that restrict luxurious spending on alcoholic beverages. These campaigns had a particularly negative effect on the sales performance of our *higher-end* wine portfolio (which generally has a higher profit margin and was our previous business focus) and our overall financial performance. During the financial years ended 31 December 2012 to 2014, our revenue, sales volume, gross profit and net profit declined at a negative CAGR of approximately 26.1%, 20.9%, 31.2% and 46.2%, respectively, based on our unaudited management accounts. Our Directors consider that, compared to other industry peers in the overall PRC wine market (which recorded a negative CAGR in terms of sales volume and sales value of 10.9% and 6.1%, respectively, from 2012 to 2014, according to the F&S Report), our efforts to counter the negative impacts of the government’s frugality campaigns in the PRC were not as effective. This can be attributed to our Directors’ vision back in 2012 on the continual popularity of our *higher-end* wine portfolio (which failed to materialise from 2012 to 2014). As we generally plan ahead the composition of our grape cultivation and wine-making plans a year in advance, our inventory level was predominantly made up of our *higher-end* wine portfolio from 2012 to 2014 which did not correspond with customer demands under the government’s frugality campaigns in the PRC.

We have since responded to the government’s frugality campaigns in the PRC by (1) adjusting our wine product mix with increasing focus on our *entry-level* wine portfolio since 2014, which led to an increased contribution to our actual sales volume and revenue compared to previous years, (2) optimising our wine-making and operational process, and (3) adjusting the composition of and commercial terms with our network of distributors, all of which enabled us to have a better control throughout our production chain and sales channels. Coupled with the continual recovery of the wine market in the PRC since 2015, we had been able to stabilise our financial results in FY2015 and achieved growth both in terms of revenue and profit from 2014.

DECLINING FINANCIAL TREND FROM FY2015 TO FY2016

Our financial results during the Track Record Period was on a declining trend and our revenue and profit had decreased by approximately 21.9% and 38.6%, respectively, from FY2015 to FY2016. This decline is principally attributable to our non-recurring sales events with a higher than usual average selling price during FY2015, comprising (1) a direct sales of approximately RMB2.4 million to the father of Ms. Chan, who is our executive Director and a Controlling Shareholder, for his personal use, and (2) two direct bulk sales amounting to approximately RMB15.2 million to Independent Third Parties mainly to cater to business and corporate events of the relevant end-users. One of these independent direct end-users was a business acquaintance of Ms. Chan’s father for more than 10 years, and the other has been our

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customer since 2012. The two direct bulk sales comprised (1) 60,600 bottles of our Tasya's Reserve wine series of our *higher-end* wine portfolio at a unit price (tax inclusive) of RMB150 per bottle, which were used for a personal event, and (2) 108,900 bottles of our Tasya's Reserve wine series at a unit price of RMB80 (tax inclusive) per bottle, which were used as gifts to the guests of a property sales event. The differences between the prices we offered to these two customers were primarily due to the significantly different purchase volume between them. Compared to the average retail price of our Tasya's Reserve wine series of RMB199 per bottle during the Track Record Period, our prices for bulk sales to direct end-users, which we negotiated on arm's length and a case-by-case basis, were offered with reference to wholesale prices in case of exceptionally large volume. The prices for bulk sales to direct end-users varied generally based on our relationship with the relevant direct end-users, our prevailing operational and inventory level, and most importantly the sales volume. In general, our direct sales to end-users generated a higher profit margin than our principal sales channel of distributors because we were not subject to the margin charged by distributors and/or sub-distributors. Excluding these sales events, our revenue and gross profit for FY2015 would have been approximately RMB50.8 million and RMB25.3 million, respectively. These sales events by their own nature did not recur to a comparable scale during FY2016 and without taking into account of which our revenue derived through our principal sales channel of distributors would, on a pro-forma basis, have been on a moderate upward trend. Based on our audited financial results for FY2017, our revenue has once again been growing steadily and we currently expect that our results of operations will continue to improve after the Listing. See "Business — Business Strategies" for the strategies we deploy to improve our business and financial performance. Investors should carefully read the risk factors on pages 36 to 37 in relation to our financial result. Detailed analysis of our financial performance during the Track Record Period is set out in "Financial Information".

RECENT DEVELOPMENT, OUTLOOK AND PROSPECTS

During the Track Record Period and up to the Latest Practicable Date, we completed, and will commence trial wine-making operations at (after necessary approval and/or certificate required under the relevant laws and regulations in the PRC have been obtained) the first phase construction of our Ningxia Winery and continued with the gradual and moderate expansion of our wine product portfolio and improvement of sales performance. We are also negotiating for a sales arrangement with a scalable, "online-to-offline" wine and spirit retailer in the PRC which is expected to be multi-faceted, ranging from online sales (in which we are provided with online platforms) and retail sales at over 1,000 sales locations across the PRC (in which we have a buyer and seller relationship with the new retailer). We do not consider our potential sales arrangement will result in material changes to our business model and cost structure in the near future because (1) the business model and cost structure of the new "online" component will be similar to our current online sales channels with our sales conducted through third-party operated online virtual space, (2) the business model and cost structure of the new "offline" component of physical retail locations will be similar to our current principal sales channel of distributors (and will be accounted for as such) adopting a retail pricing guidelines similar those provided to our current distributors, (3) we have no current intention to substantially expand our sales of wine products through this new sales arrangement because we exercise caution every time we explore a new sales channel, and (4) our current expansions plans through this new sales arrangement will be confined to one new wine series, namely "New Year Wine (慶春酒)", which mainly coincides with the celebration of the Lunar New Year in 2018. In addition, a new

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distributor engaged in 2016 has also commenced its distribution to an international chain-operated membership-only clubs which runs 18 clubs in the PRC. In order to rectify certain defects to the land use rights and non-compliant land usage of the Ningxia Vineyard Land Parcel, we ceased to operate our Ningxia Vineyard and disposed of the Ningxia Vineyard Land Parcel to Ms. Chan, a Controlling Shareholder on 1 June 2018. The expected gain on disposal before tax is approximately RMB5.7 million. See “Business — Raw Materials — Disposal of the Ningxia Vineyard” and “Financial Information — Description of Selected Items of Consolidated Statements of Financial Position — Biological assets” for the material information in relation to the Disposal and its grapes (being our biological assets). As a result, we no longer cultivate and harvest grapes in Ningxia and our Shanxi Vineyard is our single source of self-cultivated grapes. It is our Directors’ current intention to substitute the cultivation capacity of the Ningxia Vineyard with grapes cultivated in our Shanxi Vineyard and increased purchase of externally-sourced grapes from Ningxia. Our Directors are confident that this will not result in any material disruption to our business model and operational activities. See “Business — Raw Materials — Grape” for their basis.

According to the F&S Report, the PRC wine consumption is forecasted to gradually recover from the impact of the government’s frugality campaigns and, coupled with the expanding population, increasing urbanisation, uplift of living standards, and growing popularity of wines consumption in the PRC, to grow at a CAGR of 6.8% from 2016 to 2021. In addition, wine makers (such as ourselves) are able to offer more affordable, value-for-money wine products and the PRC public are increasingly inclined to consume wine in family and social gatherings rather than business occasions. We expect that the increased wine-making capacity of our Ningxia Winery and the fringe commercial benefits that come with it, together with our business strategies to raise brand and product awareness, expand wine product portfolio and enhance our sales capability will allow us to tap into these market opportunities. Because the PRC wine market is fragmented with over 1,000 wine makers and are constantly challenged by imported wine, we expect that our future growth after the Listing will be gradual and moderate. Potential investors should note that (1) we expect to charge approximately RMB5.0 million of one-off Listing expenses as administrative expenses to our consolidated statements of profit or loss in FY2018, and (2) we expect to incur approximately HK\$1.7 million of Directors remuneration per annum after the Listing (which we only incurred approximately RMB0.6 million in FY2017).

Our Directors have confirmed that, save as disclosed above and up to the date of this prospectus, there had been no material adverse change in our financial or trading position or prospects since 31 December 2017 (being the date to which our latest audited financial information was prepared) and there had been no event since 31 December 2017 which would otherwise materially affect the information shown in the Accountants’ Report set out as Appendix I to this prospectus.

HIGHLIGHTS OF RISK FACTORS

There are certain risks involved in our operations set forth in “Risk Factors”. Potential investors should read the “Risk Factors” section in its entirety before you decide to invest in the Offer Shares. Some of the major risk factors include: (1) we rely on Shanxi as our major market, (2) we rely on Shanxi Jiajia, our sole and exclusive distributor in Shanxi, to derive a substantial portion of our revenue, (3) we rely heavily on our distributorship model to generate a substantial portion of our revenue, (4) the non-recurring sales events in FY2015 did not recur to a

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comparable scale during the remainder of the Track Record Period and up to the Latest Practicable Date and are not indicative of our future financial performance, (5) our Group's financial performance had deteriorated during the Track Record Period; and (6) our business and financial performance had been and may be adversely affected by the uncertainties within the wine industry in the PRC arising from the government's frugality campaigns.

SHAREHOLDER INFORMATION

Immediately upon completion of the Share Offer (but without taking into account any option that may be granted under the Share Option Scheme), Macmillan Equity will be interested in approximately 52.5% of our total number of issued Shares. Macmillan Equity is beneficially and wholly-owned by Ms. Chan, an executive Director, Chairlady of the Board and Chief Executive Officer. Macmillan Equity will continue to control more than 30% of our issued share capital and therefore, Macmillan Equity and Ms. Chan will be regarded as the controlling shareholders of our Company under the GEM Listing Rules. As at the Latest Practicable Date, Ms. Chan, one of our Controlling Shareholders, was indirectly interested in 50% in a company incorporated in the United States which operates a vineyard in California, the United States. The remaining 50% shareholding in that company was held by an Independent Third Party. On the basis that, among other things, the operation of the vineyard in the United States remains at an early stage and the clear geographical delineation from our Group's business, our Directors consider that there is no direct or indirect competition between our Group and Ms. Chan's business in the United States.

As at the Latest Practicable Date, Ms. Chan, one of our Controlling Shareholders, as indirectly interested in 20% equity interest in Fujian Dexi Wine Company Limited* (福建德熙酒業有限公司) ("**Fujian Dexi**"), with 20% equity interest indirectly held by Ms. Wong, one of our Substantial Shareholders, and the remaining 60% equity interest held by Ms. Chan and Ms. Wong's associates. Fujian Dexi is a company incorporated in the PRC with limited liability and principally engaged in the trading of whisky, gin and brandy in the PRC (the "**Fujian Business**"). Ms. Chan has not been and is not expected to be involved in the day-to-day management of Fujian Dexi since its establishment in December 2017. To the best knowledge of the Directors, as at the Latest Practicable Date, Fujian Dexi had not commenced operation and did not generate any revenue from the sales of any liquor products during the Track Record Period and up to the Latest Practicable Date. In addition, to the best knowledge of the Directors, Fujian Dexi intends to focus on the trading of liquor products in the PRC and going forward has no intention to manufacture or sell any wine products in the PRC or elsewhere. Given (i) the business focus of Fujian Dexi is entirely different from that of our Group and (ii) Fujian Dexi had not commenced any operation and had not generated any revenue as at the Latest Practicable Date, our Directors consider there is a clear delineation between our Group's business and the Fujian Business. In addition, our Group's interest is further safeguarded by the Deed of Non-competition. We have also conditionally adopted the Share Option Scheme. See "Relationship with our Controlling Shareholders" and "Appendix V — Statutory and General Information — F. Share Option Scheme" for further details.

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SUMMARY OF FINANCIAL INFORMATION AND OPERATING DATA

Summary of Consolidated Statements of Profit or Loss

	FY2015	FY2016	FY2017
	RMB'000	RMB'000	RMB'000
Revenue	68,436	53,367	70,384
Cost of sales	(28,871)	(25,703)	(36,294)
Gross profit	39,565	27,664	34,090
Other income and gains, net	2,708	957	2,038
Selling and distribution expenses	(1,348)	(1,260)	(3,456)
Administrative expenses	(10,049)	(9,719)	(23,227)
Other expenses and losses	(3,040)	(78)	(214)
Finance costs, net	(1,228)	(623)	(572)
Profit before tax	26,608	16,941	8,659
Income tax expense	(8,250)	(5,656)	(7,545)
Profit for the year and profit attributable to owners of the Company	18,358	11,285	1,114

The table below sets forth the breakdown of our costs of sales by nature for the periods indicated:

	FY2015	FY2016	FY2017
	RMB'000	RMB'000	RMB'000
Cost of materials used	7,849	7,036	9,074
Cultivation costs	2,068	771	2,950
Depreciation	9,117	7,734	10,337
Staff costs	3,276	3,457	4,368
Utility expenses	1,012	1,025	2,101
Others	704	734	1,613
	24,026	20,757	30,443
Consumption tax and surcharge	6,298	5,117	6,497
Fair value (gain)/loss on biological assets	(1,453)	289	(835)
Fair value (loss)/gain released upon the sales of wines	—	(460)	189
	28,871	25,703	36,294

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The table below shows the breakdown of our gross profit and gross profit margin by categories of products for the periods indicated:

	FY2015		FY2016		FY2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
<i>Entry-level</i> wine portfolio	6,897	31.2	8,314	36.0	6,185	25.1
<i>Higher-end</i> wine portfolio	36,713	81.8	23,762	80.4	33,089	74.8
Others	800	54.8	534	72.6	667	46.3
	<u>44,410</u>	64.9	<u>32,610</u>	61.1	<u>39,941</u>	56.7
Consumption tax and surcharge	(6,298)		(5,117)		(6,497)	
Fair value gain/(loss) on biological assets	1,453		(289)		835	
Fair value loss/(gain) released upon the sales of wines	<u>—</u>		<u>460</u>		<u>(189)</u>	
	<u>39,565</u>	57.8	<u>27,664</u>	51.8	<u>34,090</u>	48.4

For FY2015, FY2016 and FY2017, our gross profit margin amounted to approximately 57.8%, 51.8% and 48.4%, respectively, despite the increase in our use of externally-sourced grapes in Ningxia, which in general have a lower unit cost than our self-cultivated grapes. This is because the wine products we sold each year were made with grapes cultivated or purchased in prior harvesting seasons and our gross profit margin during the Track Record Period was not directly corresponding to the percentage of self-cultivated and externally-sourced grapes in the same grape harvesting season.

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	FY2015		FY2016		FY2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Distributors	28,780	58.5	31,620	60.6	34,450	54.6
Direct sales to end-users	15,630	81.2	990	80.9	2,820	69.1
Online sales	—	—	—	—	2,671	84.3
	<u>44,410</u>	64.9	<u>32,610</u>	61.1	<u>39,941</u>	56.7
Consumption tax and surcharge	(6,298)		(5,117)		(6,497)	
Fair value gain/(loss) on biological assets	1,453		(289)		835	
Fair value loss/(gain) released upon the sales of wines	—		460		(189)	
	<u>39,565</u>	57.8	<u>27,664</u>	51.8	<u>34,090</u>	48.4

Summary of Consolidated Statements of Financial Positions

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Non-current assets	100,592	92,831	99,195
Current assets	173,257	203,850	129,624
Non-current liabilities	10,398	35,793	9,688
Current liabilities	152,901	146,393	15,071
Net current assets	20,356	57,457	114,553
Total equity	110,550	114,495	204,060

Summary of Consolidated Statements of Cash Flows

	FY2015	FY2016	FY2017
	RMB'000	RMB'000	RMB'000
Net cash from operating activities	26,162	16,775	45,473
Net cash from/(used in) investing activities ..	(193)	872	(14,264)
Net cash from/(used in) financing activities ..	(24,573)	11,092	(48,261)
Net increase/(decrease) in cash and cash equivalents	1,396	28,739	(17,052)
Cash and cash equivalents at beginning of year	21,142	22,567	51,367
Effect of foreign exchange rate changes, net .	29	61	(2,163)
Cash and cash equivalents at end of year ...	<u>22,567</u>	<u>51,367</u>	<u>32,152</u>
Cash flow generated from operating activities before changes in working capital and taxes paid	<u>34,720</u>	<u>28,756</u>	<u>17,261</u>

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Key Financial Ratios

	FY2015	FY2016	FY2017
Gross profit margin (%) ⁽¹⁾	57.8	51.8	48.4
Net profit margin (%)	26.8	21.1	1.6
Adjusted net profit margin (excluding listing expenses) (%) (Note)	26.8	21.1	17.3
Return on equity (%)	16.6	9.9	0.5
Return on total assets (%)	6.7	3.8	0.5
Current ratio	1.1	1.4	8.6
Quick ratio	0.6	0.8	3.5
Gearing ratio (%) ⁽²⁾	N/A	22.7	N/A
Net debt to equity ratio	N/A	Net cash	N/A

Note: The adjusted net profit margin is calculated by the net profit for the year excluding the listing expenses divided by the revenue.

Notes:

- Our gross profit margin decreased from 57.8% for FY2015 to 51.8% for FY2016, mainly due to occurrence of certain non-recurring sales events of wine products with higher average selling price in FY2015. Our gross profit margin decreased further to 48.4% for FY2017, mainly due to increase in unit cost of wine sold and was partially offset by growth of sales from products with higher gross profit margin.
- Gearing ratio is calculated as the total interest bearing external borrowings divided by total equity and multiplied by 100%.

For the detailed calculations and fluctuation analyses, see “Financial Information — Key Financial Ratios”.

NON-HKFRS MEASURES ADOPTED

	FY2015	FY2016	FY2017
	RMB'000	RMB'000	RMB'000
Profit for the year and profit attributable to owners of the Company	18,358	11,285	1,114
Non-HKFRS measures — Adjusted for:			
Unrealised losses/(gains) arising from changes in fair value of agricultural produce at the date of harvest (note)	(3,013)	249	(884)
Non-HKFRS measures — Profit for the year and profit attributable to owners of our Company excluding unrealised losses/(gains) arising from changes in fair value of agricultural produce at the date of harvest (note)	15,345	11,534	230

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	FY2015	FY2016	FY2017
	RMB'000	RMB'000	RMB'000
Profit for the year and profit attributable to owners of the Company	18,358	11,285	1,114
Non-HKFRS measures — Adjusted for:			
Listing expenses (<i>note</i>)	—	—	11,069
Non-HKFRS measures — Profit for the year and profit attributable to owners of the Company excluding listing expenses (<i>note</i>).	<u>18,358</u>	<u>11,285</u>	<u>12,183</u>

Note: The terms “Profit for the year and profit attributable to owners of our Company excluding listing expenses” and “Profit for the year and profit attributable to owners of our Company excluding unrealised losses/(gains) arising from changes in fair value of agricultural produce at the date of harvest” during the Track Record Period are not defined under the HKFRS. The use of “Profit for the year and profit attributable to owners of our Company excluding listing expenses” and “Profit for the year and profit attributable to owners of our Company excluding unrealised losses/(gains) arising from changes in fair value of agricultural produce at the date of harvest” has material limitations as an analytical and demonstration tool as it does not include all items that may impact our net loss or income for the Track Record Period.

REASONS FOR LISTING

The principal reason for the Listing and the Share Offer is to expand our business. Center to our expansion plans is the establishment of our Ningxia Winery which, located in one of the most prominent wine-making regions in the PRC, will not only give us additional wine-making capacity, but also provide us access to abundant supplies of externally-sourced grapes, sales and marketing opportunities, enhanced reputation and brand image, as well as industry know-how and intelligence. Investment into our Ningxia Winery is capital intensive in nature, estimated to be RMB69.1 million in aggregate and will be funded by the net proceeds from the Share Offer and our internal resources. The first phase construction of our Ningxia Winery was completed in December 2017 and will become operational before the grape harvest season in 2018, giving us 390 tonnes or a 18.0% increase in our wine-making capacity. The second phase construction of our Ningxia Winery is expected to be completed by the end of 2020, giving us a further 260 tonnes or a 12% increase in our wine-making capacity.

Our Ningxia Winery will be complementary to our Shanxi Winery, the wine-making tanks of which were approximately 95.2%, 80.6% and 75.8% occupied, respectively, for FY2015, FY2016 and FY2017. As the PRC wine market continues to recover at a forecasted CAGR of 6.8% from 2016 to 2021, it is our current intention to gradually increase our wine-making volume and optimise our stock and inventory level. Based on our Directors' estimation, our Shanxi Winery would reach full capacity if we were to, in each financial year, (1) achieve a sales volume of approximately 1.4 million bottles (equivalent to approximately 1,100 tonnes) of wine products, and (2) maintain a one-year safety stock level of approximately 1.4 million bottles (equivalent to approximately 1,100 tonnes) of wine products (equivalent to the sales volume as mentioned above) across all wine series in response to changes in customer demand, preferences and operational contingencies such as natural disasters. With our proven sales volume of approximately 1.2 million bottles of wine products in FY2017 and our expected growth in sales volume as a result of our strengthened sales and marketing efforts, our reinforced brand

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awareness and corporate image after the Listing, as well as favourable market backdrops in the PRC with an estimated CAGR growth of 7.8% for PRC domestic wine-makers, our Directors believe that it is a realistic estimation that the current production capacity of 2,200 tonnes per year at our Shanxi Winery will saturate in the coming years and the additional capacity at our Ningxia Winery would be essential to grow our business. Our Directors further estimate that the first phase of our Ningxia Winery will reach full capacity if we were to further achieve a growth in our sales volume to approximately 1.7 million bottles (equivalent to approximately 1,295 tonnes) of wine and maintain the same volume of one-year safety stock level, which necessitates the second phase construction of our Ningxia Winery to sustain our long-term development to further grow our sales volume to approximately 1.8 million bottles (equivalent to approximately 1,425 tonnes) of wine and maintain to same volume of one-year safety stock level.

We have incurred approximately RMB39.6 million for the first phase construction of our Ningxia Winery with our internal resources. The remaining expenses for our Ningxia Winery will be funded with the net proceeds from the Share Offer and our internal resources. We currently expect to pay (1) approximately RMB2.3 million for the remaining balance of the phase one construction and plants and equipment purchases of our Ningxia Winery (to be paid with internal resources), (2) approximately RMB29.5 million for the second phase construction and plants and equipment purchases of our Ningxia Winery (to be paid by net proceeds and internal resources), (3) approximately RMB9.6 million for the initial phase one production of our Ningxia Winery, and (4) RMB10.0 million as dividends to our existing Shareholders, a combination of which would have rendered us into negative cash position without the net proceeds from the Share Offer, notwithstanding our net cash and cash equivalents of approximately RMB37.5 million as at 30 April 2018. The Share Offer thus provides us with an important capital base for the continuation of business growth while maintaining a healthy liquidity position.

The Listing is also expected to bring us the site benefits of reinforced brand awareness and corporate image as a listed issuer with sound corporate governance practice is expected to enhance the sales and marketability of wine products in and beyond our key markets in the PRC and strengthen the confidence which our business partners and customers place on us. We also expect to have access to secondary fundraising opportunities in the form of debts and equity giving us additional options to fund our future operations. See “Future Plans and Use of Proceeds” for further details.

USE OF PROCEEDS

Assuming an Offer Price of HK\$0.35 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.30 to HK\$0.40 per Offer Share, the gross proceeds for the Share Offer are estimated to be approximately HK\$70.0 million (equivalent to RMB57.1 million), and the net proceeds from the Share Offer are estimated to be approximately HK\$40.6 million (equivalent to RMB33.1 million), after deducting underwriting fees and estimated expenses paid or payable by our Company in connection thereto. We currently intend to apply the net proceeds in the following manner: (i) approximately RMB15.0 million (equivalent to HK\$18.4 million) (or approximately 45.3% of the net proceeds) for the second phase construction of our Ningxia Winery; (ii) approximately RMB6.8 million (equivalent to HK\$8.3 million) (or approximately 20.5% of the net proceeds) for purchase of plants and equipment for the second phase of our Ningxia Winery; (iii) approximately RMB6.7 million (equivalent to HK\$8.2 million) (or approximately 20.2% of the net proceeds) for our Ningxia Winery’s initial production costs

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of the first phase of our Ningxia Winery; (iv) approximately RMB3.0 million (equivalent to HK\$3.7 million) (or approximately 9.1% of the net proceeds) for the marketing and promotion expenses; and (v) approximately RMB1.6 million (equivalent to HK\$2.0 million) (or approximately 4.9% of the net proceeds) for general working capital. For further details, see “Future Plans and Use of Proceeds”.

OFFERING STATISTICS

The table below shows the offering statistics of the Share Offer, assuming that the Capitalisation Issue and the Share Offer have been completed and 800,000,000 Shares are in issue and without taking into account any option which may be granted under the Share Option Scheme.

	Based on an Offer Price of HK\$0.30 per Offer Share	Based on an Offer Price of HK\$0.40 per Offer Share
Market capitalisation of the Shares (<i>Note 1</i>)	HK\$240 million	HK\$320 million
Unaudited pro forma adjusted consolidated net tangible assets per Share (<i>Note 2</i>)	HK\$0.368	HK\$0.391

Notes:

- (1) The calculation of market capitalisation is based on 800,000,000 Shares expected to be in issue immediately following completion of the Capitalisation Issue and the Share Offer and without taking into account any option which may be granted under the Share Option Scheme.
- (2) The unaudited pro forma adjusted consolidated net tangible assets of the Company does not take into account of a dividend of RMB10.0 million declared on 4 June 2018 by our Company which is expected to be paid to our then Shareholders before the Listing. Had the special dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be HK\$0.352 (assuming an Offer Price of HK\$0.30 per Share) and HK\$0.376 (assuming an Offer Price of HK\$0.40 per Share), respectively. See “Appendix II — Unaudited Pro Forma Financial Information” for further details regarding the assumptions used and the calculation method.

DIVIDENDS

The dividends declared and paid by our Company to its then Shareholder during the Track Record Period were nil, nil and RMB20.7 million for FY2015, FY2016 and FY2017, respectively. As at the Latest Practicable Date, such dividend had been fully settled by cash with our internal resources. On 4 June 2018, we declared dividends in the aggregate amount of RMB10.0 million, which will be paid to our then Shareholders in cash utilising our internal resources before Listing. Save as disclosed above, we have no plan to pay or declare any dividends. We do not intend to determine any expected dividend payout ratio after Listing and to pay dividend based on actual financial performance after Listing.

The recommendation of the payment of dividend is subject to the absolute discretion of our Board, and, after Listing, any declaration of final dividend for the year will be subject to the approval of our Shareholders. Our Group does not have any dividend policy. Our Directors may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future

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development requirements and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Companies Law, including the approval of our Shareholders.

LISTING EXPENSES

The total Listing expenses based on the mid-point of the indicated Offer Price range are estimated to be HK\$29.4 million (equivalent to approximately RMB24.5 million). During the Track Record Period, we incurred Listing expenses of approximately RMB11.1 million for FY2017 which was recognised as administrative expenses in our consolidated statements of profit or loss. Approximately RMB5.0 million is expected to be recognised as administrative expense from the period from 1 January 2018 to the Listing Date and approximately RMB8.4 million is expected to be recognised as deduction in equity. Potential investors should note that our net profit for FY2018 may be materially and adversely effected by these one-off Listing expenses.

LEGAL COMPLIANCE

The Ningxia Vineyard Land Parcel, which housed the Ningxia Vineyard, is subject to certain defects to land use rights and non-compliances with certain PRC laws and regulations. To fully rectify these defects, we ceased to operate the Ningxia Vineyard and disposed of the Ningxia Vineyard Land Parcel to Ms. Chan, a Controlling Shareholder. Our PRC Legal Advisers have confirmed to us that upon completion of the Disposal, we are no longer exposed to any legal liability in relation to those defects. We have adopted a number of internal control procedures to prevent future occurrence and/or reoccurrence of the non-compliance incidents. See “Business — Properties — Title defects and non-compliance incidents relating to our property interests” and “Business — Legal, Compliance and Internal Control” for further details.

PROPERTY VALUATION

AVISTA Valuation Advisory Limited, an independent property valuer, has valued some of our property interests held and occupied by our Group in Shanxi, including the land and properties of our Shanxi Winery and Shanxi Vineyard, as at 31 March 2018 and is of the opinion that the market value of such valued properties as at such date was approximately RMB53 million. The texts of its letter, summary of values and valuation certificates are set out in Appendix III to this prospectus.

DEFINITIONS

“Accountants’ Report”	the accountants’ report set out in Appendix I to this prospectus
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), individually or collectively, as the context may require
“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted on 1 June 2018 and effective on the Listing Date and as amended or supplemented from time to time, a summary of which is set out in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Audit Committee”	the audit committee of our Board
“Avista”	AVISTA Valuation Advisory Limited
“Board of Directors” or “Board” ..	the board of Directors of our Company
“Business Day(s)” or “business day(s)”	any day(s) (excluding Saturday(s), Sunday(s) or public holiday(s) in Hong Kong) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in the section headed “History, Reorganisation and Corporate Structure” in this prospectus
“Cayman Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant” ..	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant” ..	a person admitted to participate in CCASS as a custodian participant

DEFINITIONS

“CCASS Investor Participant” ..	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chairlady”	chairlady of our Board
“Chief Executive Officer”	chief executive officer of our Company
“China” or “PRC”	the People’s Republic of China, which for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Clover Star”	Clover Star International Limited, a company incorporated in BVI with limited liability on 4 January 2017 and a directly wholly-owned subsidiary of our Company
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “we” or “us”	Grace Wine Holdings Limited (怡園酒業控股有限公司), an exempted company incorporated in the Cayman Islands on 14 February 2012 with limited liability

DEFINITIONS

“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and unless the context requires otherwise, refers to Macmillan Equity and Ms. Chan, who will control the exercise of 52.5% voting rights in the general meeting of our Company immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme)
“core connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Corpwealth Asia”	Corpwealth Asia Limited (國豐亞洲有限公司), a company incorporated in Hong Kong with limited liability on 15 January 2010
“Deed of Indemnity”	the deed of indemnity dated 1 June 2018 entered into by our Controlling Shareholders in favour of our Company to provide certain indemnities, particulars of which are set out in the section headed “Appendix V — Statutory and General Information — G. Other Information — 10. Taxation of holders of our Shares” in this prospectus
“Deed of Non-competition”	a deed of non-competition dated 1 June 2018 and executed by our Controlling Shareholders in favour of our Company, details of which are disclosed in the section headed “Relationship with our Controlling Shareholders” in this prospectus
“Deep Blue”	創平酒業貿易(上海)有限公司 (Deep Blue Wine Trading (Shanghai) Limited*), a company established in the PRC with limited liability on 14 July 2010 and an indirectly wholly-owned subsidiary of our Company
“Director(s)”	the director(s) of our Company
“Dragonet”	Dragonet Limited (龍特有限公司), a company incorporated in Hong Kong with limited liability on 3 September 1997 and an indirectly wholly-owned subsidiary of our Company
“Excellence Regent”	Excellence Regent Limited (卓峻有限公司), a company incorporated in Hong Kong with limited liability on 29 January 2010 and an indirectly wholly-owned subsidiary of our Company
“F&S Report”	an independent research report, commissioned by us and prepared by Frost & Sullivan for the purpose of this prospectus

DEFINITIONS

“Fly Dragon”	Fly Dragon China Limited (飛龍中國有限公司), a company incorporated in Hong Kong with limited liability on 16 April 2013 and an indirectly wholly-owned subsidiary of our Company
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.
“Fuzhou Liyuan”	福州驪園貿易有限公司 (Fuzhou Liyuan Trading Co. Ltd.*), a company established in the PRC with limited liability on 20 February 2008, an Independent Third Party
“FY2015”	the financial year ended 31 December 2015
“FY2016”	the financial year ended 31 December 2016
“FY2017”	the financial year ended 31 December 2017
“FY2018”	the financial year ended 31 December 2018
“GDP”	an acronym for gross domestic product
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“Genwood”	Genwood Hong Kong Limited (振滙香港有限公司), a company incorporated in Hong Kong with limited liability on 22 February 2011 and an indirectly wholly-owned subsidiary of our Company
“Grand Fiesta”	Grand Fiesta Limited, a company incorporated in BVI with limited liability on 20 August 2012 and a directly wholly-owned subsidiary of our Company
“Grandtel”	Grandtel Limited, a company incorporated in BVI with limited liability on 1 February 2012 and a directly wholly-owned subsidiary of our Company
“ GREEN Application Form(s)” ..	the application form(s) to be completed by HKelPO White Form Service Provider
“Group”, “our Group”, “we”, “our” or “us”	our Company and our subsidiaries or, where the context so requires, with respect to the period before which our Company became the holding company of our current subsidiaries, our Company’s current subsidiaries or the businesses operated by such subsidiaries or their predecessors (as the case may be)

DEFINITIONS

“ HK eIPO White Form ”	the application of the Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at www.hkeipo.hk
“ HK eIPO White Form Service Provider ”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at www.hkeipo.hk
“ HKFRS ”	Hong Kong Financial Reporting Standards promulgated by HKICPA
“ HKICPA ”	The Hong Kong Institute of Certified Public Accountants
“ HKSCC ”	Hong Kong Securities Clearing Company Limited
“ HKSCC Nominees ”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“ Hong Kong ” or “ HK ”	the Hong Kong Special Administrative Region of the PRC
“ Hong Kong Branch Share Registrar ”	Tricor Investor Services Limited
“ Hong Kong dollars ” or “ HK\$ ” ..	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“ Independent Third Party(ies) ” ..	party(ies) which are not connected person(s) of our Company
“ Interfusion ”	Interfusion Limited, a company incorporated in BVI with limited liability on 1 February 2012
“ Issuing Mandate ”	the general unconditional mandate given to our Directors by the Shareholders relating to the issue of new Shares. See “Appendix V — Statutory and General Information — A. Further information about our Company — 5. Resolutions in writing of our Shareholders passed on 1 June 2018” in this prospectus
“ Joint Bookrunners ” or “ Joint Lead Managers ”	Southwest Securities (HK) Brokerage Limited, Emperor Securities Limited and Success Securities Limited, each a licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
“ Latest Practicable Date ”	5 June 2018, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus

DEFINITIONS

“Listing”	the listing of the Shares on GEM
“Listing Date”	the date on which the Shares are listed and from which dealings therein are permitted to take place on GEM commence, which is currently expected to be Wednesday, 27 June 2018
“Listing Division”	the listing division of the Stock Exchange
“Macmillan Equity”	Macmillan Equity Limited, a company incorporated in BVI with limited liability on 3 January 2012, which is wholly-owned by Ms. Chan, and a Controlling Shareholder
“Medford Global”	Medford Global Limited, a company incorporated in BVI with limited liability on 1 February 2012 and a directly wholly-owned subsidiary of our Company
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company as amended from time to time
“Mercci”	Mercci Limited, a company incorporated in BVI with limited liability on 1 October 2013 and a directly wholly-owned subsidiary of our Company
“Mr. Chan”	Mr. Chan Chun Keung (陳進強), the father of Ms. Chan and spouse of Ms. Wong and a connected person of our Company
“Ms. Chan”	Ms. Chan Judy (陳芳), the daughter of Ms. Wong, sole shareholder of Macmillan Equity, an executive Director, the Chairlady of the Board, our Chief Executive Officer, a Controlling Shareholder and a connected person of our Company
“Ms. Wong”	Ms. Wong Shu Ying (王穗英), the mother of Ms. Chan, sole shareholder of Palgrave Enterprises, a Substantial Shareholder and a connected person of our Company
“Ningxia”	Ningxia Hui Autonomous Region of the PRC
“Ningxia Ganlin”	寧夏甘霖農業開發有限公司 (Ningxia Ganlin Agricultural Development Co. Ltd.*), a company established in the PRC with limited liability on 15 October 2010
“Ningxia Grace Vineyard”	寧夏怡園酒莊有限公司 (Ningxia Grace Vineyard Co. Ltd.*), a company established in the PRC with limited liability on 12 September 2012 and an indirectly wholly-owned subsidiary of our Company

DEFINITIONS

“Ningxia Vineyard”	our vineyard in Qingtongxia, Ningxia, the PRC, of 731,333.33 sq.m., which our Group ceased to operate since 1 June 2018
“Ningxia Vineyard Land Parcel” .	a parcel of land located at Ganchengzi Grape Vineyard, Shaogang Town, Qingtongxia City, Ningxia, which previously housed our Ningxia Vineyard until 1 June 2018
“Ningxia Winery”	our winery facility in Qingtongxia, Ningxia, the PRC, of approximately 72,800 sq.m. Its construction was commenced in 2015, and the first phase of which was completed in December 2017
“Offer Price”	the price for each Offer Share of not more than HK\$0.40 per Share and expected to be not less than HK\$0.30 per Share (excluding brokerage, Stock Exchange trading fee and SFC transaction levy) and to be fixed on the Price Determination Date
“Offer Shares”	the Public Offer Shares and the Placing Shares
“Palgrave Enterprises”.....	Palgrave Enterprises Limited, a company incorporated in BVI with limited liability on 3 January 2012, which is wholly owned by Ms. Wong, and a Substantial Shareholder
“PBOC”	The People’s Bank of China
“person”	any individual, corporation, partnership, limited partnership, proprietorship, association, limited liability company, firm, trust, estate or other enterprise or entity
“Placing”	the conditional placing of the Placing Shares by the Underwriters on behalf of our Company for cash at the Placing Price as described in the section “Structure and Conditions of the Share Offer” of this prospectus
“Placing Shares”	the 180,000,000 new Shares being offered at the Placing Price for subscription pursuant to the Placing subject to the terms and conditions as described in the section headed “Structure and Conditions of the Share Offer” of this prospectus
“Placing Underwriter(s)”	the underwriter(s) of the Placing, who are expected to enter into the Placing Underwriting Agreement

DEFINITIONS

“Placing Underwriting Agreement”	the conditional underwriting agreement relating to the Placing and expected to be entered into on or around the Price Determination Date by, among others, our Company, the Controlling Shareholders, the executive Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters, as further described in the subsection headed “Underwriting — Placing” in this prospectus
“PRC Legal Advisers”	JunHe LLP, the legal advisers to our Company as to PRC law
“PRC government”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
“Price Determination Date”	the date on which the final Placing Price is to be determined by our Company and the Joint Bookrunners (for themselves and on behalf of the other Underwriters), which is expected to be on or about Friday, 15 June 2018 and in any event not later than Thursday, 21 June 2018
“Public Offer”	the offer by our Company of the Public Offer Shares for subscription to the public in Hong Kong at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus and on and subject to the terms and conditions stated herein and in the Application Forms relating thereto
“Public Offer Shares”	the 20,000,000 new Shares offered by our Company for subscription at the Offer Price pursuant to the Public Offer (as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus)
“Public Offer Underwriter(s)” ...	the underwriter(s) of the Public Offer named in the subsection headed “Underwriting — Underwriters — Public Offer Underwriters” in this prospectus

DEFINITIONS

“Public Offer Underwriting Agreement”	the conditional underwriting agreement relating to the Public Offer dated 11 June 2018 and entered into, among others, our Company, the Controlling Shareholders, the executive Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, as further described in subsection headed “Underwriting — Underwriting Arrangements and Expenses” in this prospectus
“Regulation S”	Regulation S under the US Securities Act
“Remuneration Committee”	the remuneration committee of our Board
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing as described in the section headed “History, Reorganisation and Corporate Structure — Reorganisation” in this prospectus
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to the Directors by our Shareholders, further details of which are contained in the section headed “Appendix V — Statutory and General Information — A. Further information about our Company — 5. Resolutions in writing of our Shareholders passed on 1 June 2018” in this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shanxi”	Shanxi Province of the PRC
“Shanxi Grace Vineyard”	山西怡園酒莊有限公司 (Shanxi Grace Vineyard Co. Ltd.*), a company established in the PRC with limited liability on 7 August 1998 and an indirectly wholly-owned subsidiary of our Company
“Shanxi Jiajia”	山西加佳怡園酒業有限公司 (Shanxi Jiajia Yiyuan Wine Limited Company), a company established in the PRC with limited liability on 8 January 2007 and an Independent Third Party, together with its affiliates, each also an Independent Third Party

DEFINITIONS

“Shanxi Vineyard”	our vineyard in Taigu, Shanxi, the PRC, of approximately 480,488.53 sq.m.
“Shanxi Winery”	our winery facility in Taigu, Shanxi, the PRC, of approximately 29,064.27 sq.m.
“Shanxi Xinding”	山西忻定農業有限公司 (Shanxi Xinding Agriculture Co. Ltd.*), a company established in the PRC with limited liability on 1 September 2010 and deregistered on 11 July 2012
“Shanxi Ziyuan”	山西紫源農業開發有限公司 (Shanxi Ziyuan Agricultural Development Co. Ltd.*), a company established in the PRC with limited liability on 21 November 2013 and an indirectly wholly-owned subsidiary of our Company
“Share(s)”	share(s) of HK\$0.001 each in the share capital of our Company
“Shareholder(s)”	holder(s) of Shares
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 1 June 2018, a summary of principal terms of which is set out in the section headed “Appendix V — Statutory and General Information — F. Share Option Scheme” in this prospectus
“Sole Sponsor”	Southwest Securities (HK) Capital Limited, a licenced corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity
“SPGMG”	山西省物資產業集團有限責任公司 (Shanxi Goods & Materials Industry Group Co. Ltd.), an Independent Third Party
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Companies Ordinance
“Substantial Shareholder(s)” ...	has the meaning ascribed thereto under the GEM Listing Rules

DEFINITIONS

“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buybacks issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Terra Cotta”	陝西驪園酒莊有限公司 (Shaanxi Terra Cotta Winery Ltd.*), a company established in the PRC with limited liability on 8 October 2006 and deregistered on 7 June 2013
“Track Record Period”	the period comprising the FY2015, FY2016 and FY2017
“Underwriters”	the Underwriters of the Placing named in the section headed “Underwriting — Underwriters” in this prospectus
“Underwriting Agreements”	the Placing Underwriting Agreement and the Public Offer Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US dollar” or “US\$”	United States dollars, the lawful currency of the United States
“ WHITE Application Form(s)” ...	the application form(s) for use by the public who require such Public Offer Shares to be issued in the applicant’s own name(s)
“Wide Source”	Wide Source Development Limited (瑋源發展有限公司), a company incorporated in Hong Kong with limited liability on 18 May 2012 and an indirect wholly-owned subsidiary of our Company
“Xiamen Taofu”	廈門萄福貿易有限公司 (Xiamen Taofu Trading Co. Ltd.*), a company established in the PRC with limited liability on 29 September 2012 and an indirectly wholly-owned subsidiary of our Company
“ YELLOW Application Form(s)” .	the application form(s) for use by the public who require such Public Offer Shares to be deposited directly in CCASS
“%”	per cent

Unless expressly stated or the context requires otherwise:

- *amounts and percentage figures, including share ownership and operating data in this prospectus, may have been subject to rounding adjustments. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items;*

DEFINITIONS

- *all data contained in this prospectus are as at the Latest Practicable Date;*
 - *all references to any shareholdings in our Company assume no option granted under the Share Option Scheme will be exercised unless otherwise specified;*
 - *solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars or US dollars at specified rates. You should not construe these translations as representations that the Renminbi amounts could actually be, or have been, converted into Hong Kong dollar amounts and US dollar amounts (as applicable) at the rates indicated or at all. Unless we indicate otherwise, the translations of Renminbi amounts into Hong Kong dollars have been made at the rate of RMB0.8161 to HK\$1.00, and the translation of Renminbi amounts into US dollars have been made at the rate of RMB6.5 to US\$1.00.*
- * *The English names of companies incorporated in the PRC, the PRC laws and regulations and the PRC government authorities are translation of their Chinese names and are included for identification purposes only. If there is any inconsistency between such Chinese names and their English translations in this prospectus, the Chinese names shall prevail over their English translations.*

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms used in this prospectus as they relate to our Company and are used in this prospectus in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions.

“ageing”	the process of storing wines in containers such as oak barrels for a specific period of time to transform the flavours
“ASP”	average selling price
“base wine”	semi-processed wine, after grape juice has been fermented but prior to further processing
“entry-level wine portfolio”	our wine portfolio comprising various brands of wine with a retail price per 750 ml bottle of RMB125 or below as at the Latest Practicable Date
“higher-end wine portfolio”	our wine portfolio comprising various brands of wine with a retail price per 750 ml bottle ranged between RMB199 and RMB568 as at the Latest Practicable Date
“mL”	millilitre(s)
“mu (畝)”	measurement of area equal to approximately 666.66 sq.m.
“must”	refers to freshly pressed fruit juice (usually grape juice) that contains the skins, seeds, and stems of the fruit
“L”	litre(s)
“pH”	the pH of a solution is the negative logarithm of the hydrogen ion concentration. pH is measured on a scale from 1 to 14, the neutral value is 7, while values below 7 are more acidic and values above 7 are more alkaline
“sq.m.”	square metre(s), each square metre represents an area of a square whose sides measure exactly one metre
“tonne(s)”	measure of weight equal to 1,000 kilogrammes, one tonne is equivalent to approximately 1,333.33 bottles of wine of 750 mL each
“total acidity (TA)”	measure of all the hydrogen ions of both the fixed and volatile acids present
“vintage”	specified year of the harvest of the wine

GLOSSARY OF TECHNICAL TERMS

“vineyard”.....	the agricultural land for plantation of grape vines to produce grapes used for wine-marking
“wine”	an alcoholic beverage usually made of fermented juice squeezing from various types of grapes with the percentage of the alcohol ranging from 10 to 15 per cent
“wine cellaring”	the proper and correct storage of wines after the wines are bottled
“winery”	the building and/or premises for wine-making, storage and warehousing

FORWARD LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed “Summary”, “Risk Factors”, “Industry Overview”, “Business”, “Financial Information” and “Future Plans and Use of Proceeds” in this prospectus. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section headed “Risk Factors” in this prospectus, which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and operating plans;
- our capital expenditure and expansion plans;
- our ability to identify and successfully take advantage of new business development opportunities;
- our dividend policy;
- our profit estimate and other prospective financial information; and
- the regulatory environment and industry outlook for the industry and markets in which our Group operate.

The words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- any changes in the laws, rules and regulations of the PRC relating to any aspect of our business or operations;
- general economic, market and business conditions in the PRC;
- inflationary pressures or changes or volatility in interest rates, foreign exchange rates or other rates or prices;
- various business opportunities that we may pursue; and
- the risk factors discussed in this prospectus as well as other factors beyond our control.

FORWARD LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section headed “Risk Factors” in this prospectus.

RISK FACTORS

You should carefully consider all information set out in this prospectus, including the risks and uncertainties described below before making an investment in our Shares. You should pay particular attention to the fact that we were incorporated in the Cayman Islands.

Our business, financial condition and results of operations could be materially and adversely affected by the occurrence of any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances.

RISKS RELATING TO OUR BUSINESS

We rely on Shanxi as our major sales market

During the Track Record Period, we derived on average approximately 61.8% of our revenue from our home base, Shanxi. We plan to continue with our business focus on Shanxi, which is expected to continue to contribute sizably to our Group's revenue. There is no assurance that the demand for wine would not decline in Shanxi. Our success will be dependent on our ability to adapt to the changing preference of the wine consumption public in Shanxi, and our ability to develop new wine products and modify existing wine products to accommodate these changes, as well as our reputation and brand profile in Shanxi. Furthermore, the demand for wines is dependent on the disposable income of Shanxi residents. Any material decline in the economic conditions in Shanxi may result in a decline in the sales of our wine products and our revenue. Such demand may also be affected by other factors beyond our control, for example the occurrence of natural disasters and epidemics in Shanxi, and if the local authorities adopt regulations that place additional restrictions or limitations on our industry.

We rely on Shanxi Jiajia, our sole and exclusive distributor in Shanxi, to derive a substantial portion of our revenue and any disruption to our business relationship may materially and adversely affect our business operation, financial results and profitability

During the Track Record Period, we derived a substantial portion of our revenue from Shanxi Jiajia, our sole and exclusive distributor in Shanxi, our largest sales market. For FY2015, FY2016 and FY2017, Shanxi Jiajia accounted for approximately 48.6%, 70.6% and 66.4% of our revenue and was our single largest distributor and our customer. We are therefore dependent on the continuity of our distributorship arrangements with Shanxi Jiajia. We cannot assure potential investors that there will be no deterioration or discontinuance in our relationship with Shanxi Jiajia for any reason.

Any material disruption on our business relationship with Shanxi Jiajia, or any inability of Shanxi Jiajia to distribute and sell our wine products in an effective and sustainable manner, may materially affect our sales performance. Specifically, part of our Chinese name, 怡園, also exists in the corporate name of one of Shanxi Jiajia's entities, which in turn subjects us to any adverse publicity or negative reputation that Shanxi Jiajia may have from time to time. There is no assurance that we are able to respond to such disruption or inability by finding alternative distributors in Shanxi with similar sales and business network and local industry knowledge on comparable commercial terms within a short period of time, causing a shortfall in our sales that

RISK FACTORS

could materially and adversely affect our business and financial results. We also cannot assure to you that our reputation will not be affected by any reputational risks brought about by Shanxi Jiajia arising from our partially common name.

Our distribution agreement with Shanxi Jiajia is set to expire on 31 December 2020. If we were unable to negotiate for a renewal on commercial terms similar to our existing relationship with Shanxi Jiajia for any reason, our operations and financial results may materially deteriorate.

We rely heavily on our distributorship model to generate a substantial portion of our revenue

During the Track Record Period, our sales to distributors accounted for approximately 71.9%, 97.7% and 89.7% of our total revenue, respectively. A distributorship model is inherently associated with a number risks, the most important of which include:

- **Use of our name.** To enhance the marketability of our “Grace Vineyard (怡園酒莊)” brand and the sales performance of our wine products, we generally allow our distributors (and any sub-distributor and retailer engaged by them) to use our brand in ordinary business activities that might be ancillary to the sales and promotion of our wine products, on the condition that they must act professionally and must refrain from doing any act would be detrimental to our reputation, prospects and market position. Nevertheless, the actions of our distributors (and any sub-distributor and retailer engaged by them) are beyond our control and any negative acts (such as corruption, bribery and other illegal acts or actions generally considered detrimental to our brand value) committed by them while selling or promoting our wine products, or otherwise using our brand, will subject us to material reputation risks.
- **Sales locations.** Our distributorship model is currently location specific and we generally appoint no more than one distributor for each geographical sales location. We therefore rely on our distributors to a certain extent in respect of their respective sales location. There is no assurance that our distributors will be able to maintain a sales level comparable to our sales performance during the Track Record Period, or that they will be able to achieve their minimum sales targets and/or minimum purchase commitments. If our distributors fail to maintain the sales pipelines of our wine products, or if there is any material interruption to our relationship with distributors, we may lose a significant portion or all of our sales channel their respective responsible geographical locations. In case of material interruption to our relationship with distributors, or upon termination of our relationship for whatever reason, there is no assurance that we may be able to replace a distributor in its responsible geographical location with comparable sales capability within a reasonable period of time or at all.
- **Channel stuffing.** We generally set a sales target and/or minimum purchase commitments for our distributors. There is no assurance that our distributors will not, in order to meet these targets and/or commitments, order an exceeding amount of our wine products that do not reflect the actual demand from their downstream wholesale and retail channels, resulting in “channel stuffing” and causing a material and adverse effects on our financial performance in the subsequent period.

RISK FACTORS

- **Sub-distributors.** Our distributors may also engage sub-distributors and retailers to sell our wine products, all of whom we do not have direct business relationship with and have limited degree of control. There is no assurance that our distributors (and any sub-distributor and retailer engaged by them) will not sell our wine products beyond their responsible sales location and unduly compete with each other, in which case our distributorship model may be cannibalised. In particular, we are negotiating a multi-faceted sales arrangement with a scalable, “online-to-offline” wine and spirit retailer in the PRC with over 1,000 physical retail locations across in the PRC. There is no assurance that this potential retailer will not compete with our existing distributors (and any sub-distributor and retailer engaged by them) in our existing sales markets.
- **Competition with online sales.** As the wine consumption public is increasingly drawn to the convenience of e-commerce in the PRC, it is possible that the sales capability of our distributors may be cannibalised by our wine products sold online (which began in 2012), or challenged to a material extent by wine products of our competitors sold online.
- **Non-performance.** Non-performance by our distributors in accordance with our distribution agreements or any improper or illegal actions taken by our distributors could harm our brand and disrupt our sales. We cannot assure you that they will not breach their distribution agreements with us or violate relevant laws.
- **New distributors.** As we attain business expansion and extend the geographical outreach of our wine products, we may expand our distributorship model and engage new distributors. It may take significant management and financial resources to manage our enlarged network of distributors, and there is no assurance that our new distributors may not compete with each other, or our sales pipelines will not be cannibalised with the introduction of new distributors.

If any of the risks above materialises, our business, results of operations, financial position and prospects may be materially and adversely affected

The non-recurring sales events in FY2015 did not recur to a comparable scale during the remainder of the Track Record Period and up to the Latest Practicable Date and are not indicative of our future financial performance

In FY2015, our direct sales to end-users were exceptionally high in the amount of approximately RMB19.2 million, accounting for approximately 28.1% of our revenue. This was mainly attributable to our non-recurring sales events with a higher than usual average selling price in FY2015, comprising (1) a direct sales of approximately RMB2.4 million to the father of Ms. Chan, an executive Director and a Controlling Shareholder, for his personal use, and (2) two direct bulk sales of approximately RMB15.2 million to Independent Third Parties, mainly to cater to business and corporate events of the end-users. These sales events did not recur in FY2016 and FY2017 to a comparable scale, as our level of direct sales to end-users returned to normal at approximately 2.3% and 5.8%, respectively. The non-recurrence of these sales event caused a decline of our revenue from FY2015 to FY2016 of approximately 21.9%.

RISK FACTORS

Subsequent to the Track Record Period and up to the Latest Practicable Date, no non-recurring sales events of a comparable scale to those in FY2015 recur and there is no other material sales event that is of non-recurring nature. From time to time, our Group may receive purchase orders from direct sales end-users, some of which may be in bulk size, material in terms of revenue contribution but are nonetheless non-recurring in nature. There is no assurance that our financial results will not fluctuate due to the occurrence of any other non-recurring sales events of comparable scale to those in FY2015 in the future. Prospective investors should note that the non-recurring sales events during FY 2015 set out above, and any non-recurring sales events that may take place in the future, are not indicative of our normal sales level through our principal sales channel of distributors and our future financial performance.

Our business and financial performance had been and may be adversely affected by the uncertainties within wine industry in the PRC arising from the government's frugality campaigns

Our revenue and profit had been on a declining trend since 2012. Potential investors should note that the wine industry in the PRC was subject to a market contraction between 2012 to 2014 arising from the increasingly restrictive limitations on alcoholic beverage consumption under the PRC government's frugality campaigns.

The PRC government has launched a series of campaigns and reforms for the promotion of frugality, which include, among others, restricting (i) the civil servants of the PRC from using public funds on personal gifts and social activities, (ii) the receiving or provision of gifts to civil servants in the PRC, and (iii) ostentatious and extravagant spending behaviours. These campaigns have since affected the overall sentiment of the PRC wine market and have deferred the purchasing habits of the customers and end-users of our wine products, and in turn caused a negative impacts on the sales performance of our *higher-end* wine portfolio (which generally has a higher profit margin and was our principal business focus) and our overall financial results. During the financial years ended 31 December 2012 to 2014, our revenue declined at approximately 25.3% and 28.1%, respectively, based on our unaudited management accounts. Continual implementation and enforcement of the PRC government's frugality campaigns could continue to adversely affect our sales performance, business and results of operations.

The PRC government's frugality campaigns have been and are expected to continue to be implemented in the foreseeable future. If our current or target customers are under the influence of the PRC government's frugality campaigns and choose to reduce their consumption on wines, there is no assurance that our Group will be able to uphold our competitive strengths. If we cannot effectively compete with our current and potential competitors or promote wine consumption in the PRC, our business, results of operations, financial conditions and prospects may be materially and adversely affected. There is also no assurance that the PRC government will not implement other similar laws, regulations or policies which may further restrict the consumption of and the spending on wine.

RISK FACTORS

Our business is subject to unexpected weather condition, unforeseeable natural disasters as well as global climatic change which may result in grape crop failure and in turn insufficient quality grapes for wine-making and deterioration of our wine quality

We self-cultivated grapes during the Track Record Period to exercise better quality control on grapes, our principal raw materials. According to Frost & Sullivan, as an agricultural product, the quality and quantity of grapes heavily hinges on the geographical circumstance and weather. Natural disasters pose high risks and challenges on wine manufacturers. For instance, an incident of frost had occurred in Shanxi in 2004, which rendered our grape supply and wine-making volume decreased significantly during that year. Similarly, poor weather conditions and floods are likely to damage vineyards, resulting in short supply of wine grapes and negatively influencing the quality of wine. Adverse weather conditions and natural disasters have effects on both our self-cultivated grapes and our ability to source externally-sourced grapes from nearby locations. As we had experienced insufficient supply of grapes due to adverse weather prior to the Track Record Period and such risk, which our Group has limited control, may recur.

Our vineyards are exposed to the natural changes of weather, including, among other things, humidity, temperature, wind, precipitation, hail, or lack of or excessive sunshine. Further, we cannot assure that our cultivation process can eliminate the adverse risks and uncertainty posed by nature and we may not overcome the insufficient supply of grapes in the event of crop failure to meet our expected production capacity and the demand for our wine portfolio. If our grape crop fails in any particular season for whatever reason, we may have to resort to externally sources to secure sufficient level of raw materials to fulfil our wine-making needs and sales demand, which may subject us to fluctuation of raw material costs and may have quality control issues. As natural conditions that affect us may also affect nearby vineyards, if we are unable to source grapes of comparable quality in a cost-efficient manner or at all, our business, results of operations and financial position may significantly deteriorate.

In particular, we ceased to operate our Ningxia Vineyard and disposed of the Ningxia Vineyard Land Parcel to Ms. Chan, a Controlling Shareholder on 1 June 2018. As a result, we no longer cultivate and harvest grapes in Ningxia and our Shanxi Vineyard is our single source of self-cultivated grapes. Any significant crop failure in Shanxi, or other natural or weather hazard that may significantly affect our grape cultivation process in Shanxi, may have a material and adverse impact on our business, results of operations and financial position. Any material disruption to our grape cultivation process in Shanxi will also have a particularly adverse impact on our production of *higher-end* wine portfolio, which may significantly affect our profitability given that these wine products generally have a higher gross profit margin than our *entry-level* wine portfolio.

In addition, the effect of global climatic change may render both Shanxi and Ningxia no longer suitable for grape cultivation or wine-making, in the event of which there is no assurance that we can maintain the quality or otherwise secure or produce a sufficient amount of grapes or wine, and in turn our business, prospects, results of operations may be materially and adversely affected.

RISK FACTORS

The construction of our Ningxia Winery may be subject to uncertainties and delay as have planned

Our Ningxia Winery under construction as described in “Business — Wine-making Facilities” are based on current intentions, assumptions and assessments of our management in determining our business strategies according to our view of the industry trends and market conditions. However, our ability to grow progressively and materialise our future plans will be subject to a wide range of operational and financial requirements, including appropriate allocation of capital investment in implementing the various plans and adequate human resources. The construction of our Ningxia Winery may also be hindered or delayed by actual implementation of construction works and other broader factors beyond our control, such as general market conditions, the economic and political environment of Ningxia and the PRC.

In particular, we cannot assure you that our future plans in respect of our Ningxia Winery will materialise within the intended time frame or at all, or will result in increased revenue or profit to our Group as these expansion plans may involve substantial time, costs, cash outflows and market uncertainties. Any failure or delay in implementing any part of these plans may hinder our growth and market expansion, which in turn could materially and adversely affect our business, financial condition and results of operations.

Further, the process of obtaining and sustaining the relevant administrative and environmental permits and licences for the construction of our Ningxia Winery will require interactions with the PRC government and therefore may be subject to certain bureaucratic delays during the process. For certain permits and licences, the applicant is required to comply with the requirements and restrictions stipulated in the corresponding regulations in force at various levels including national, autonomous regional and municipal levels.

We are subject to food contamination, deterioration and other production quality risks during, before and after our wine production process

We are subject to the risk of food contamination and deterioration, which is inherent to all manufacturers of the food and beverage industry. Our grapes may be perishable or contaminated before they are harvested in our vineyards and in our external suppliers’ vineyards, during the course of transport from the vineyards to our wine-making facilities, after they arrive at our wine-making facilities and during the wine-making process. Our products and materials used in the wine-making process may also be contaminated or deteriorate. Any contamination or deterioration in our raw materials or finished wine products, through improper handling, outbreak of diseases, tampering or otherwise, may result in our raw materials and wine products being found unsafe for production and consumption, respectively. This could in turn lead to substantial delays in our wine-making process or delivery of our products to our customers, costs incurred in the purchase of replacement raw materials, a recall of our wine products, a loss in revenue and/or payment of compensation to our customers for delays and recalls. This may affect the safety of our wine products for consumptions, and may affect our ability to produce sufficient wine products to meet the demands of our customers, leading to adverse effect on our reputation, business and financial performance.

RISK FACTORS

We rely on our “Grace Vineyard (怡園酒莊)” brand

Our success depends on the value of our brands and reputation for offering quality wine products to consumers. Our Directors believe that our “Grace Vineyard (怡園酒莊)” label has the market reputation of quality wines and that maintaining and promoting the brand recognition and good reputation is critical to the future success of our Group. The reputation of our brand is dependent on our Group’s ability to produce consistently quality wines which appeal to customers’ preferences. Inability to do so will adversely impact the reputation of our brand and potentially all of our wine products.

Our wine products may be subject to counterfeiting or imitation, which could materially and adversely affect our reputation and lead to a loss of consumer confidence, reduced sales and decrease in profits

Counterfeit wine products have been a problem in many developing countries, such as the PRC. Such counterfeit products may be manufactured without proper licences or approvals from us or manufactured without meeting the quality of our wine products. Counterfeit wine products are often sold at a lower price compared to authentic wine products.

Any occurrence of counterfeiting or imitation could bring negative impacts on our reputation and the brand names of the wine products we sell and lead to a loss of consumer confidence. Furthermore, counterfeiting and imitation products could erode our sales volume and result in a reduction of our market share, a decline in our sales and profitability as well as an increase in our administrative and legal costs in respect of detection, prosecution and negotiation, any of which may have a material adverse effect on our business, prospects, reputations, financial condition and results of operations.

There is no assurance that counterfeiting of our wine products will not occur in the future, or if it does occur, we will be able to detect and take timely and effective actions against the counterfeit wine products to alleviate the adverse impact to our business outlooks.

If we are unable to utilise our Shanxi Winery and Ningxia Winery in an efficient manner and to a sufficient level, our margins and profitability may be materially and adversely affected

During the Track Record Period, the estimated occupancy rates of the wine-making tanks in our Shanxi Winery were approximately 95.2%, 80.6% and 75.8%, respectively, for FY2015, FY2016 and FY2017, which our Directors believe is the best indicator of the utilisation of our wine-making facilities. For details, see “Business — Wine-making Facilities”. The capacity and utilisation of our wine-making facilities is predominantly driven by the availability of our wine-making tanks, which may be occupied during the entirety or part of our wine-making season by (1) our work-in-progress during the fermentation process, and (2) semi-finished wine of previous vintages (which are intentionally retained to allow a higher variety of vintages within our wine product portfolio). The time our work-in-progress and semi-finished wine occupy our wine-making tanks depends on the individual wine formula, which is in turn subject to various factors such as the estimated demand for individual wine series, yield and procurement level of particular types of grapes, and our prevailing inventory level. There is no assurance that we will be able to maintain a comparable level of output and utilisation of our Shanxi Winery and

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sufficiently utilise our Ningxia Winery in the future, in the event of which, our business, financial condition and operating results may be materially and adversely affected.

Any unexpected disruption to the wine-making process of our Shanxi Winery and/or Ningxia Winery could have a material and adverse effect on our business, financial condition and results of operations. Smooth and consistent daily operations of our production facilities are highly crucial to our business

We cannot assure you that there will be no sudden malfunction or stoppage of our winery facilities during our wine-making process and if any breakdown or malfunctions of machinery happened, our business, financial condition and results of operations could be adversely impacted. Our grape cultivation and wine-making process requires regular supply of water which are currently provided by the local utilities providers and bureaus in Shanxi and Ningxia. Our reliance on such supply will further increase along with the establishment of our Ningxia Winery. If at any time we do not have adequate water to sustain our grape cultivation and wine-making process due to blackouts, shortage of water, we may need to limit, delay or halt production, and any disruption to such supply may adversely prevent us from meeting customer orders and/or increase our costs of production, which could adversely affect our business and financial performance.

Our bases of operations are located in Shanxi and Ningxia and any material disruption to either or both of them may significantly affect our business

All of our vineyards and wineries, being our principal assets and production locations, are located in Shanxi and Ningxia. As such, the concentration of our assets and manufacturing process in there two locations may expose us to concentration risks, in particular production risk, in case of the material disruption or malfunctioning of our wine-making facilities or vineyards. As our business requires adequate space and is geographically-sensitive and dependent on suitable weather conditions, there is no assurance that we will be able to counter such concentration risks by expansion or relocation to other cities or provinces in the PRC.

Any failure to maintain an effective quality control over our wine products could have a material and adverse effect on our business, financial conditions and results of operations

The quality of our wine products is mainly dependent on the effectiveness of our quality control, which in turn depends on a number of factors, including the inventory control on our self-cultivated and externally-sourced grapes, ageing of wine as well as our ability to ensure that our employees adhere to our quality control policies and guidelines. Any failure of our quality control could result in the deterioration of our wine product quality, which in turn may impair our reputation, result in delays in the delivery of our wine products and the need to replace defective or substandard wine products, which could have a material and adverse impact on our business, financial conditions and results of operations.

RISK FACTORS

We may not be able to protect our intellectual property rights

All our products are labelled with our the “Grace Vineyard (怡園酒莊)” brand. Further, each of the wine series in our existing wine portfolio bears distinctive names and contains certain intellectual property rights. Although we had registered 79 trademarks in the PRC and Hong Kong as at the Latest Practicable Date, there is no assurance that our registered trademarks will prevent or discourage infringements by any third parties. In order to protect and enforce our intellectual property rights, we may have to resort to litigation against the infringing parties. The outcome of such litigation can be uncertain and there is no assurance that we will be able to adequately protect and safeguard our intellectual property rights. Such litigation could result in substantial costs and diversion of management resources, and all of these may adversely affect our financial performance and prospects.

It is possible that we may be unable to register other trademarks or renew the registration of any of our existing registered trademarks in the future. In any case, we are susceptible to infringement of our logos and brands by third parties, whether or not such logos are or will continue to be registered trademarks. There is no guarantee that the registration of our trademarks can completely protect us against any infringement or passing off. The infringement of and passing off on our logos and brands could adversely affect the perception that our customers have on our wine products. Enforcement of our intellectual property rights through litigation, whether successful or not, could incur substantial costs. All of these may in turn have a material adverse effect on our business, financial condition, results of operations and prospects.

We may lose key senior management personnel and staff, including employee and skilled casual workers

Our ability to produce quality wine depends, to a large extent, on the expertise and experience of key management personnel and staff. If these key personnel are unable or unwilling to continue their service, our Group may not be able to replace them with persons of equivalent expertise and experience within a reasonable period of time or at all.

Given that the competition to recruit key personnel is intense, we may not be able to attract or retain those talents. Should such key personnel cease to be our management in the future and we fail to find suitable replacements, our operation and profitability may be materially and adversely affected. Additionally, we may need to incur additional costs to recruit, train and retain key personnel.

Further, we engage casual workers to provide labour support in our vineyards and grow and harvest our self-cultivated grapes. There is no assurance that we will be able recruit sufficient casual works at a reasonable cost to meet our wine-making needs.

Our self-cultivated grapes may be affected by environmental pollution

Given the nature of our Group’s business, the Group is susceptible to the damage caused by pollution including air, water and soil pollution. In recent years, air and water pollution have been reported in various parts of the PRC, resulting in extensive damage to crops. To the extent that pollution continues to pose environmental risks to our Group’s grape cultivation, our Group’s business, revenue and profitability may be adversely affected.

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The fair value of our biological assets may fluctuate significantly from period to period, causing our results of operations to be highly volatile

We report the value of our biological assets, primarily consist of grapes, at fair value, of growing cost incurred less impairment losses, at each reporting date in accordance with HKFRS. In addition, we recognise gains or losses arising from agricultural produce at fair value less costs to sell at the date of harvest and from changes in fair value less costs to sell of biological assets in profit or loss for the period in which they arise. Our immature grapes and harvested grapes are valued at cost approach and market approach, respectively, based on their respective nature.

Fair value gains or losses (including unrealised fair value gains or losses) with respect to our biological assets, which are non-cash in nature, are attributable to changes in the physical characteristics of the grapes (for example, growth from immature grapes to finishing grape ready for wine-making) or changes in market prices for grapes. The fair values of our biological assets at each reporting date during the Track Record Period were determined by an independent professional valuer and we intend to engage an independent professional valuer to determine the fair values of our biological assets going forward. In valuing our biological assets, the independent valuer has relied on a number of major parameters and assumptions which may vary from time to time, such as quantity and weight of grapes and market price of grapes, as well as future trends in political, legal and economic conditions in the PRC.

The fair value of our grapes could be affected by factors including the accuracy of those parameters and assumptions, as well as the quality of our grapes and changes in the grape cultivation industry. Market prices for grapes are susceptible to significant fluctuations from period to period. As a result of revaluations of our biological assets from period to period, our financial position and results of operations may change significantly from period to period. During the Track Record Period, our gains/(losses) arising from changes in fair value attributable to physical changes of biological assets were RMB3.0 million, RMB(0.2 million) and RMB0.9 million for FY2015, FY2016 and FY2017, respectively.

In addition, an increase or decrease in market prices for grapes will increase or reduce our cost of sales, in the process of wine-making as well as the quality of the wine produced by such grapes, which in turn, may affect the revenue of our Group and make our reported profit more volatile. Although we may recognise fair value gains from increases in the fair value of our biological assets, these changes will not represent changes in our cash position as long as the relevant assets continue to be held by us. See “Financial Information — Key Factors Affecting Our Results of Operations — Changes in fair value of biological assets” for more information.

We are reliant on the public’s confidence in PRC food and beverage product manufacturers

In recent years, reports have surfaced in the media relating to food and beverage products made in the PRC which were unfit for human consumption. If public confidence in food and beverage products made in the PRC is continuously weakened, it may result in consumers switching to consumption of imported wine instead. This will adversely affect our profitability and prospects.

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Our lease renewals are affected by the condition of the rental market

We lease 18 parcels collectively-owned land in Shanxi from local villagers' committees, collective economic organisations and individuals with a total site area of approximately 480,488.53 sq.m. were contracted to be assigned for a term expiring on 31 December 2024. If, we are not able to renew the existing lease on terms and conditions acceptable to us or we may have to renew these leases on less favourable terms, there could be an adverse impact on our business, financial condition and results of operations.

We are exposed to inventory risks as a result of a variety of factors beyond our control, which could have caused a material adverse effect on our business operation, financial condition and results of operations

Our finished wine products are contained in glass bottles and hence highly fragile and prone to impacts and collisions. As there is also no scrap value of wine in any damaged bottles, we may need to write off any such inventories when our wine products are damaged or broken. We cannot assure that we would not have to write off inventories due to damaged bottles in the future.

Further, the demand for wine products depends on the prevailing market trends and consumer tastes and preferences, which are beyond our control. If our wine products fail to meet the ever-changing market trends, consumer tastes and preferences, we may face the risk of obsolete and slow-moving inventories. As at 31 December 2015, 2016 and 2017, the balance of our inventory amounted to approximately RMB75.5 million, RMB79.8 million and RMB77.5 million, respectively, which represents approximately 27.5%, 26.9% and 33.9% of our total assets. In FY2015, FY2016 and FY2017, our inventory turnover days were approximately 978 days, 1,102 days and 791 days, respectively. Any increase in inventories may adversely affect the sufficiency of our working capital. If we cannot managed our inventory level in the future, our liquidity and cash flow may be adversely affected.

Delay in the settlement of payments by our distributors may result in untimely and significant cash flow shortcomings in the future and may adversely impact our cash position and results of operations

In FY2015, FY2016 and FY2017, our revenue derived from distributors amounted to approximately RMB49.2 million, RMB52.1 million and RMB63.1 million, respectively, accounting for approximately 71.9%, 97.7% and 89.7% of our revenue, respectively, during the same periods. As a wine maker which relies on the distributorship model to disseminate our wine products of various age and vintages, we had engaged 5, 5 and 13 distributors, respectively, as at the end of FY2015, FY2016 and FY2017. We generally require our distributors to settle our invoices by bank transfer and offer them a credit term ranging from 30 days to 90 days from the invoice date or upon receipt of our invoice. As we only have a limited number of distributors, any delay in the settlement of payments of our distributors would immediately affect our cash flow and cash positions.

Our total trade receivables as at 31 December 2015, 2016 and 2017 amounted to approximately RMB39.5 million, RMB42.0 million and RMB12.8 million, respectively, out of which approximately RMB20.6 million, RMB26.2 million and RMB77,000 were past due at the

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end of each reporting period for which we have not provided for impairment loss as there were settlements subsequent to the end of each reporting period or there were continuous settlement by respective customer. In particular, the trade receivables owed from Fuzhou Liyuan amounted to approximately RMB20.1 million and RMB26.8 million as at 31 December 2015 and 2016, respectively, and the turnover days for trade receivables were approximately 194 days and 279 days for the same periods, respectively. For details, see “Business — Sales and Distribution — Credit terms and accounts receivable”

While all past due receivables owed by Fuzhou Liyuan had been fully repaid during FY2017, there is no assurance that we will be able to collect all trade receivables, in particular those over 90 days from our distributors. Any default or delay in payment by our distributors or our failure to collect trade receivables from them may cause allowance for impairment of trade receivables to be made in the future. All of these may result in untimely and significant cash flow shortcomings in the future and adversely affect our cash position and results of operations.

We benefit from government grants, the loss of or a reduction in which could reduce our profits

During the Track Record Period, we received government grants from the PRC government authorities. For FY2015, FY2016 and FY2017, we received approximately RMB1.5 million, RMB992,000 and RMB1.7 million of government grants from the PRC government authorities. See “Business — Competitive Strengths — Strategic presence in Shanxi and Ningxia giving us a vertically integrated production chain and the ability to grow” and “Financial Information — Description of Selected Items in Consolidated Statements of Profit or Loss — Other income and gains, net”.

However, we cannot assure you that we will continue to receive the same or similar government grants as the relevant government policies may change over time. Any loss of or reduction in government grants could have an adverse effect on our financial condition, results of operations and prospects.

Our success is dependent on our continued innovation and successful launches of new wine products and promoting our brand through marketing investments, and we may not be able to anticipate or make timely responses to changes in the preferences of consumers

The success of our operations depends on our ability to identify market trends and introduce new or enhanced wine products in a timely manner. Consumer preferences differ across and within each of the regions in which we operate and shift over time in response to changes in demographic and social trends, economic circumstances and the marketing efforts of our competitors. There can be no assurance that our existing wine product portfolio will continue to be accepted by consumers or that we will be able to anticipate or respond to changes in consumer preferences in a timely manner. Our failure to anticipate, identify or react to these particular preferences could adversely affect our sales performance and our profitability. In addition, demand for many of our wine products is closely linked to consumer purchasing power and disposable income levels, which may be adversely affected by unfavourable economic developments in the countries in which we operate.

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Our wine product development strategies may not be successful in developing innovative new products, and our new wine products may not be commercially successful. To the extent that we are not able to effectively gauge the direction of our key sales markets and successfully identify, develop and produce new or improved wine products in these changing markets, our financial results and our competitive position will deteriorate. Moreover, there are inherent market risks associated with new wine product introductions, including uncertainties about marketing and consumer acceptance, and there can be no assurance that we will be successful in introducing new products. We may expend substantial resources developing and marketing new products which may not achieve expected sales levels.

In addition, we may not be successful in maintaining or strengthening our brand image. We seek to maintain and strengthen our brand image through marketing investments, including advertising, consumer promotions and trade promotions. Maintaining and strengthening our brand image depends on our ability to adapt to a rapidly changing environment, including our increasing reliance on social media and online dissemination of advertising campaigns. If we do not maintain and strengthen our brand image, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Failure of compliance with the relevant PRC legal procedures applicable to the increase in the registered capital and the transfer of equity interest of Shanxi Grace Vineyard may affect our equity interest in Shanxi Grace Vineyard

In 2004, the registered capital of Shanxi Grace Vineyard was increased by US\$1,722,000 (equivalent to approximately RMB14,336,650), which was fully contributed by Dragonet. As a result, Dragonet and SPGMG respectively owned 94.52% and 5.48% equity interest in Shanxi Grace Vineyard (the “**Registered Capital Increase**”). In 2010, SPGMG transferred its entire equity interest of 5.48% in Shanxi Grace Vineyard to Dragonet (the “**Transfer of Equity Interests**”). Our PRC Legal Advisers have advised us that SPGMG had not complied with the then applicable PRC laws and regulations and as a result, the Registered Capital Increase and the Transfer of Equity Interests may be invalidated or revoked by the relevant courts or authorities. See “History, Reorganisation and Corporate Structure — Reorganisation — Compliance with relevant applicable laws and regulations in respect of the increase of registered capital and the transfer of equity interests of Shanxi Grace Vineyard” for additional details.

If the relevant courts or authorities successfully invalidate or revoke the Registered Capital Increase or Transfer of Equity Interests, we may not be able to consolidate up to 10% of equity interest in Grace Vineyard into our Group’s consolidated financial results, which it may lead to a negative impact on the profit attributable to our equity owners and on our cash flow generated from any distributions from Grace Vineyard in future. During the Track Record Period, in the event we could not consolidate such interests, our profits attributable to shareholders will decrease by RMB707,000, RMB724,000 and RMB815,000 in each of FY2015, FY2016 and FY2017, respectively.

New wine and techniques developed by us may not be successful

We strive to research on and develop new quality products in order to meet the changing demand and preferences of market consumers in the PRC and our other markets. When we develop new wine, we may incur material expenditure on manpower, production capacity and

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equipment investment. Our wine product development activities involve formulating new types of wine and varying the flavours of our existing wine products. Our product development team conducts tests and trials in an attempt to improve the flavours and quality of our new and existing wines, as well as to cater for the difference in grapes harvested in different years, in order to suit the changing preference of our consumer. There is no assurance that our wine product development effort would pay off to develop successful new wine products or improve our existing wine products. Even after new or improved wine products are developed, there is no assurance that the market would positively receive our new or improved products thereby enabling us to generate adequate investment returns. In such circumstances, our business and financial results may be adversely and materially affected.

We may not be able to implement our future plans and achieve our projected growth, and the implementation of our future plans could result in fluctuations in our financial performance

Our future business growth primarily depends on the successful implementation of our business objectives, strategies and future plans as stated in this prospectus. In particular, we intend to use a substantial portion of our net proceeds from the Share Offer to finance the construction of our Ningxia Winery. Furthermore, we may not be able to achieve the anticipated growth and expansion of our business due to factors which are beyond our control, such as changes in economic environment, market demands, government policies and relevant laws and regulations. As such, there is no assurance that our business objectives, business strategies and future plans (in particular the completion of the second phase construction of our Ningxia Winery) will be accomplished, whether in whole or in part or be implemented within the estimated timeline. In the event that our future plans are not implemented and our business objectives are not achieved, our business, profitability and financial positions in the future may be adversely affected.

Further, the continued expansion of our business may place significant strain on our managerial, operational and financial resources. We may not be able to successfully manage the growth of our business despite adopting various measures and strategies to do so including, among others, the need to raise working capital, to identify, recruit, train and integrate additional staff and employees and to oversee the construction of our Ningxia Winery. Therefore, there is no assurance that the intended growth of our business can be achieved or will become profitable. Whether our future plans can be implemented successfully may be affected by various factors which are beyond our control, such as increase in costs related to the establishment, furnishing and other capital expenditure for our new winery as well as our ability to employ sufficient and competent staff for this new winery.

In addition, our operating results may continue to be influenced by the timing of the completion of the second phase construction of our Ningxia Winery as the harvesting season of grapes is limited to predominantly late August to early October each year. As such, any delay of completion may materially affect the commencement of wine-making process that year, which may in turn adversely affect our production volume, our cost structure and profitability.

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We may be involved in legal disputes or proceedings

We may at times be involved in potential legal disputes or proceedings during the ordinary course of business operations relating to, amongst other things, employees' claims, labour disputes or contract disputes, which could have a material adverse effect on our reputation, operations and financial conditions. Any dispute may lead to legal or other proceedings and may result in substantial costs and the diversion of resources and management's attention.

Our insurance coverage may not be adequate to cover all possible losses. In addition, our insurance costs may increase and we may not be able to obtain the same level of insurance coverage in the future

We maintain insurance for our wine-making facilities with Independent Third Parties to cover losses or damages in respect of machinery and equipment arising from fire. Each policy generally contains certain customary exclusions. Therefore, certain acts and events could expose us to substantial uninsured losses. Our insurance may not continue to be available on commercially reasonable terms and, in any event, may not be adequate to cover all losses. As a result, our business, financial conditions and results of operations could be materially and adversely affected. Any failure to renew or replace an insurance policy that may be required under our various credits and other material agreements could result in an event of default under such credits or other material agreements and have a material adverse effect on our business, financial conditions, results of operations and prospects.

Fluctuations in the value of the Renminbi may adversely affect the value of distributions by our PRC subsidiaries

The value of the Renminbi depends, to a large extent, on the PRC domestic and international economic, financial and political developments and governmental policies, as well as the currency's supply and demand in the local and international markets. Since 1994 till 2005, the conversion of the Renminbi into foreign currencies were based on exchange rates set and published daily by PBOC in light of the previous day's interbank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of the Renminbi into the U.S. dollar was largely stable until July 2005. On 21 July 2005, PBOC revalued the Renminbi by reference to a basket of foreign currencies. As a result, the value of the Renminbi appreciated by more than 2% on that day. Since then, the PRC central bank has allowed the official Renminbi exchange rate to float against a basket of foreign currencies. Further, from 18 May 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on 19 May 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. On 19 June 2010, the PBOC announced its intention to proceed with the reform of the Renminbi exchange rate regime to increase the Chinese currency's exchange rate flexibility. The floating band was further widened to 1.0% on 16 April 2012. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 32.7% from 21 July 2005 to 30 June 2015. There can be no assurance that such exchange rate will not fluctuate widely against foreign currencies in the future. Since our income and profits are denominated in Renminbi, any appreciation of the Renminbi will increase the value of dividends and other distributions payable by our PRC

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subsidiaries in foreign currency terms. Conversely, any depreciation of the Renminbi will decrease the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Fluctuation of the value of the Renminbi will also affect the amount of our foreign debt service in Renminbi terms since we have to convert the Renminbi into foreign currencies to service our indebtedness denominated in foreign currencies.

Fluctuations in exchange rates between RMB and HK\$ have a material effect on our financial statements. For FY2015, FY2016 and FY2017, our exchange differences on translation of financial information amounted to approximately RMB(4.9) million, RMB(7.3) million and RMB5.0 million, respectively, having arisen from the translation of assets and liabilities (mainly including amounts due to and from related parties (which included Ms. Chan, a Controlling Shareholder, her family members and entities controlled by them) of our Group) of certain subsidiaries (being investment holding entities) from their functional currency of HK\$ to the presentation currency of RMB in our financial statements at the exchange rates ruling at the end of each of the Track Record Period, notwithstanding that our operations are principally in the PRC. The statements of profit or loss of these subsidiaries were also translated into RMB at the weighted average exchange rates for the respective years.

RISK RELATING TO THE INDUSTRY IN WHICH WE OPERATE

We are exposed to product liability and food safety standards

We are subject to various laws and regulations in the PRC, including the Law of the PRC on Production Quality (中華人民共和國產品質量法), pursuant to which if our wine product causes property damage or personal injury, we (as manufacturer and seller) may be liable for such damage or injury so caused. In addition, the Administration for Industry and Commerce (工商行政管理局) may be authorised by the Law of the PRC on the Protection of Consumers' Rights and Interests (中華人民共和國消費者權益保護法) to impose administrative penalties on us. Our Directors believe that any product liability claims against us, whether or not meritorious and disregarding the outcome, might have damaging impact to our business and reputation. It may also damage the confidence of the public on our wine products, and may affect our established relationships and business dealings with our distributors and suppliers. We may also need to incur significant legal and other costs in defending ourselves in these actions.

Further, we are subject to various requirements and standards according to the Food Safety Law of the PRC (中華人民共和國食品安全法), if we fail to satisfy the requirements of food safety, we may obtain the administrative penalties from the competent authority, and if any property or person damage is caused, we may indemnify any loss and damages caused thereby.

We face intense competition in the domestic PRC market, which may affect our operating results

The wine industry in the PRC is fragmented and competitive. According to the F&S Report, there were approximately 1,000 wine enterprises operating in the PRC. As such, we face strong competition in terms of sales and distribution, brand recognition, quality and price of our wine, availability of our wine, and product positioning. According to Frost & Sullivan, and the resources

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of our competitors may increase due to mergers, consolidations or alliances, and we may face new competitors in the future. See “Industry Overview” and “Business — Competition” for detailed discussions. Increased competition may result in revenue declines and cost increases. We cannot guarantee that we will be able to compete effectively against current and future competitors.

Further, as we seek to expand our market share in the markets in which we currently distribute our products and to distribute new products and to penetrate into new regions in the PRC, we may have difficulty competing with local wine makers due to protectionist efforts by local governments to benefit those local wineries. From time to time in response to competitive and customer pressures or to maintain market share, we may be forced to reduce our selling prices or increase or reallocate spending on marketing, advertising, promotions or selling concessions (e.g. rebates) in order to compete. These types of actions could decrease our profit margins. Such pressures may also restrict our ability to increase our selling prices in response to raw material and other cost increases. In light of the strong competition that we currently face, and which may intensify in the future, there can be no assurance that we will be able to increase the sales of our products or even maintain our past levels of sales, or that our profit margins will not be reduced. If we are unable to increase our product sales or to maintain our past levels of sales and profit margins, our business, financial condition, results of operations and prospects may be materially and adversely affected.

The entry of international wine operators and enterprises may result in increased competition, decreased revenue and uplifted costs and our Group’s success depends on our ability to compete with our international competitors

Our foreign competitors may have greater access to financial resources, more experience in resource allocation and vineyard location selection, better capability in product innovation and longer operating histories. Further, given the increasing western influence over the PRC and the general consumer behaviour in the PRC, our brand equity and advantages may be diluted by the increase of foreign brands in the PRC. Further, some of our international competitors may also have better vineyard and winery management and may have access to more advanced technology than we do. In this regard, our Group faces considerable competition from a large number of foreign wine enterprises. Upon becoming a member of the World Trade Organisation, the PRC government agreed to lower tariffs on imports of agricultural produce (including grapes) and tariffs on imports of wines and other alcoholic beverages, to eliminate quotas and other quantitative restrictions on agricultural imports. Our Directors also expect that the lowering of import tariffs and the elimination of quotas and other import restrictions by the PRC government in respect of agricultural produce and alcoholic beverages will bring increased competition from domestic wine enterprises which make wine from imported grapes and import overseas-imported wine as well as international wine enterprises who import their own wines to the PRC. There is a considerable risk that the PRC authorities may decide to further reduce the tariffs on agricultural produces and alcoholic beverages which our Group has limited control.

The decrease in tariffs, together with the increasing western influence among the PRC citizens, especially on the wine culture as well as the consumer spending behaviour, may intensify the competitions of the wine industry in the PRC, and pose adverse images and perceptions on wines produced in the PRC. Our Group cannot assure that our current business strategies and competitive strengths will be effective in case of the increased competition and

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our Group cannot assure that our target customers and end-users, most of which being individuals and corporations in the PRC, will continue to consume and spend on domestically-produced wine in the future.

We may be subject to seasonal fluctuations in consumer demand

We sell substantially all our products in the PRC, and our revenue may be subject to the seasonal consumption cycles in the PRC. We understand that wine consumers in the PRC typically purchase more of our wine products for self-consumption and gifts around festive celebration time in a year, most notably around Chinese New Year and the Mid-Autumn Festival. As a result, our sale volume and in turn, revenue are generally higher during autumn and winter time of the year around these festivals, and are generally lower during the transitory period in summer. If we are unable to produce and deliver a sufficient quantity amount of wines to meet such increased market demand during our peak sale season, our financial condition and operating results may be adversely affected.

We are subject to laws and regulations relating to environmental protection

We are subject to various PRC laws and regulations relating to environmental protection. In addition, local governments are empowered by regulators to penalise companies in violation of such laws, regulations or standards. Although our Group has never been determined by the relevant authorities to be in violation of such environmental protection laws, regulations and standards, there is no assurance that our operations will be in conformity with the same at all times, or that these laws, regulations and standards will not be amended to become more stringent over time. During the course of our operation, waste water is often produced. We have completed construction work for a waste water treatment facility in 2011 and we regularly monitor the level of pollutants in the waste water. In the event that we fail to meet the applicable environmental protection requirements, we may be required to take remedial actions, which may adversely affect our operations, or we may be fined which may have an impact on our financial position.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Our business is heavily influenced by the changes in the economic, political and social conditions in the PRC and policies adopted by the PRC government

Substantially all of our revenues are derived from our operations in the PRC. As a result, our business is significantly subject to economic, political and social developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including structure, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. In recent years, the PRC government has implemented measures emphasising market forces for economic reform. However, there can be no assurance that the PRC government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market-oriented. Changes in the economic, political and social conditions or the relevant policies (including tax policies) of the PRC government, such as changes in laws and regulations (or the interpretation thereof) or restrictive financial measures, could have adverse effects on the overall economic growth of the PRC which could in turn adversely affect our current or future business, growth strategies, operating results or financial condition.

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The PRC legal system is different from other legal systems that prospective investors may be more familiar with and has inherent uncertainties which could limit the legal protections available

Our Company is a holding company established in the Cayman Islands and we conduct our business through our wholly-owned subsidiaries in the PRC. The PRC legal system is based on written statutes. Prior court decisions can be cited as a reference but are not binding on subsequent cases. Since 1979, the PRC government has been developing a comprehensive system of laws, rules and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, as many of these laws and regulations are relatively new and have not yet been fully developed, and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties, which may lead to additional restrictions and uncertainty for our business.

Further, the PRC legal system is different from other legal systems that prospective investors may be more familiar with. The recently enacted laws and regulations may not cover all aspects of economic activities in the PRC. Because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of PRC laws and regulations involve uncertainties and can be inconsistent.

The enforcement of existing laws or contracts may be uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement of a judgement by a court. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. In addition, any litigation in the PRC may be protracted and result in substantial costs and the diversion of resources and management's attention. In addition, we cannot predict future developments in the PRC legal system or the effects of such developments. The materialisation of all or any of these uncertainties could have an adverse effect on our financial position and results of operations.

Our primary source of funds in the form of dividends and other distributions from our operating subsidiary in the PRC is subject to various legal restrictions and uncertainties which may limit our ability to pay dividends or make other distributions to our Shareholders

Our Company is a holding company established in the Cayman Islands and we conduct our business through our wholly-owned subsidiaries in the PRC. As a result, our profits available for distribution to our Shareholders are dependent on the profits available for distribution from our operating subsidiaries. Under the PRC laws and regulations, subsidiaries are regarded as wholly-owned foreign enterprises. According to the new Enterprise Income Tax ("EIT") Law of the PRC (中華人民共和國企業所得稅法), enacted on 16 March 2007 and further amended and implemented on 24 February 2017, 10% of withholding EIT is levied on dividends paid by a foreign invested enterprises as a PRC resident enterprise to investors who are "non-residents enterprises" (that do not have an establishment or place of business in the PRC or that have such establishment or place of business but the relevant dividend or other distribution is not effectively connected with the establishment or place of business) unless there is any bilateral

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taxation arrangement between the PRC and the jurisdiction of the shareholders. PRC laws and regulations require dividends to be paid only out of net income as determined in accordance with the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions. As a result, our primary internal source of funds for dividend payments from our subsidiaries are subject to these and other legal restrictions and uncertainties.

Dividend from our PRC subsidiary paid to our Hong Kong subsidiary might not be qualified for the reduced PRC withholding tax rate under the special arrangement between Hong Kong and the PRC

Under the EIT Law and its implementing rules, if the foreign shareholder is not deemed a PRC tax resident enterprise under the EIT Law, dividend payments from PRC subsidiary to its foreign shareholder, are subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholder has a tax treaty or similar arrangement with China and the foreign shareholder obtains approval from competent local tax authorities in accordance with such tax treaty or similar arrangement. Pursuant to a special arrangement between Hong Kong and the PRC, the withholding tax rate is lowered to 5.0% for Hong Kong listed companies or if a Hong Kong resident enterprise is the beneficial owner of more than 25.0% of a PRC company distributing the dividend. According to the Measures for the Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Tax Agreements (非居民納稅人享受稅收協定待遇管理辦法), or the 2015 Administration Measures, which was promulgated by the State Administration of Taxation on 27 August 2015 and became effective on 1 November 2015, prior approval from or filings with the PRC competent tax authority is no longer required before a non-resident taxpayer can enjoy the preferential tax treatment under the relevant treaties. A non-resident taxpayer may enjoy the preferential tax treatment if it is eligible for the preferential tax treatment under the relevant provisions of a tax treaty, subject to the follow-up administration by the relevant tax authority. In order to enjoy the preferential tax treatment, the non-resident taxpayer shall file documents as required by the 2015 Administration Measures with tax authority when filing tax returns or withholding and declaration through a withholding agent, among which is the tax resident identity issued by the tax authority of the counter party to the treaty. During the follow-up administration of the tax authority, if the non-resident taxpayer is deemed not eligible for the preferential tax treatment and pays taxes less than he should pay or does not pay them at all, the non-resident taxpayer shall be notified to pay up the non-payment or underpayment of the tax within specified timeframe. Moreover, according to the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知) issued and implemented by the State Administration of Taxation on 20 February 2009, Any transaction or arrangement primarily aimed at acquiring any tax preference shall not constituted a ground for application of the preferential dividend clauses of a tax agreement by virtue of such a transaction or arrangement, the competent tax authority shall have the right to make adjustment. There is no assurance that the PRC tax authorities will recognise and accept the 5% withholding tax rate on dividend paid by our PRC subsidiary and received by our Hong Kong subsidiary.

Governmental control of currency conversion may limit our ability to utilise our cash effectively, which may adversely affect the value of your investment

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of foreign currency out of the PRC. We receive

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significant portion of our revenue in Renminbi, which is currently not a freely convertible currency. As a Cayman Islands holding company, we may, to a certain extent, rely on dividend payments from our PRC subsidiary to fund any cash and financing requirements we may have. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividend, or otherwise satisfy foreign currency denominated obligations.

Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, dividend and expenditure from the trade-related transactions, can be made in foreign currencies without the prior approval from the SAFE, by complying with certain procedural requirements. However, payments under the capital account items, including capital transfers, direct investment and securities investment are subject to significant foreign exchange controls and require the prior approval from the SAFE or the registration with the SAFE or the banks. Furthermore, the PRC government may also at its discretion restrict access to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain of our expenses as they come due.

RISKS RELATING TO THE SHARE OFFER

The market price and trading volume for our Shares may be volatile

The price and trading volume of our Shares may be highly volatile. Factors such as global and local economic conditions, the foreign currency exchange rate between the Renminbi and the Hong Kong dollar, variations in our operating results, earnings and cash flows and announcements of new investments and strategic alliances and/or acquisitions, could cause the market price of our Shares to change substantially. Any of such factors may result in large and sudden changes in the volume and price at which our Shares will be traded. We cannot assure that these factors will not occur in the future. In addition, shares of other companies listed on the Stock Exchange had experienced substantial price volatility in the past, and it is possible that our Shares will be subject to changes in price that may not be directly related to our financial or business performance. As a result, prospective investors may experience volatility in the market price of our Shares and a decrease in the value of our Shares regardless of our operating performance or prospects.

Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall when the trading of our Offer Shares begins

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to take place about five business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price or value of our Shares could fall when trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time when trading begins.

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There is no prior public market for our Shares and an active trading market may not develop or be sustained after the Listing and market price and trading volume of the Shares may fluctuate significantly

Prior to the Listing, there has been no public market for the Shares. The indicative range of the Offer Price was determined as a result of negotiations between the Joint Bookrunners and our Company. The Offer Price may differ significantly from the market price of our Shares following the Share Offer. We have applied for the Listing of and permission to deal in our Shares on GEM. However, even if approved, being listed on GEM does not guarantee that an active trading market for our Shares will develop following the Share Offer or that our Shares will always be listed and traded on GEM. We cannot assure you that an active trading market will develop or be maintained following the completion of the Share Offer, nor that the market price of our Shares will not decline below the Offer Price.

The market price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flow and announcements of new investments, strategic alliances and/or acquisitions, fluctuations in market prices for our products and services or fluctuations in market prices for comparable companies could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade.

In addition, shares of other comparable companies listed on GEM have experienced substantial price volatility in the past, and it is likely that from time to time, our Shares will be subject to changes in price that may not be directly related to our financial or business performance.

Investors for our Offer Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future

One of the benefits to our Company upon Listing is the access to the capital market and our Group may raise additional funds to finance future expansion of our business, operations or acquisitions. Our Company will comply with Rule 17.29 of the GEM Listing Rules, which specifies that no further Shares or securities convertible into equity securities of our Company (subject to certain exceptions) may be issued or form the subject of any agreement to be issued within six months from the Listing Date. Upon expiry of such six-month period, our Group may raise additional funds by issuing new equity or equity-linked securities of our Company and such fund-raising exercises may not be conducted on a pro rata basis to our then existing Shareholders. As such, the shareholding of our then Shareholders may be reduced or diluted and subject to the terms of the issue of the new securities, the new securities may confer rights and privileges that have priority over those conferred by the issued Shares.

In addition, we may consider offering and issuing additional Shares in the future for expansion of our business or to the extent that our ordinary shares are issued upon the exercise of share options under the Share Option Scheme. In this regard, you may experience further dilution in the net tangible asset book value per Share if we issue additional Shares in the future at a price which is lower than the net tangible book value per Share.

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The interests of our Controlling Shareholders may not always coincide with the interests of our Group and those of our other Shareholders

Upon completion of the Share Offer (but not taking into account the allotment and issue of Shares upon exercise of any Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme), our Controlling Shareholders will own, in aggregate, approximately 52.5% of our Shares. Our Controlling Shareholders will therefore have significant influence over the operations and business strategies of our Group, and may have the ability to require our Group to effect corporate actions according to their own desires. The interests of our Controlling Shareholders may not always coincide with the best interests of other Shareholders. If the interests of any of our Controlling Shareholders conflict with the interests of other Shareholders, or if any of our Controlling Shareholders chooses to cause our Group's business to pursue strategic objectives that conflict with the interests of other Shareholders, the interests of our Group or of those other Shareholders may be adversely affected as a result.

You may face difficulties in protecting your interests under Cayman Islands law

Our corporate affairs are governed by our Memorandum of Association and Articles of Association and by the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to protection of interests of minority shareholders, in some respects, may differ from those established under statutes or judicial precedent in existence in Hong Kong. Such differences may mean that our minority shareholders may have less protection than they would have under the laws of Hong Kong. The rights of shareholders to take action against the Directors, the rights of minority shareholders to institute actions and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. A summary of Cayman Islands company law is set out in Appendix IV of this prospectus.

Dividends paid in the past should not be treated as indicative of future dividend payments

During the Track Record Period we declared and paid dividends in the amount of nil, nil and RMB20.7 million for FY2015, FY2016 and FY2017, respectively. Further, on 4 June 2018, we declared dividends in the aggregate amount of RMB10.0 million, which will be paid to our then Shareholders before Listing. Purchasers of the Offer Shares in the Share Offer will not be entitled to these dividends. These dividends were financed by our internal resources. Future dividends on our Shares will be declared by, and are subject to the sole and absolute discretion of, our Board in accordance with our Articles. The payment and the amount of any dividends will depend on our earnings, financial conditions, results of operations, cash flows, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. We cannot assure that future dividends will be declared or paid in an amount equivalent to or exceeding historical dividends. Therefore, prospective investors should be aware that historical dividends are not indicative of the amount of future dividends or the frequency of our future dividend payment. For details, see "Financial Information — Dividends" in this prospectus.

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We cannot assure you that we will declare and distribute any amount of dividends in the future

As a holding company, our ability to declare future dividends will depend on the availability of dividends, if any, received from our operating subsidiaries. The declaration, payment and amount of any future dividends are subject to the discretion of our Directors depending on, among other considerations, our operations, earnings, financial condition, cash requirements and availability, our constitutional documents and applicable law and will be subject to the approval of our Shareholders. There is no assurance that dividends of any amount will be declared or distributed in any year. For more details on our dividend policy, see “Financial Information — Dividends”.

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

Prospective investors should not place undue reliance on industry and market overview and statistics derived from official government publications, third party market research reports or news sources contained in this prospectus

Statistics, projected industry data and information relating to the economy and the industry contained in this prospectus are derived from various publications and information provided by Frost & Sullivan. We cannot assure, or make any representation, as to the accuracy, completeness, quality or reliability of such information. Neither our Group nor any of our respective affiliates or advisers, nor the Sole Sponsor, the Joint Bookrunners and Joint Lead Managers or any of their respective directors, officers, employees, advisers or agents, has prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from the third party market research reports. Due to possible flawed collection methods, discrepancies on published information, different market practices or other problems, the statistics, projected industry data and other information relating to the economy and the industry derived from the third party market research reports may be inaccurate or may not be comparable to or consistent with information available from other sources and should not be unduly relied upon. In all cases, prospective investors should give careful consideration as to how much weight or importance they should attach or place on such statistics, projected industry data and other information relating to the economy and the industry.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties

This prospectus contains certain statements that are “forward-looking” and uses forward looking terminology such as “anticipate”, “estimate”, “believe”, “expect”, “may”, “plan”, “consider”, “ought to”, “should”, “would” and “will”. Those statements include, amongst other things, the discussion of our growth strategy and the expectations of our future operation, liquidity and capital resources.

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Prospective investors should be cautioned that reliance on any forward-looking statement involves risks and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the GEM Listing Rules or other requirements of the Stock Exchange. Prospective investors should not place undue reliance on such forward-looking information. For more details, please refer to the section headed “Forward-looking Statements” of this prospectus.

Our Group’s future results could differ materially from those expressed in or implied by the forward-looking statements

This prospectus includes various forward-looking statements that are based on various assumptions. Our Group’s future results could differ materially from those expressed in or implied by such forward-looking statements. For details of these statements and the associated risks, please refer to the section headed “Forward-looking Statements” in this prospectus.

Prospective investors should read this prospectus in detail

There may have been coverage in the media regarding the Listing and our operations. We do not accept any responsibility for the accuracy or completeness of the information and make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. To the extent that any of the information in the media is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any of the information in press articles or other media coverage.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

- the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive;
- there are no other matters the omission of which would make any statement herein or in this prospectus misleading; and
- all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

INFORMATION AND REPRESENTATION

We have not authorised anyone to provide any information or to make any representation not contained in this prospectus. You should not rely on any information or representation not contained in this prospectus as having been authorised by us, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters or any of our or their respective directors, officers or representatives or any other person involved in this Share Offer. No representation is made that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or that implies that the information contained in this prospectus is correct as at any date subsequent to the date of this prospectus.

INFORMATION ON THE SHARE OFFER

Issuer	Grace Wine Holdings Limited
Share Offer	The Share Offer of (i) 20,000,000 new Shares for subscription by the public in Hong Kong (subject to reallocation) and (ii) initially 180,000,000 new Shares (subject to re-allocation) under the Placing.
Offer Price range	Not more than HK\$0.40 per Share and not less than HK\$0.30 per Share
Conditions of the Public Offer ..	Details of the conditions of the Public Offer are set out in the "Structure and Conditions of the Share Offer — Conditions of the Share Offer" in this prospectus.
Lock-up undertakings by our Company and the Controlling Shareholders	Please refer to the subsection headed "Underwriting — Undertakings" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Restrictions on sale of Offer
Shares in Hong Kong

Each person acquiring the Offer Shares will be required to confirm or will be deemed by his/her acquisition of the Offer Shares to confirm that he/she is aware of the restrictions on the placing of the Offer Shares described in this prospectus and that he/she is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions. Save as mentioned above, no action has been taken in any jurisdiction other than in Hong Kong to permit a placing or the general distribution of this prospectus. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in relation to the Share Offer in any jurisdiction or in any circumstance in which such an offer or invitation is not authorised, or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable laws or any applicable rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities as an exemption therefrom.

Share Registrar and
stamp duty

Dealings in the Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. In other words, a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.

Transfers of the Shares registered on our principal register of members in the Cayman Islands will not be subject to Cayman Islands stamp duty unless our Company holds an interest in land in the Cayman Islands.

Our Company's Hong Kong branch register of members will be maintained by the Hong Kong Branch Share Registrar in Hong Kong, Tricor Investor Services Limited, whereas our principal register of members will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Professional tax advice recommended	Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications in relation to subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attaching to them). It is emphasised that none of us, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, any of the Underwriters, any of their respective directors, agents, advisers, employees, personnel or any other persons or parties involved in the Share Offer accepts responsibility for any tax affairs or liabilities of any person resulting from the subscription for, purchase, holding or disposing of, dealing in our Shares, or the exercise of any rights attaching to our Shares.
Application for Listing on the Stock Exchange	Application has been made to the Listing Division of the Stock Exchange for the Listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Share Offer (including any Shares to be issued under the Capitalisation Issue and any Shares which may be issued pursuant to the exercise of options that may be granted under the Share Option Scheme). No part of the share or loan capital of our Company is listed or dealt in on any other stock exchange and no such Listing or permission of dealing is being or is proposed to be sought.
Eligibility for CCASS	<p>Subject to the approval of the Listing of, and permission to deal in, our Shares on GEM and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.</p> <p>All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.</p> <p>All necessary arrangements have been made for our Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangements and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional adviser.</p>

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Rounding of figures	Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.
Commencement of dealing in the Shares	Dealings in our Shares on GEM are expected to commence at 9:00 a.m. (Hong Kong time) on Wednesday, 27 June 2018. Shares will be traded in board lots of 10,000 Shares each.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Chan Judy (陳芳)	Flat B, 15/F Borrett Mansions 9 Bowen Road Mid-Levels Hong Kong	Chinese
Fan Chi Chiu (范智超)	Flat A, 8/F Ngar Lan Mansion Westlands Court 9 Westlands Road Hong Kong	Chinese
<i>Non-executive Directors</i>		
Hou Tan Tan Danielle (侯旦丹)	Flat A, 5/F Brewin Court 7 Brewin Path Mid-Levels Hong Kong	Chinese
Chow Christer Ho (周灝)	Flat H, 21/F, Block 11 Costa Del Sol (Phase IIB) No. 8 Laguna Verde Avenue Hung Hom Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Ho Kent Ching-tak (何正德) ..	Flat A, 14/F Camelot Heights 66 Kennedy Road Wanchai Hong Kong	Chinese
Lim Leung Yau Edwin (林良友)	7A Ming Wai Garden 45 Repulse Bay Road Repulse Bay Hong Kong	Chinese
Alec Peter Tracy	Flat 3A, 3/F 12 Fuk Kwan Avenue Tai Hang Hong Kong	United States

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

For more information on our Directors and members of senior management, see “Directors and Senior Management” in this prospectus.

PARTIES INVOLVED IN THE PLACING

Sole Sponsor	Southwest Securities (HK) Capital Limited 40/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Joint Bookrunners and Joint Lead Managers	Southwest Securities (HK) Brokerage Limited 40/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong Emperor Securities Limited 23-24/F, Emperor Group Centre 288 Hennessy Road Wanchai, Hong Kong Success Securities Limited Suite 1603-7, 16/F Great Eagle Centre 23 Harbour Road Wanchai, Hong Kong
Legal Advisers to the Company	<i>As to Hong Kong law</i> H.M. Chan & Co in association with Taylor Wessing 21st Floor 8 Queen’s Road Central Hong Kong <i>As to PRC law</i> JunHe LLP Suite 2803-04, 28/F Tower Three, Kerry Plaza No.1-1, Zhongxinsi Road Futian District Shenzhen, PRC <i>As to Cayman Islands law</i> Appleby 2206-19 Jardine House 1 Connaught Place Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal Advisers to the Sole Sponsor, Joint Bookrunners and the Underwriters	<i>As to Hong Kong law</i> Deacons 5th Floor, Alexandra House 18 Chater Road Hong Kong <i>As to PRC law</i> Dentons 15/F-16/F, Shanghai Tower 501 Yincheng Road (M) Shanghai, PRC
Reporting accountants and auditor	Ernst & Young <i>Certified Public Accountants</i> 22nd Floor, CITIC Tower 1 Tim Mei Avenue Central, Hong Kong
Industry consultant	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. 1018, Tower B 500 Yunjin Road Shanghai
Property valuer and biological asset valuer	AVISTA Valuation Advisory Limited 23rd Floor, Siu On Centre No. 188 Lockhart Road Wai Chai Hong Kong
Compliance adviser	Southwest Securities (HK) Capital Limited 40/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Receiving bank	Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business in the PRC	Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province PRC
Principal place of business in Hong Kong	Unit 1-3, 11/F Westlands Centre No. 20 Westlands Road Hong Kong
Company's website	www.gracewine.com.hk <i>(information on this website does not form part of this prospectus)</i>
Company secretary	Chiu Ming King, <i>FCIS, FCS</i> 19/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Authorised representatives	Fan Chi Chiu Unit 1-3, 11/F Westlands Centre No. 20 Westlands Road Hong Kong Chiu Ming King 19/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Audit committee	Lim Leung Yau Edwin (<i>Chairman</i>) Chow Christer Ho Ho Kent Ching-tak

CORPORATE INFORMATION

Remuneration committee	Alec Peter Tracy (<i>Chairman</i>) Lim Leung Yau Edwin Hou Tan Tan Danielle
Nomination committee	Chan Judy (<i>Chairlady</i>) Chow Christer Ho Ho Kent Ching-tak
Cayman Islands principal share registrar and transfer office	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited Level 22 Hopewell Centre 183 Queen's Road East Hong Kong
Compliance adviser	Southwest Securities (HK) Capital Limited 40/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Principal banker	China Construction Bank Corporation, Taigu Branch No. 119 Xihuan Road Taigu County Jinzhong City PRC China Merchants Bank, Shanghai Branch, Taixing Sub-branch No. 847 Xinzha Road Jing'an District Shanghai PRC

INDUSTRY OVERVIEW

This section contains information and statistics relating to the industry in which we operate. Certain information and statistics set out in this section have been extracted and derived from various official, publicly available sources as well as a commissioned report from Frost & Sullivan, an Independent Third Party. In addition, this section and elsewhere in the prospectus contains information extracted from a commissioned report, or the F&S Report, prepared by Frost & Sullivan, for purposes of this prospectus. Please see “— Source of information” in this section. We believe that the sources of the information in this “Industry Overview” section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is materially false or misleading, and no fact has been omitted that would render such information materially false or misleading. However, the information has not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, employees, advisors, agents or representatives or any other party involved in the Share Offer and no representation is given as to its accuracy. Except as otherwise noted, all the data and forecast in this section are derived from the F&S Report.

Furthermore, the information from the government sources may not be consistent with the information compiled by third parties. Neither we nor Frost & Sullivan makes any representation as to the correctness or accuracy of government or official information contained in this prospectus. Accordingly, such information should not be unduly relied upon.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan to analyse and report on the current status of, and forecasts for, the selected industries in which we operate in China. We agreed to pay Frost & Sullivan a fee of RMB350,000 for the preparation and use of the F&S Report. Unless otherwise indicated, market estimates or forecasts in this section represent Frost & Sullivan’s view on the future development of the selected industries in China.

Established in 1961, Frost & Sullivan has conducted industry research and provided market and enterprise strategies, consultancy and training services for several industries, including automobile, transportation and logistics, chemical engineering, energy and power systems, environmental protection technologies, electronics, information and telecommunication technologies, and medical and healthcare. In preparing the report, Frost & Sullivan has relied on the statistics and information obtained through primary and secondary research. Primary research includes interviewing industry insiders and recognised third party industry associations, while secondary research includes reviewing corporate annual reports, databases of relevant official authorities, independent research reports and publications, as well as the exclusive database established by Frost & Sullivan over the past decades.

In compiling and preparing the F&S Report, Frost & Sullivan has adopted the following assumptions: (i) the Chinese social, economic, and political environment is expected to remain stable in the forecast period; (ii) China’s economy is expected to maintain steady growth in the forecast period; (iii) key industry drivers mentioned in this section are likely to promote the stable and healthy development of the Chinese wine market in the forecast period; and (iv) there will be no war or large scale disaster during the forecast period.

INDUSTRY OVERVIEW

ECONOMIC GROWTH IN CHINA

Over the past years, China's economy has maintained a solid growth pace. According to the National Bureau of Statistics of China, the nominal GDP of China grew at a CAGR of 8.3% from 2012 to 2016. Moreover, according to the International Monetary Fund ("IMF"), the nominal GDP of China is forecasted to grow at a CAGR of 8.5% from 2016 to 2021.

Together with the continuous growth in the macro economy and urbanisation, the average income of urban households has risen continuously in the recent years. From 2012 to 2016, per capita annual disposable income increased from RMB24,565 to RMB33,616 with a CAGR of 8.2%. Frost & Sullivan forecasts the per capita annual disposable income in China to reach RMB49,521 in 2021, with a CAGR of 8.1% from 2016 to 2021.

THE CHINESE WINE MARKET

Market Overview of the Chinese Wine Market

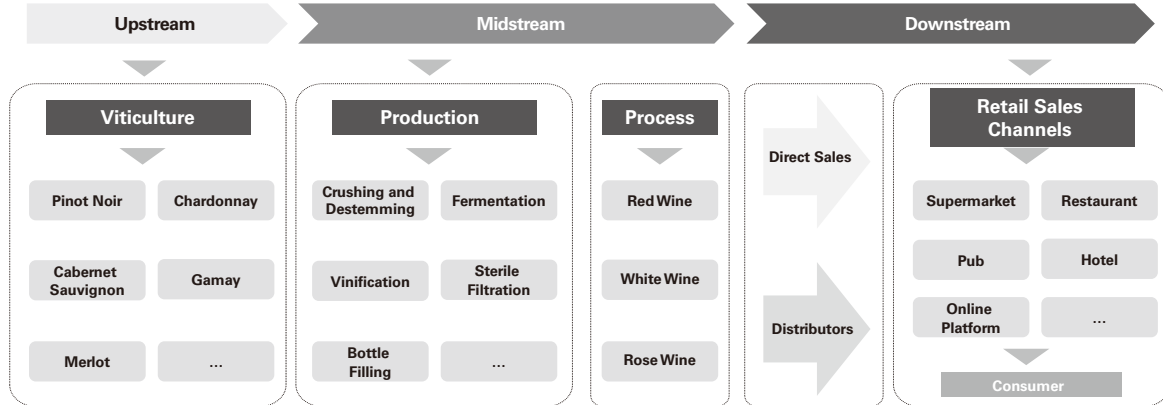
Wine is an alcoholic beverage with the alcohol by volume ranging from 10% to 15% typically made from fermented juice obtained and extracted by squeezing and crushing various types of grapes. It is produced by fermenting crushed grapes with various types of yeast. Yeast consumes sugars in the grapes and converts them into alcohol. Wine is usually made using various types of grapes, including Pinot Noir, Chardonnay, Cabernet Sauvignon, Gamay, and Merlot.

In the past two decades, with the rapid economic growth and the increasing disposable income in China, the sales volume of wine has increased continuously and reached 1.72 million kiloliters in 2016, which leads to the rapid development of winemaking. Currently, there are more than 1,000 winemaking enterprises in China, with the production volume of wine increasing from 78.0 thousand kiloliters to 11.4 million kiloliters from 1980 to 2016, representing a CAGR of 10.9%.

In recent years, China has become one of the major wine grape-producing countries in the world, and has been introducing foreign grape varieties along with adopting modern agricultural techniques to improve and cultivate them. As a result, there are a number of grape varieties such as Cabernet Sauvignon, Merlot, Chardonnay and Cabernet Gernischt being cultivated in China. Moreover, different wine grape-producing regions possess different varieties of wine characteristics, depending on the unique geographical conditions. Diversified grape varieties and modern production technology are the new growth engines for winemaking.

INDUSTRY OVERVIEW

Value Chain Analysis of the Chinese Wine Market



Source: Frost & Sullivan

The value chain of the Chinese wine market can be divided into 3 streams as shown in the diagram above. Firstly, the upstream sector of the Chinese wine market is viticulture, which refers to the study and cultivation of the main raw materials of wine, such as, Pinot Noir, Chardonnay and Cabernet Sauvignon. Secondly, the midstream sector of the Chinese wine market relates to the processes involved in wine production. The major production processes include crushing and destemming, fermentation, vinification, sterile filtration and bottle filling. Lastly, the downstream sector of the Chinese wine market relates to the sales of wine products through different channels.

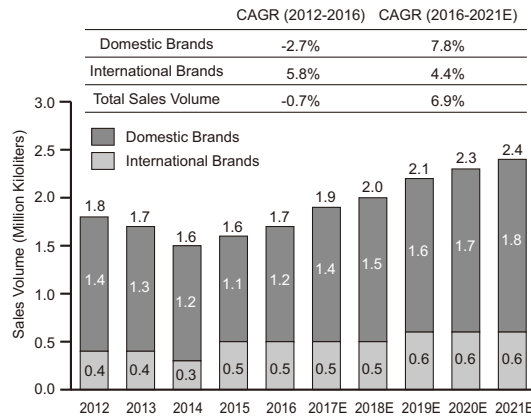
There are more than 10,000 wine distributors in the Chinese wine market, with more than 100 wine distributors located in Shanxi alone. Most wine brands, especially foreign brands, usually sell their products through distributors and they usually have several first-tier distributors to cover different major sales regions in China, in addition, those distributors will redistribute their products to the second-tier distributors in order to increase sales. Some of the major wine distributors in the Chinese wine market include ASC, Torres, Jointek, Vats liquor Store and Yes My Wine. The main distributors in the Shanxi wine market include Shanxi Jiajia and Wanguo Ailun (萬國艾倫貿易有限公司).

As for consumer habits, Chinese consumers tend to select wine products based on the brands instead of the distributors. As such, retail sales channels including supermarkets, restaurants and hotels usually procure wine products from distributors based on the consumers' preferences on the brands.

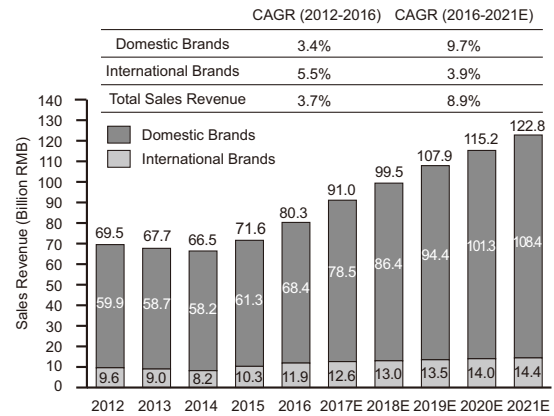
INDUSTRY OVERVIEW

Market Size of the Chinese Wine Market

Sales Volume and Sales Revenue of Wine (China), 2012 — 2021E



Source: National Bureau of Statistics of China; Frost & Sullivan



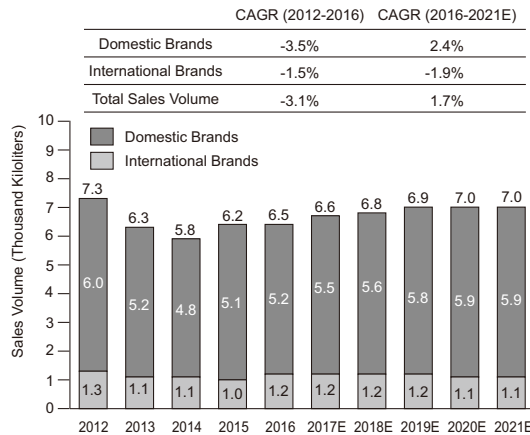
Source: National Bureau of Statistics of China; Frost & Sullivan

From 2012 to 2014 the sales volume of wine in China decreased from 1.77 million kiloliters to 1.55 million kiloliters at a negative CAGR of 6.4%, due to the tightened restrictions on the PRC government's frugality campaigns. However, in light of the popularisation of wine amongst consumers, the consumption model has shifted from official banquets to business and family gatherings, resulting in the recovery of wine consumption in 2015 and 2016. Those trends are expected to continue going forward. In 2016, the per capita wine consumption in China merely reached 1.2 liters, which was still far below the developed countries. Underpinned by the increasing disposable income and the awareness of health, wine consumption becomes a tendency in China and results in an increased per capita wine consumption. Moreover, many Chinese consumers lack advance knowledge of wine, symbolising the initial development stage of the industry and rooms for development of China's wine market. With the infiltration of western culture, Chinese consumers are likely to have a better understanding of wine culture. Regarding the age group of wine consumption, the young generation is anticipated to be main consumers of wine. The transformation of drinking culture among young generation and the improved consumption level of wine among the middle class are likely to become the main driving forces of China's wine market. As such, sales volume of wine anticipated to reach 2.4 million kiloliters by 2021, with a CAGR of 6.8% from 2016 to 2021. Moreover, the sales revenue of wine in China has experienced similar trend. In 2016, the sales revenue of wine in China was RMB80.3 billion and is expected to reach RMB122.8 billion in 2021, with a CAGR of 8.9% from 2016 to 2021.

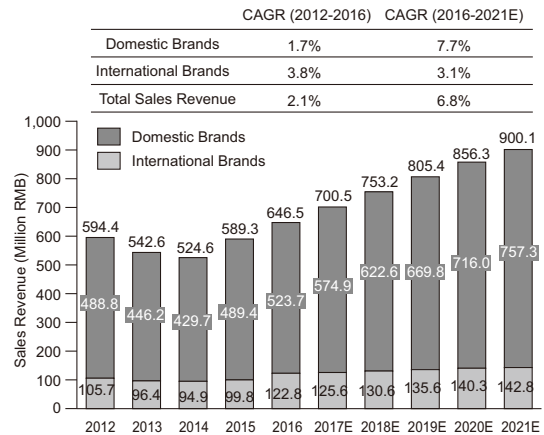
Since 2013, the sales volume of sparkling wine in China has experienced rapid growth, representing the increasing popularity of sparkling wine in China. In 2015, the sales volume of sparkling wine in China reached 12.0 thousand kiloliters, with a CAGR of 5.2% from 2012 to 2015, and is expected to reach 16.4 thousand kiloliters, representing a CAGR of 5.3% from 2015 to 2021. In 2015, the sales revenue of sparkling wine in China was RMB896.6 million and is expected to reach RMB1,251.9 million in 2021, with a CAGR of 5.7% from 2015 to 2021.

INDUSTRY OVERVIEW

Sales Volume and Sales Revenue of Wine (Shanxi Province), 2012 — 2021E



Source: National Bureau of Statistics of China; Frost & Sullivan



Source: National Bureau of Statistics of China; Frost & Sullivan

From 2012 to 2014, the sales volume of wine in Shanxi province showed a downward trend from 7,315.4 kiloliters to 5,806.5 kiloliters at a negative CAGR of 10.9%, mainly due to the tightened restriction under the PRC government's frugality campaigns. However, with the recovery of wine industry and the increasing popularity of wine, the sales volume of wine in Shanxi was 6,450.5 kiloliters in 2016 and is anticipated to reach 7,008.4 kiloliters in 2021, representing a CAGR of 1.7% from 2016 to 2021. Similarly, the sales revenue of wine in Shanxi has experienced downward trend from 2012 to 2014 at a negative CAGR of 6.1%. However, as a result of the recovery, the sales revenue of wine in Shanxi was RMB646.5 million in 2016, accounting for 0.8% of total sales revenue in China and is expected to reach RMB900.1 million in 2021, with a CAGR of 6.8% from 2016 to 2021.

Main Wine Grape-producing Regions

China has eight main wine grape-producing regions, namely, Xinjiang, Wuwei in Gansu province, Changli in Hebei province, Northeast China, Jiaodong peninsula in Shandong province, Qingxu in Shanxi province, Helan Mountain in Ningxia and Southwest China. Amongst those 8 main wine grape-producing regions, Shandong, Hebei and Xinjiang have the highest production volumes.

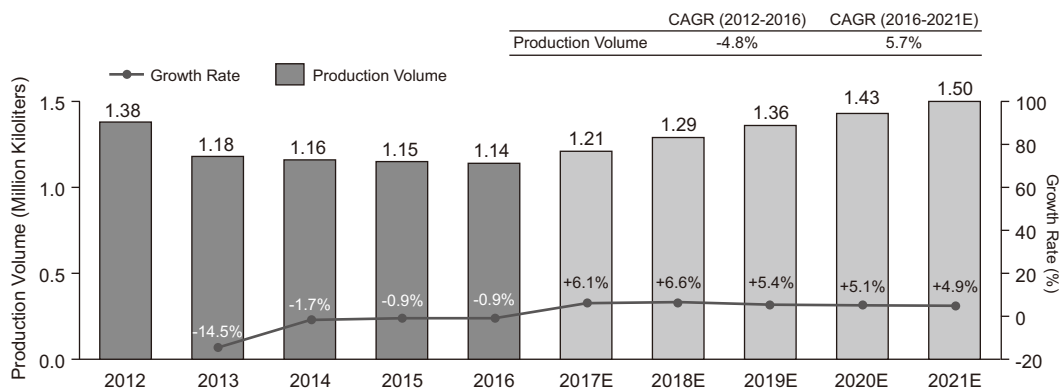
- Shanxi wine grape-producing region: Shanxi has regional advantages such as strong sun light, large temperature difference in spring and moderate precipitation. Summer is hot, short and rainy, while winter is long and dry. The wine grapes in Shanxi are usually extremely deep in colour because of viticulture in the mountains. The grape varieties such as Cabernet Sauvignon and Merlot, have been widely cultivated in this region in recent years.
- Ningxia wine grape-producing region: Ningxia is the largest newly developed grape-producing region in the northwestern part of China. The climate in this region is dry and diurnal temperature variation is substantial. The eastern part of Helan Mountain is famous for its special geographical characteristics for cultivating wine grapes, since it possesses fertile soil and sufficient sunshine. Helan Mountain became

INDUSTRY OVERVIEW

the third region to obtain “Wine National Geographical indications Protection Products” (國家葡萄酒地理標誌產品) certification in 2003. The region mostly produces Bordeaux grape varieties, such as Cabernet Sauvignon and Merlot. In addition, Ningxia possesses vast area of land with optimum soil, therefore, it is relatively easy to find land for grape cultivation in Ningxia.

- **Jiaodong Peninsula Wine Grape-producing Area:** This area has a moderate climate, fertile soil and abundant sunlight. Grape-production areas are mainly concentrated in Qingdao and Yantai.
- **Changli Wine Grape-producing Area:** It has abundant sunlight, large temperature difference between day and night, which are very suitable for plating wine grapes.
- **Xinjiang Wine Grape-producing Area:** The representative regions in Xinjiang are Turpan and Yili Valley. The main grape varieties are Cabernet Sauvignon, Camry and Grenache. The temperature in Turpan is extreme high in Summer, the wine produced in this area has high sweetness.
- **Wuwei Wine Grape-producing Area:** It has abundant sunlight, the wine grapes cultivated there are without pests. This area cultivates various grape varieties such as Merlot and Chardonnay.
- **Northeast Wine Grape-producing Area:** This area has fertile chernozem soil. The representative regions in Northeast are the piedmont of Changbai Mountain and Northeast Plain.
- **Southwest Wine Grape-producing Area:** Yunnan plateau and Panzhihua in Sichuan province are the main wine grape areas. It has abundant rainfall. Those areas are suitable for the cultivation of Eurasian grapes.

Production Volume of Wine (China), 2012 — 2021E



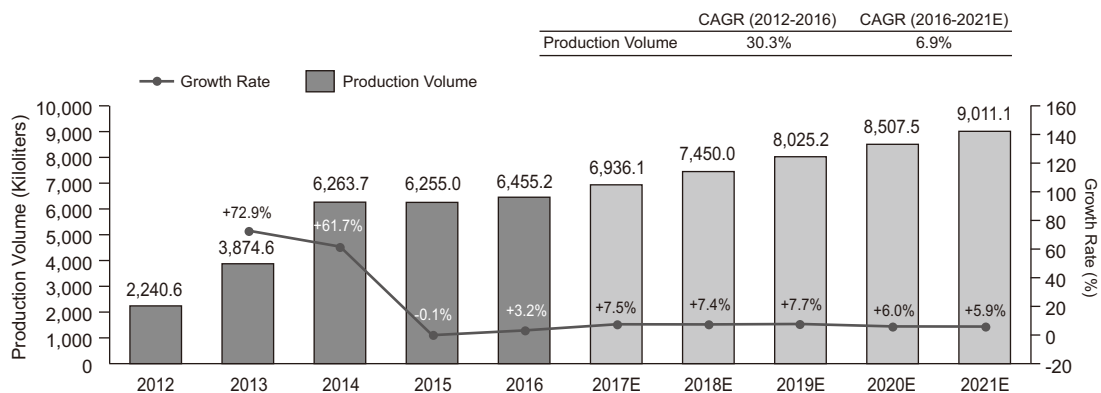
Source: National Bureau of Statistics of China; International Organisation of Vine and Wine, Frost & Sullivan

INDUSTRY OVERVIEW

As a result of the tightened restriction on the PRC government's frugality campaigns, the demand of wine consumption in official receptions and banquets has been decreasing. Furthermore, due to the fact that most large local wine-makers acquired vineyards located overseas, the production volume has experienced a downtrend in recent years, dropping to 1.14 million kiloliters in 2016, representing a negative CAGR of 4.8%. Since 2012, most large local wine-makers began overseas expansion to acquire vineyards located overseas, the acquisition of overseas vineyards would require large amounts of capital and continuous investments in their operations. Besides, most wine products made in the acquired overseas vineyards were sold to China at desirable profit. Thus, the acquiring enterprises tended to sell wine products made in those acquired vineyards and for these reasons, the production inputs into local vineyards decreased, leading to a downward trend of the production volume in China.

In the future, driven by the recovery of wine consumption and the government support of wine-making enterprises, the production volume is expected to reach 1.50 million kiloliters by 2021, with a CAGR of 5.7% from 2016 to 2021.

Production Volume of Wine (Shanxi Province), 2012 — 2021E



Source: National Bureau of Statistics of China; Frost & Sullivan

In 2011, the Shanxi government announced that they had managed to consolidate the coal mining industry after two years of efforts. Since then, a number of coal mining enterprises began to seek out new opportunities in the wine market, as a result, large amount of capital was pulled out from the coal mining industry and was invested in the wine market. Thus, the production volume of wine in Shanxi province has undergone a rapid growth, increasing from 2,240.6 kiloliters in 2012 to 6,263.7 kiloliters in 2014, with a CAGR of 67.2% from 2012 to 2014. As the retail market slumped during 2012 to 2014, the wine inventory amongst winemakers piled up, in 2015, many of them began to control their production volume so as to digest the existing inventory, as a result, growth rate of wine production volume decreased to -0.1% in 2015.

Since 2015, the wine market in Shanxi province has entered into a period with stable growth. The production volume of wine in Shanxi province is anticipated to reach 9,011.1 kiloliters in 2021, representing a CAGR of 6.3% from 2015 to 2021.

INDUSTRY OVERVIEW

Market Drivers of the Chinese Wine Market

Increasing Disposable Income: In recent years, per capita disposable income in China has been increasing continuously. The rising disposable income is likely to increase the level of education and foreign exposure, which may lead to sophistication and appreciation of wine consumption.

Rising Health Awareness among Consumers: Wine is believed to have more health benefits compared to other alcoholic beverages, such as preventing cardiovascular disease. This perception leads to the increasing popularity of wine consumptions in casual dining, festive celebrations and business functions, which is expected to bring about greater potentials for the Chinese wine market.

Government Support for Wine Grape Cultivation: According to the “13th Five-Year Plan of Wine Industry”, the PRC government promotes the construction of wine grape cultivation bases, and the development of the wine grapes and wine that can better satisfy the local residents’ palates. Those policies and measures are expected to have positive effects on the winemaking industry, for instance, both Shanxi and Ningxia governments provide subsidies to the vineyard farmers. For example, the China Alcoholic Drinks Association issued the “13th Five-Year Guidance of China Alcohol Beverage Industry” (中國酒業“十三五”發展指導意見), which is proposed to develop the wine industry and to integrate the industrial chain from cultivating wine grapes to producing wine, distributing and selling as well as encourage the development of small and medium wineries. The Shanxi government also published the “13th Five-Year Plan of Modern Agriculture in Shanxi Province” 《山西省“十三五”現代農業發展規劃》, which is aiming at promoting the planting of fruits, such as grapes and apples and facilitating the development of fruit processing, such as processing the wine grapes into wine.

Entry Barriers of the Chinese Wine Market

Brand Recognition: Brand recognition is one of the key barriers for new entrants in the Chinese wine market. Most consumers prefer to choose the brands that they are familiar with. Moreover, there are already numerous competitors present in the market. Thus, it is very difficult for the new entrants in China wine market to build up their brand image within a short period of time.

Talent and Technical Barriers: Winemakers and sommeliers’ personal judgments and sensory cognitions play an important role in some production processes, such as fermentation and ageing. Winemakers and sommeliers need to spend a long time on theoretical study and experimentation to produce quality wines. The wine production equipment also involves unique designs, thus, experienced technical experts are required to design, install and maintain the equipment. As a result, the lack of professional talents and the techniques of vinification become one of the major entry barriers to the wine market.

Capital Barriers: Vines generally begin fruiting within 2-3 years after cultivation and they enter into fruit period within 3-4 years after planting. The long growing cycle requires the enterprises to devote a large capital investment. Even if the enterprises choose to purchase wine grapes and base wine from external sources, it requires a large amount of capital and time to test the quality because of grapes from suppliers. Therefore, winemakers need significant upfront capital.

INDUSTRY OVERVIEW

Land Resources: The quality of wine grapes is highly influenced by climate and environmental conditions, including adequate sunshine, moderate precipitation, fertile soil and other geographical conditions. The insufficient exposure to any one of such conditions might affect the sugar content and acidity of wine grapes. Some premium varieties have more stringent requirements towards their growing environment, as they can only be matured properly in specific regions. The cultivation of wine grapes requires a large amount of land resources, but regions considered suitable for growing grapes in the PRC are limited. Land resources therefore form a certain threshold to new entrants.

Necessary Certification: In China, winemakers are required to obtain production licenses issued by the government according to the regulations such as “Regulation of the People’s Republic of China on the Administration of Production License for Industrial Products” (中華人民共和國工業產品生產許可證管理條例) and “Detailed Rules for the Production of Wine and Fruit Wine License Review” (葡萄酒及果酒生產許可證審查細則).

Key Success Factors of the Chinese Market

High Brand Awareness: A well-known brand with good reputation symbolises high product quality in the consumers’ mindset. The leading wine brands in China, regardless of whether they are local or global, all have a series of marketing campaigns to enhance their brand awareness.

Diversified Sales Distribution Channels: In light of the maturation of the Chinese wine market, the distribution channels of wine are further diversified. Apart from supermarkets and direct-sale stores, other venues including night clubs and bars, hotels and restaurants are becoming the major sales channels in the Chinese wine market. Moreover, as online sales is gaining popularity, a whole new platform is available to distributors and consumers. A successful wine brand needs to distribute its products through multiple channels and make its products easily accessible to consumers.

Wide Product Portfolio: There are various product categories for wine, including red wine, white wine, rose wine, and sparkling wine. The leading wine brands in China usually possess a wide product portfolio which is always welcomed by retailers in order to meet consumers’ diversified demand and to maintain satisfactory sales growth and margin.

Experienced Management Team: An experienced management team usually has rich experience in the wine industry. These highly experienced personnel can bring their knowledge and expertise to the enterprises, such as viticulture, vinification and wine production, which are vital to the product’s quality. Furthermore, they often have well-established networks of suppliers, downstream customers as well as wine experts, providing the enterprises with better opportunities for business development.

Future Opportunities of the Chinese Wine Market

Gaining Market Share of Wine within the Alcoholic Beverage Market: China has a cultural tradition of consuming alcoholic beverages, especially white spirit. However, as wine successfully entered into the China market in the 1990s, a fast growing number of middle class and youths have quickly developed an interest in wine.

INDUSTRY OVERVIEW

Expansion of Off-trade Channel: In recent years, on-trade channel has long been dominating the distribution of wine as the ‘meal occasion’ acting as a key driver. However, a number of supermarkets and wine cellars are beginning to expand beyond the large coastal cities, in line with rapid economic development in lower tier cities. In addition, home consumption is increasing as wine culture is gradually embedded in the society, therefore, off-trade channel is projected to grow and expand along with the increasing number of retail outlets.

Development of Online Channel and Channel Penetration: With the development of internet technology and increase of purchasing power, online sales channel of wine is expected to further develop and capture more shares in the Chinese wine market. Moreover, through the online channel, the sales of wine can penetrate more effectively into the lower-tier cities. In 2016, the penetration rate of online sales channel in total consumer goods retail market has increased to 15.5%. The penetration rate of online sales channel in the Chinese wine market was 14.0% in 2016 and is expected to reach 19.5% in 2021.

Increasing Popularity of Sparkling Wine: In 2013, China’s first winery specialising in sparkling wine was founded in Ningxia. Sales volume of sparkling wine in China in 2021 is expected to reach 16,440 kiloliters. Meanwhile, its sales revenue is expected to reach RMB1,251.9 million in 2021, with a CAGR of 7.3 % from 2016 to 2021.

Enhanced Industry Concentration: With the introduction of a series of policies and regulations, such as the “Wine Industry 12th Five Development Plan”, “Wine Manufacturing Industry Access Conditions”, a considerable number of small and medium enterprises will no longer meet the corresponding standards and are forced to be eliminated from the market. Large-scale enterprises, especially those that integrate wine grape cultivation, wine production, logistics and sales, will benefit from these policies, thus the industry concentration is likely to be enhanced in the following years.

Challenges of the Chinese Wine Market

Strict Anti-corruption Policy: After the 18th National Party Congress, the Chinese government focused on the anti-corruption issues and launched several policies in relation to the restriction of public consumption. For instance, in 2013, the Political Bureau of the CPC Central Committee introduced “The Six Injunctions” to restrict the “Three Public Consumptions”. The strict enforcement of anti-corruption policy is likely to reduce the consumption of wine, especially high-end wine.

Increasing Import Volume of Wine: In recent years, the import volume and value of wine in China enjoyed rapid growth. From 2012 to 2016, the import volume and value of wine in China reached a CAGR of 12.7% and 11.0%, respectively. In the future, the import volume and value of wine in China from 2016 to 2021 are likely to grow at a CAGR of 7.5% and 7.0%, respectively. The sustained growth trend of imported wine is expected to bring competitive pressure to the local players.

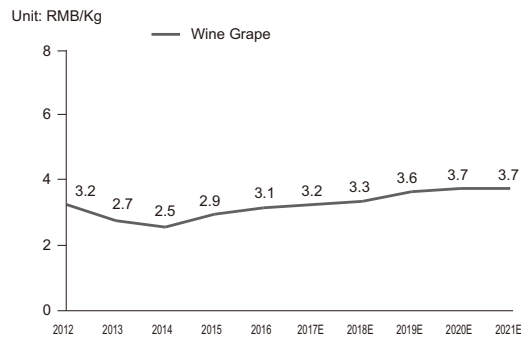
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Natural Disasters and Floods: The quality and quantity of wine grapes rely heavily on the geographical circumstances and weather. Natural disasters pose high risks on wine makers. For instance, frost occurred occasionally in Shanxi in the past years, which had a negative impact on wine grape cultivation. Similarly, poor weather conditions and floods are likely to damage vineyards, resulting in short supply of wine grapes and have a negative impact on the quality of wine.

Raw Material Price and Labour Cost: In some cases, the wine makers purchase wine grapes from external sources. Some external factors such as natural disasters may cause the fluctuation of wine grapes' price, which poses high manufacturing cost pressure on wine manufacturers. Furthermore, the wine making is labour intensive, therefore, as China's minimum wage standard rises, the wine makers have to provide higher wages to their workers which might increase labour cost considerably.

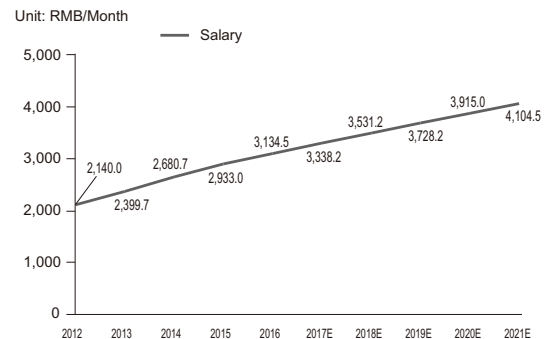
Raw Material Price and Labour Cost of the Chinese Wine Market

**Price Trend of Wine Grape (China),
2012 — 2021E**



Source: Frost & Sullivan

**The Average Monthly Salary of Workers
in Vinification (China), 2012 — 2021E**



Source: Frost & Sullivan

As illustrated in the graph above, the average yearly price of wine grape showed a stable upward trend since 2014. In 2016, the price of wine grapes reached RMB3.1 per kilogramme. In 2021, the average yearly price of wine grapes is anticipated to reach RMB3.7 per kilogramme.

The average monthly salary of workers in vinification in China took an upward trend in the last five years. The average monthly salary of workers experienced a CAGR of 10.0% from 2012 to 2016. In 2016, the average monthly salary of workers in the vinification sector reached RMB3,134.5. It is expected that the demand for workers in the vinification sector would grow in the future, therefore, the average monthly salary of workers in the vinification sector is expected to maintain a CAGR of 5.5% from 2016 to 2021.

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COMPETITIVE LANDSCAPE

Competitive Landscape of Wine market in Shanxi Province

Market Share of Top Five Players by Retail Sales Revenue (Shanxi), 2016

Ranking	Company	Introduction	Retail Sales Revenue	Market Share (%)	Listing Status
1	Grace Vineyard	Grace Vineyard is a local wine brand of Shanxi province and is located in Jinzhong and a subsidiary of our Group. Its main products include red wine, white wine and rose wine	RMB96.5 Million <i>(Note)</i>	14.9%	Private
2	Company A	Company A is a nationwide player in the Chinese wine market and is located in Yantai, Shandong province specialising in wine production and brandy production. The main wine products include red wine, white wine and brandy.	RMB89.8 Million	13.9%	Listed ⁽²⁾
3	Company B	Company B is a nationwide player in the Chinese wine market and is located in Zhangjiakou, Hebei province specialising in wine production. Its main wine products include red wine and white wine.	RMB84.6 Million	13.1%	Listed ⁽³⁾
4	Company C	Company C is a local wine brand of Shanxi province and is located in Linfen specialising in wine production. Its main wine products include red wine, white wine and rose wine.	RMB69.9 Million	10.8%	Private
5	Company D	Company D is a local wine brand of Shanxi province and is located in Taiyuan specialising in wine production. Red wine is its main product.	RMB60.5 Million	9.4%	Private
Top 5 players in Shanxi			RMB401.3 Million	62.1%	
Others				37.9%	

Source: Frost & Sullivan

Notes:

- (1) The sales revenue of Grace Vineyard in 2016 was arrived at solely based on the independent research conducted by Frost & Sullivan and public available information. This information mainly makes reference to the retail price of our wine products, as opposed to the actual selling prices (mainly to distributors at a discount to the retail prices) recorded in our audited financial results.
- (2) Company A is part of a company listed on the Shenzhen Stock Exchange in the PRC.
- (3) Company B is part of a company listed on the Stock Exchange.

INDUSTRY OVERVIEW

As for the Shanxi wine market, the top five market players accounted for around 62.1% of the market share in 2016. The wine retail sales revenue of Grace Vineyard in 2016 represented a market share of 14.9% and was ranked first place in the Shanxi wine market. The wine market in Shanxi accounted for 0.8% of the Chinese wine market in terms of sales revenue in 2016.

Competitive Landscape of Wine market in China

Market Share of Top 5 Players by Retail Sales Revenue (China), 2016					
Ranking	Company	Introduction	Retail Sales Revenue	Market Share (%)	Listing Status
1	Company A	Company A is a nationwide player in China wine market and located in Yantai of Shandong province. Its main business involves in wine production and brandy production. The main wine products include red wine, white wine and brandy.	RMB6.5 Billion	8.1%	Listed ⁽¹⁾
2	Company B	Company B is a nationwide player in China wine market and located in Zhangjiangkou of Hebei province. Wine production is the main business of Company B. Its main wine products include red wine and white wine.	RMB3.9 Billion	4.9%	Listed ⁽²⁾
3	Company E	Company E is a nationwide player in China wine market and located in Longkou of Shandong province. Wine production is the main business of Company E. Its main wine products include red wine and white wine.	RMB1.3 Billion	1.7%	Listed ⁽³⁾
4	Company F	Company F is a nationwide wine brand in China and located in Tonghua of Jilin province. Wine production is the main business of Company F.	RMB0.5 Billion	0.6%	Listed ⁽⁴⁾
5	Company G	Company G is a nationwide player and located in Suqian of Jiangsu province. Wine and white spirit production is the main business of Company G.	RMB0.4 Billion	0.5%	Listed ⁽¹⁾
Top 5 players in China				15.8%	
Others				84.2%	

Source: Frost & Sullivan

INDUSTRY OVERVIEW

Notes:

- (1) Company A is part of a company listed on the Shenzhen Stock Exchange in the PRC.
- (2) Company B is part of a company listed on the Stock Exchange.
- (3) Company E is part of a company listed on the Shanghai Stock Exchange in the PRC
- (4) Company F is part of a company listed on the Stock Exchange.
- (5) Company G is part of a company listed on the Shenzhen Stock Exchange in the PRC.

In the overall PRC wine market, Grace Vineyard is the 16th-ranked domestic wine maker in terms of retail sales revenue in 2016, representing a market share of 0.1%. For FY2016, top 5 domestic wine makers in the PRC wine market had a market share of 15.8%.

With a decade of development, the wines of Grace Vineyard showed their competitiveness in international competitions including the Cathay Pacific Hong Kong International Wine & Spirit Competition, the Decanter World Wine Competition and the International Wine Challenge of Asia. Grace Vineyard has played a leading role in the Shanxi wine market. In terms of retail sales revenue, Grace Vineyard ranked the first in Shanxi province in 2016. Awarded with the Shanxi Famous Brand Certificate (山西省著名商標證書) by the Shanxi Administration of Industry and Commerce (山西省工商行政管理局), Grace Vineyard has enjoyed a great brand recognition in the local market. The majority of competitors in the Shanxi wine market include several leading players, such as, Chateau Rongzi, Tianfu and Great One, which mainly focus on the middle and low-end market. In contrast, Grace Vineyard has taken a different strategy, prioritising the middle and high-end wine market which is likely to gain competitive advantages based on the aforementioned factors.

LAWS AND REGULATIONS

This section summaries certain aspects of the PRC laws and regulations which are relevant to our Group's operation and business.

PRC REGULATION ON FOOD SAFETY

Since 2009, the PRC authorities have promulgated and implemented a series of laws and regulations to strengthen the supervision over the production, operation and sales of food. The applicable food products include any finished products and raw materials for people to eat or drink, and substances which have been traditionally used both as food and medicines, excluding substances solely used as medicine according to the PRC Food Safety Law (中華人民共和國食品安全法) adopted by the Standing Committee of the National People's Congress on 28 February 2009 and implemented on 1 June 2009, and further amended on 24 April 2015 and implemented on 1 October 2015.

Pursuant to the PRC Food Safety Law, the food standard is the compulsory standard. The food and drug administration of the State Council shall be responsible for conducting supervision and administration over food production and distribution, and health administrative department shall, according to the duties prescribed by this Law and the State Council, organise and conduct the monitoring and assessment of food safety risks and formulate and promulgate the national food safety standards in conjunction with the food and drug administration of the State Council.

To further enforce the food licensing system, the Ministry of Health promulgated the Administrative Measures on Licence of Catering Industry (餐飲服務許可管理辦法) on 4 March 2010, which became effective on 1 May 2010, and the China Food and Drug Administration ("CFDA") promulgated the revised Measures for the Administration of Food Production Licencing (食品生產許可管理辦法) and the Administrative Measures for the Licensing of Food Business Operations (食品經營許可管理辦法) on 31 August 2015, which came into force on 1 October 2015. All of these regulations further specify the qualification, application, issuance and administration of Food Circulation Licence, Catering Service Licence, Food Production Licence and Food Business Operations Licence, respectively.

Furthermore, pursuant to the Implementation Regulations of the PRC Food Safety Law (中華人民共和國食品安全法實施條例) promulgated and implemented on 20 July 2009 and further amended and implemented on 6 February 2016, manufacturers and traders who engage in the production of food, food additives and food related products must comply with the laws, regulations and applicable food safety standards, establish and improve food safety management systems, and take effective management measures to guarantee food safety.

PRC ALCOHOL CIRCULATION RULES

Pursuant to the Regulations of Xiamen on Alcoholic Beverage Control (廈門市酒類管理規定) adopted by People's Government of Xiamen City on 9 September 2006 and implemented on the same day, and further amended and implemented on 30 December 2015, the local enterprises who engage in the alcohol wholesale shall apply to the municipal wine monopoly bureau for the record, while the local enterprises who engage in alcohol retail shall apply to the district wine administrative department for the record.

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Further, pursuant to the Administrative Measures of Shanghai Municipality for Production and sales of Alcohol Commodities (上海市酒類商品產銷管理條例) adopted by the Standing Committee of Shanghai People's Congress on 3 November 1997 and implemented on 1 January 1998, and further amended and implemented on 17 September 2010, the local enterprises who engage in the alcohol wholesale shall apply to the municipal wine monopoly bureau for the Alcohol Wholesale Licence (酒類批發許可證), while the local enterprises who engage in alcohol retail shall apply to the district (country) wine administrative department for the Alcohol Retail Licence (酒類零售許可證).

Pursuant to the Administrative Measures of Shanxi on Alcoholic Beverage (山西省酒類管理條例) promulgated by Standing Committee of the National People's Congress of Shanxi Province on 16 August 1999 and implemented on 1 January 2000, the local enterprises which engage in the alcohol wholesale shall apply to the local department in charge of alcohol circulation of the government at the county level, and file to local department in charge of alcohol circulation of the government at the city level for the approval and issuance of the Alcohol Wholesale Licence (酒類批發許可證).

PRC CONDITIONS ON MARKET ACCESS TO THE WINE INDUSTRY

Pursuant to the Market Access Conditions on the Wine Industry (葡萄酒行業准入條件) promulgated by the Ministry of Industry and Information Technology of the PRC and implemented on 1 July 2012, the manufacturers who engage in the production of wines must meet various conditions set out in the aforementioned rule in respect of the project location and scale, raw material guarantee, process technology and equipment, quality control, environment protection and labour protection. Any new project or expansion project shall fulfil such conditions, and file with the local authority of investment and industrial administration.

PRC REGULATION ON PRODUCT LIABILITIES AND QUALITY CONTROL

Pursuant to the General Principles of the Civil Law of the PRC (中華人民共和國民法通則) promulgated by the National People's Congress on 12 April 1986 and amended on 27 August 2009, the manufacturer or seller of a substandard product which causes property damage or physical injury to any person should be subject to civil liability for such damage or injury.

Pursuant to the Law of the PRC on the Protection of Consumer's Right and Interests (中華人民共和國消費者權益保護法) promulgated by the Standing Committee of the National People's Congress on 31 October 1993 and further amended on 25 October 2013 and implemented on 15 March 2014, and the PRC Law on Products Quality (中華人民共和國產品質量法) promulgated by the Standing Committee of the National People's Congress on 22 February 1993 and amended on 8 July 2000 and 27 August 2009, consumers who sustain losses or damages from defective products are entitled to be indemnified by either manufacturers or distributors. Nevertheless, if manufacturers are responsible for the defective products and the losses or damage caused thereby, the distributors which have indemnified consumers for their losses may seek claims on the indemnities against the manufacturers.

To impose further protection on consumers in connection with the purchase or use of food, according to the PRC Food Safety Law, (i) the food distributors may be subject to penalties, or even be required to cease operation if they fail to comply with the relevant food safety

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requirements; (ii) if the food distributors have caused any damage to the consumers or their assets, they shall compensate such consumers for the damage caused; (iii) if the food distributors knowingly distribute unqualified food products, the consumers may claim for damages as well as compensation of up to twenty times of the price of the unqualified food products; and (iv) consumers that incur damage due to the food that fails to meet food safety standards may demand compensation for loss from business operators or from producers. The producers or business operators that receive the demand for compensation from consumers shall take the first liability and pay the compensation firstly without shifting their responsibilities and duties. If the producers are liable, business operators shall have the right to seek recovery from producers after making the compensation; if the business operators are liable, producers shall have the right to seek recovery from business operators after making the compensation.

PRC RULES ON FILING ADMINISTRATION OF EXPORT FOOD PRODUCTION ENTERPRISES

Pursuant to the PRC Foreign Trade Law (中華人民共和國對外貿易法) promulgated by Standing Committee of the National's People's Congress on 12 May 1994, and further amended on 6 April 2004 and on 7 November 2016, the competent department of foreign trade under the State Council shall be in charge of foreign trade throughout the country in accordance with this Law. Foreign trade operators engaged in goods import and export shall go through the record-filing registration formalities with the competent department of foreign trade under the State Council or its entrusted institutions. In addition, operators engaging in goods export shall comply with the Measures for the Record-Filing and Registration of Foreign Trade Operators (對外貿易經營者備案登記辦法) promulgated by Ministry of Commerce on 25 June 2004 and implemented on 1 July 2004 and further amended and implemented on 18 August 2016. Moreover, pursuant to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (中華人民共和國海關報關單位註冊登記管理規定) promulgated by General Administration of Customs and implemented on 13 March 2014, unless as otherwise prescribed by any law, administrative regulation or customs rules, to provide customs declaration services, customs declaration entities shall be registered with the Customs in accordance with these Provisions. The registration of customs declaration entities includes the registration of customs declaration enterprises and the registration of the consignees or consignors of imported/exported goods. A consignee or consignor of imported/exported goods may directly go through the registration procedure at the local customs office.

Pursuant to the Rules on Filing Administration of Export Food Production Enterprises (出口食品生產企業備案管理規定) promulgated by the General Administration of Quality Supervision, Inspection and Quarantine (the "AQSIQ") on 26 July 2011 and further amended and implemented on 18 October 2016, an export food production enterprise is required to be filed with the exit and entry inspection and quarantine bodies (出入境檢驗檢疫機構) and obtain the filing certificate. Where an export food production enterprise fails to perform statutory filing obligation, its products may not be exported. In addition, the export food production should comply with the requirements on food safety and food hygiene as prescribed in the Announcement on Safety and Hygiene Requirements and Product Catalogue for Export Food Production Enterprises (關於發佈出口食品生產企業安全衛生要求和產品目錄的公告) promulgated by the Certification and Accreditation Administration on 14 September 2011 and implemented on 1 October 2011.

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PRC REGULATION ON FOOD LABEL

Pursuant to the Administrative Measures on Food Label (食品標識管理規定) promulgated by AQSIQ on 27 August 2007, and later revised and implemented on 22 October 2009, the food label shall state the name, production place, production date, expiry date, storage condition, net content, list of ingredients, and manufacturer's registered name, address and contract information. Further, for the food which requires the production permit, the label should state its food production licence number and QS mark. Wine, vinegar, edible salt and solid sucrose that content of 10% or more than 10% ethanol may be exempted from labelling expiration date.

PRC STANDARDISATION LAW

Pursuant to the PRC Standardisation Law (中華人民共和國標準化法) promulgated by the Standing Committee of the National People's Congress on 29 December 1988 and its Implementing Regulations (中華人民共和國標準化法實施條例), the food hygiene standard is a compulsory standard imposed on food production enterprises. Products that fall short of the compulsory standards shall not be distributed or imported.

PRC ADVERTISEMENT RULES

According to the Provisional Rules on the Release of Food Advertisement (食品廣告發佈暫行規定) promulgated by the State Administration for Industry and Commerce on 30 December 1996 as amended on 3 December 1998, the Food Hygiene Permit (食品衛生許可證) (abolished by the PRC Food Safety Law and replaced by a regulatory system requiring food manufacturers to obtain a Food Production Licence, traders to obtain a Food Circulation Licence and catering service providers to obtain a Food Catering Licence from 1 June 2009, and further replaced by a regulatory system requiring traders to obtain a licence of food business operation by combining the food circulation licence and catering service providers licence according to Announcement on Launching the Use of Food Business Licence promulgate by CFDA on 30 September 2015 and implemented on the same day) is required when releasing wine advertisements.

According to the Advertisement Administration Rule for Alcohol (酒類廣告管理辦法) promulgated by the State Administration for Industry and Commerce on 17 November 1995 and revised on 28 September 2015, the inspection compliance certificate (檢驗合格證明) issued by a qualified food quality inspection institution is required before the launch of a wine advertisement.

PRC ENVIRONMENTAL PROTECTION LAWS

The main PRC environmental protection laws and regulations applicable to us include the Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “**Environmental Protection Law**”), the Law of the PRC on Environmental Impacts Assessment (中華人民共和國環境影響評價法), the Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例), the Administrative Regulations on Environmental Protection for Acceptance Examination upon Completion of Construction Projects (建設項目竣工環境保護驗收管理辦法), the Prevention and Control of Atmospheric Pollution Law of the PRC (中華人民共和國大氣污染防治法), the Prevention and Control of the Water Pollution Law of the PRC (中華人民共和國水污染防治法), the Prevention and Control of the Noise Pollution Law of the PRC (中華人民共和國環境噪聲污染防治法), the Prevention and Control of the Solid Waste Pollution Law of the PRC (中華人民共和國固體廢物污染環境防治法) and other relevant laws and regulations.

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In accordance with the Environmental Protection Law effective as of 26 December 1989 and further amended on 24 April 2014 and implemented on 1 January 2015, the State Administration for Environmental Protection (the “**SAEP**”) shall establish national standards for environmental quality control. The governments of provinces, autonomous regions and municipalities directly under the Central Government may establish their own local standards for environmental quality control for the items not specified in the national standards and shall report them to the SAEP for its record.

Enterprises and other operators that discharge pollutants shall take measures to prevent and control the pollution and damage to the environment of waste gas, waste water, waste, dust etc. generated in production, construction or other activities. Enterprises that discharge pollutants shall establish accountability rules for environmental protection to specify the duties and responsibilities of persons in charge of them and other relevant persons. The pollution prevention and control installations included in a construction project shall be designed, constructed and put to use simultaneously with the body of the construction project. Such installations shall satisfy the requirements of the approved environmental impact assessment document, and may not be dismantled or left unused without permission. The state shall, according to the law, apply a licensing system to the discharge of pollutants. Enterprises, public institutions, and other businesses subject to pollutant discharge licensing management shall discharge pollutants according to the requirements of their respective pollutant discharge licences; and those without a pollutant discharge licence may not discharge pollutants.

The PRC Water Law (中華人民共和國水法), promulgated by the Standing Committee of the National People's Congress dated 21 January 1988 and effective from 1 July 1988 and further amended on 29 August 2002 and implemented on 1 October 2002, amended and implemented on 27 August 2009, and amended and implemented on 2 July 2016 respectively, states that the direct usage of water from natural sources such as rivers, lakes or underground water shall be subject to the water usage permit system. The usage of such water is conditional upon the application and grant of a Water Intake Permit (取水許可證) from the relevant water administration authorities, and payment of the relevant water resource fees. Further, according to the Water Intake Permit and Water Resources Fees Collection Regulations (取水許可和水資源費徵收管理條例) promulgated by the State Council of the PRC on 21 February 2006 and effective from 15 April 2006 and further amended and implemented on 1 March 2017, enterprises and individuals who hold Water Intake Permits shall be entitled to use water of up to such a maximum amount as prescribed by the approved annual water usage plan. In the event the prescribed amount in the approved annual water usage plan is exceeded, additional fees will be imposed on the users.

PRC LABOUR AND PRODUCTION SAFETY LAWS

Effective as of 1 January 2008 and further amended on 28 December 2012 and came into effect on 1 July 2013, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises or institutions and the labourers under the Labour Contract Law of the PRC (the “**Labour Contract Law**”) (中華人民共和國勞動合同法).

According to the Labour Law of the PRC (中華人民共和國勞動法) effective as of 1 January 1995 and further amended and implemented on 27 August 2009, enterprises and institutions are forbidden to force the labourers to work beyond the time limit and the employers shall pay

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labourers for overtime work in accordance with national regulations. In addition, the labour wages shall not be lower than local standards on minimum wages and shall be paid to the labourers timely. Enterprises and institutions shall establish and perfect its system of work place safety and sanitation, strictly abide by national rules and standards on work place safety and sanitation, educate labourers of work place safety and sanitation.

Effective as of 1 November 2002 and further amended respectively on 27 August 2009, on 31 August 2014 and implemented on 1 December 2014, enterprises and institutions shall be equipped with the measures for safe production as provided in the PRC Production Safety Law (中華人民共和國安全生產法) and other relevant laws, administrative regulations, national standards and industrial standards under the PRC Production Safety Law. Any entity that is not equipped with the measures for safe production is not allowed to engage in production and business operation activities. Enterprises and institutions shall offer education and training programmes to the employees thereof regarding production safety.

According to the Regulations on Work-Related Injury Insurance (工傷保險條例) effective as of 1 January 2004 and further amended on 20 December 2010 and implemented on 1 January 2011, the Interim Measures concerning the Maternity Insurance for Enterprise Employees (企業職工生育保險試行辦法) effective as of 1 January 1995, the PRC Social Insurance Law (中華人民共和國社會保險法) effective as of 1 July 2011, the Interim Regulations concerning the Levy of Social Insurance (社會保險費徵繳暫行條例) effective as of 22 January 1999, the Interim Measures concerning the Management of the Registration of Social Insurance (社會保險登記管理暫行辦法) effective as of 19 March 1999 and the Regulations concerning Housing Fund (住房公積金管理條例) effective as of 3 April 1999 and amended on 24 March 2002, enterprises and institutions in the PRC shall provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance, as well as housing fund.

PRC ENTERPRISE INCOME TAX LAW

According to the Enterprise Income Tax (“EIT”) Law of the PRC (中華人民共和國企業所得稅法) enacted on 16 March 2007 and further amended and implemented on 24 February 2017, and the Regulation on the Implementation of the Enterprise Income Tax Law of the of the PRC (中華人民共和國企業所得稅法實施條例) enacted on 6 December 2007 and implemented on 1 January 2008 (collectively the “**Enterprise Income Tax Law**”), the EIT rate for both domestic and foreign-invested enterprises are unified at 25.0%. In addition, income from projects of agriculture, forestry, animal husbandry or fishery may be exempted or reduced.

PRC VALUE-ADDED TAX LAW

Pursuant to the PRC Interim Regulations on Value-added Tax (中華人民共和國增值稅暫行條例) promulgated by State Council on 13 December 1993 and implemented on 1 January 1994, and amended on 10 November 2008 and implemented on 1 January 2009, and further amended on 6 February 2016, all organisations and individuals engaged in sales of goods, provision of processing, repairs and replacement services, or importation of goods within the territory of the PRC shall be taxpayers of the value-added tax (“**VAT**”) and shall pay VAT in accordance with these Regulations. For taxpayers selling or importing goods, the tax rate normally shall be 17 percent. Self-produced agricultural products sold by agricultural producers are exempted from VAT.

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PRC CONSUMPTION TAX LAW

Pursuant to Interim Regulations of the PRC on Consumption Tax (中華人民共和國消費稅暫行條例) enacted by the State Council on 13 December 1993, and amended on 10 November 2008 and implemented on 1 January 2009, entities and individuals engaged in producing, commissioned processing or importing the consumer goods as specified in these Regulations, within the territory of the PRC, and all other entities and individuals determined by the State Council to sell such consumer goods specified in these Regulations shall be the taxpayers of consumption tax and shall pay such consumption tax in accordance with these Regulations. The taxable items and tax rates of consumption tax shall be subject to the “Schedule of Items and Rates of Consumption Tax” attached to these Regulations. Pursuant to “Schedule of Items and Rates of Consumption Tax”, alcoholic drinks and alcohol are clarified as consumption tax items.

PRC TRADEMARK LAW

The period of validity of a registered trademark shall be ten years, to be counted from the date of approval of the registration under the PRC Trademark Law (中華人民共和國商標法) amended on 27 October 2001 and came into effect on 1 December 2001 and further amended on 30 August 2013 and implemented on 1 May 2014. The administrative authority for industry and commerce has the power to investigate and handle any act of infringement of the exclusive right to use a registered trademark according to law. Where the case is so serious that it constitutes a crime, it shall be transferred to the judicial authority for handling.

PRC FOREIGN EXCHANGE LAW

The principal law governing foreign currency exchange in the PRC is the PRC Foreign Exchange Administration Regulations (中華人民共和國外匯管理條例). The PRC Foreign Exchange Administration Regulations was enacted by the State Council on 29 January 1996 and implemented on 1 April 1996. On 14 January 1997 and 5 August 2008, the State Council amended the Foreign Exchange Administration Regulations. According to the PRC Foreign Exchange Administration Regulations currently in effect, international payments in foreign currencies and transfer of foreign currencies under current items shall not be restricted. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, the State Administration of Foreign Exchange (the “SAFE”) and other relevant PRC governmental authorities.

Pursuant to the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) which was enacted by the SAFE on 30 March 2015 and became effective on 1 June 2015, as well as the Notice of the State Administration of Foreign Exchange on Reforming and Regulating the Administrative Policies on Foreign Exchange Settlement of Capital Accounts (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) which was enacted by the SAFE and became effective on 9 June 2016, the foreign exchange receipts under capital accounts of a domestic institution and the RMB funds obtained thereby from foreign exchange settlement can be used for expenses under current accounts within its business scope, and may be used for expenses under capital accounts as permitted by applicable laws and regulations. Such capital shall not be directly or indirectly used for the payment beyond the business scope of the enterprise or prohibited by laws and

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regulations. Unless otherwise permitted by laws or regulations, the domestic enterprise shall not, directly or indirectly, use such capital for investment in securities or other investment than principal-guaranteed products issued by banks; nor shall any such capital be used for granting loans to non-connected enterprises (unless it is permitted by the business scope) or construction or purchase of real estate which is not for self-use (except for the real estate enterprises).

PRC FOREIGN INVESTMENT LAW

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (the “**Catalogue**”), which was amended and promulgated by the MOFCOM and the National Development and Reform Commission on 28 June 2017 and implemented on 28 July 2017. The Catalogue contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign invested industries, restricted foreign invested industries and prohibited foreign invested industries. Any industry not listed in the Catalogue is a permitted industry.

Under the Catalogue, the business activities that we engage in are classified as “permitted” foreign invested industries.

Pursuant to the PRC Wholly Foreign-Owned Enterprise Law (中華人民共和國外資企業法) promulgated by Standing Committee of the National People’s Congress on 20 April 1986, and amended on 31 October 2000 and 3 September 2016, and its implementing rules (中華人民共和國外資企業法實施細則), Foreign Investors’ investments, profits gained, and other lawful rights and interests in China shall be protected by Chinese laws. Wholly Foreign Owned Enterprises (WFOEs) must comply with the laws and regulations of China, and shall not harm the social public interest of China. WFOEs shall carry out operation and management activities according to the approved articles of association, without being subject to any interference.

PRC LAND LAW

Pursuant to the PRC Land Administration Law (中華人民共和國土地管理法) promulgated on 25 June 1986 and amended on 29 August 1998, and further amended on 28 August 2004 and implemented on the same day, the land of the PRC is subject to the socialist public ownership, namely, ownership by the whole people or collective ownership of the working masses. No entity or individual is allowed to seize, trade, or otherwise illegally transfer land. Land use rights may be legally transferred. Pursuant to the Regulations on the Implementation of the Land Administration Law of the PRC (中華人民共和國土地管理法實施條例) promulgated on 4 January 1991 and implemented on 1 February 1999, and amended on 27 December 1998, on 8 January 2011, and further amended and implemented on 28 July 2014, for land under peasants’ collective ownership, the land owners shall file an application for land registration with the competent department of land administration of people’s government at the county level of the locality wherein the land is located and people’s government at the county level shall enter a registration in the register, verify and issue a certificate of collective land ownership in confirmation of the ownership. The Provisional Regulations on the Grant and Transfer of Right to Use State-owned Land in Urban Areas of the PRC (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例) (“**Provisional Regulations on Grant and Transfer**”), promulgated and

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implemented by the State Council on 19 May 1990, adopted a system of granting and transferring the rights to use state-owned land. Pursuant to these regulations, the PRC government, in accordance with the principle of land ownership being separate from land use rights, implemented a system whereby the right to use state-owned land in urban areas may be assigned and transferred, with the exclusion of underground resources, objects buried underground, and public works. The term “state-owned land in urban areas” as used in the preceding paragraph refers to land owned by the public within the limits of cities, county sites, administrative towns and industrial and mining areas. The assignment of land use rights refers to the act of the PRC government as the owner of the land who, with a term of a certain number of years, assigns the right to use the land to land users, who shall in turn pay fees for the assignment thereof to the PRC government. An assignment contract shall be signed for assignment of the land use rights.

Pursuant to the PRC Law on the Contracting of Rural Land (中華人民共和國農村土地承包法) promulgated on 29 August 2002 and implemented on 1 March 2003, members of the economic organisations of the rural collectives shall, in accordance with law, have the right to contract a rural land awarded by the economic organisations of their collectives. Pursuant to the Measures for the Administration of Circulation of Rural Land Contracted Management Right (農村土地承包經營權流轉管理辦法) promulgated on 19 January 2005 by Ministry of Agriculture on and implemented on 1 March 2005, the rural land contracted management right lawfully obtained by a contractor may be circulated by way of leasing, which means the contractor leases part or all of the land contracted management right to others to undertake agricultural production and management within a period of time.

PRC FORESTRY LAW

Pursuant to the PRC Forestry Law (中華人民共和國森林法) promulgated by the Standing Committee of the National People’s Congress on 20 September 1984 which was amended on 29 April 1998, and further amended and implemented on 27 August 2009, for the forests, trees and woodlands owned by the state and the collective and the trees and woodlands owned by private individuals, the people’s government above the county level shall register and record them, issue certificates and confirm the ownership and the right to use. Pursuant to the Regulations on the Implementation of the Forestry Law of the PRC (中華人民共和國森林法實施條例) enacted by the State Council and came into force on 29 January 2000, which was further amended on 8 January 2011 and 6 February 2016, the ownership and the right of use of forests, forest trees and forestry land that are registered according to law shall be protected by law, and shall not be infringed upon by any unit or individual. With respect to forest trees owned by units and individuals, the owner shall submit an application for registration to the competent forestry department of the people’s government at the county level of the locality and the people’s government at the county level shall carry out a registration, and upon verification, issue a certificate to confirm the ownership of forest trees.

PRC PROJECT CONSTRUCTION LAW

Pursuant to the PRC Urban and Rural Planning Law (中華人民共和國城鄉規劃法) enacted by the Standing Committee of the National People's Congress on 28 October 2007, which came into force as of 1 January 2008, and further amended and implemented on 24 April 2014, construction planning permits issued by competent department of urban and rural planning under the people's government are required to build any structure, fixture, road, pipeline or other engineering project within a city or town planning area.

Pursuant to the Measures for the Administration of Construction Permits for Construction Projects (建築工程施工許可管理辦法) enacted by the Ministry of Housing and Urban Rural Development on 25 June 2014 and implemented on 25 October 2014, construction permits issued by the competent departments of housing and urban-rural development of the local people's governments at or above the county level that are at the locus of the relevant projects are required prior to commencing the construction, furnishing and decoration of various types of houses and buildings and their ancillary facilities, and the installation of supporting lines, pipelines and equipment, as well as the construction of urban municipal infrastructure projects within the territory of the PRC.

Pursuant to the Regulation on the Quality Management of Construction Projects (建設工程質量管理條例) enacted and enforced by the State Council on 30 January 2000, the construction company shall, after it receives the report of construction completion of its project, organise the companies concerned such as for design, construction and engineering supervision to carry out acceptance examination. The project owner shall, within 15 days from the day when the construction project passes the completion-based check, submit the completion-based check report, the documents of approval or licenced use issued by the departments of planning, public security and fire prevention, environmental protection, etc. to the construction administrative department or other pertinent departments for their record.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OVERVIEW

Branded as “Grace Vineyard (怡園酒莊)”, we are an award-winning, established wine maker based in Shanxi, committed to making quality wine catering to a wide range of customer needs and pricing preferences. During the Track Record Period, we produced a range of quality wine products in our Shanxi Winery located in Taigu County, Shanxi. Our business was co-founded in 1997 by Mr. Chan (the father of Ms. Chan, who is our executive Director, the Chairlady of the Board and our Chief Executive Officer) and Mr. Sylvain Albert Janvier (“**Mr. Janvier**”), an Independent Third Party. For details, see “— History and Corporate Development” below. Over the years, we have grown our wine making business significantly in the PRC.

In February 2012, our Company was incorporated as the Listing vehicle of our Group for the purpose of the Listing. Through a series of issue and allotment and transfer of shares in the operating subsidiaries in our Group and the loan capitalisation conducted in September 2017, we completed the Reorganisation in September 2017, whereby all such operating subsidiaries became wholly-owned subsidiaries of our Company. For details, see “— Reorganisation” below.

BUSINESS MILESTONES

The following table sets forth a summary of our key achievements and business milestones since our establishment in 1997:

Year	Milestone Events
1997	<ul style="list-style-type: none">• Our first subsidiary, Dragonet, was incorporated by our co-founders, Mr. Chan and Mr. Janvier
1998	<ul style="list-style-type: none">• Completion of construction of our first winery in Taigu County, Shanxi
2001	<ul style="list-style-type: none">• Production of our first vintage which was named Qingchun (慶春)
2002	<ul style="list-style-type: none">• Commencement of sale of our wine products in Shanxi• Awarded a gold medal for “Vineyard Series Chardonnay 2001” at the China Wine and Spirits Competition (Shanghai 2002)• Awarded silver medals for “Vineyard Series Cabernet Sauvignon 2001” and the “Vineyard Series Cabernet Franc/Merlot/Pinot Noir 2001” at the China Wine and Spirits Competition (Shanghai 2002)
2003	<ul style="list-style-type: none">• Commencement of sale of wine products in other provinces of the PRC• Awarded a gold medal for “Tasya’s Reserve Cabernet Franc 2001” at the China Wine and Spirits Competition (Shanghai 2003)

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Year	Milestone Events
2004	<ul style="list-style-type: none"> • Awarded a silver medal for “Vineyard Series Merlot 2001” at The International Wine Challenge of Asia 2004 • Commencement of production of the “Deep Blue” series
2006	<ul style="list-style-type: none"> • Grace Vineyard was named as a “Shanxi Landmark Brand Product” and a “Top Brand of Shanxi Province” by the Shanxi Administration for Industry and Commerce • Shanxi Vineyard received a “Certificate of Quality Reputation” by the Bureau of Quality and Technology Supervision of Shanxi Province
2007	<ul style="list-style-type: none"> • Awarded a commended award for “Tasya’s Reserve Cabernet Sauvignon 2004” at the Decanter World Wine Awards 2007 • Launch of the “Deep Blue” series
2008	<ul style="list-style-type: none"> • Grace Vineyard became a published case study incorporated into the Harvard Business School 2008 Master of Business Administration Program under the title “Appellation Shanxi: Grace Vineyard” (case 309-075)
2010	<ul style="list-style-type: none"> • Commencement of direct sale business of our wine products in the PRC • Awarded a silver winner award for “Deep Blue 2008” at the Cathay Pacific Hong Kong International Wine & Spirit Competition
2011	<ul style="list-style-type: none"> • Awarded a silver award for “Tasya’s Reserve Cabernet Sauvignon 2008” at the Decanter World Wine Awards 2011 • Began grape cultivation preparation works in the Ningxia Vineyard
2012	<ul style="list-style-type: none"> • “Grace Vineyard” brand was recognised by WINE Magazine as the Best Winery of Golden Bottle Awards 2012
2013	<ul style="list-style-type: none"> • Grace Vineyard listed in the World Atlas of Wine (7th edition) by Hugh Johnson and Jancis Robinson • Grace Vineyard named the “Winery with Great Market Influence” at the RVF (La Revue du Vin de France) Chinese Wine Awards 2013 • Awarded a gold medal for “Sonata 2010” at the RVF (La Revue du Vin de France) Chinese Wine Awards 2013

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Year	Milestone Events
	<ul style="list-style-type: none"> Land use rights of the Ningxia Vineyard Land Parcel was contracted to Ningxia Ganlin from 1 April 2011 Commencement of cultivation of grapes for wine-making purpose in the Ningxia Vineyard
2015.....	<ul style="list-style-type: none"> Awarded a silver medal for “Tasya’s Reserve Marselan 2012” at the RVF (La Revue du Vin de France) Chinese Wine Awards 2015 Commencement of construction of our second winery in Ningxia Shanxi Grace Vineyard obtained ISO9001:2008 certification
2016.....	<ul style="list-style-type: none"> Grace Vineyard awarded the title of “Chinese Fine Wine Producer of the Year” at the Vinehoo Annual Award
2017.....	<ul style="list-style-type: none"> Awarded a gold medal for “Tasya’s Reserve Cabernet Sauvignon 2014” at the RVF (La Revue du Vin de France) Chinese Wine Awards 2017 “Grace Vineyard” named “Winery with Great Market Influence” at the RVF (La Revue du Vin de France) Chinese Wine Awards 2017 Awarded a platinum best in show medal for “Tasya’s Reserve Marselan 2015” for the best red single-varietal at the Decanter Asia Wine Awards 2017 Awarded a bronze award for “Tasya’s Reserve Aglianico 2015” at the Decanter Asia Wine Awards 2017 Awarded a commended award for “Tasya’s Reserve Cabernet Sauvignon 2014” at the Decanter Asia Wine Awards 2017
2018	<ul style="list-style-type: none"> Disposed of Interfusion, the holding company which indirectly held the Ningxia Vineyard Land Parcel to one of our Controlling Shareholders, Ms. Chan, upon which we ceased to operate the Ningxia Vineyard

HISTORY AND CORPORATE DEVELOPMENT

Our Founders

Our Group was co-founded in 1997 by Mr. Chan, the father of Ms. Chan, who is our executive Director, the Chairlady of the Board and our Chief Executive Officer, and Mr. Janvier, an Independent Third Party, by incorporating the first corporate entity of our Group, Dragonet, in Hong Kong. At incorporation, Dragonet was held as to 50% and 50% by Mr. Chan and Mr.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Janvier, respectively. Mr. Chan is an entrepreneur based in Hong Kong, who has extensive investment in various industries in the PRC including sewage treatment plant and power plant businesses. As one of our founders, Mr. Chan invested in Dragonet with his own financial resources accumulated from his previous investments and business ventures. Mr. Janvier is a personal friend of Mr. Chan and an entrepreneur based in France, who has an extensive knowledge in wine and who accumulated his wealth through his trading business and business ventures.

In 1998, Dragonet, through Shanxi Grace Vineyard, acquired the land parcels that comprise the Shanxi Winery in Shanxi. Since then and prior to the commencement of the Reorganisation, Dragonet has always been the key investment holding company of our Group. Through a series of allotments and transfers of shares in Dragonet, in February 2002, Mr. Chan became legally and beneficially interested in the majority stake of 67% of the issued shares in Dragonet. In June 2002, Ms. Chan, daughter of Mr. Chan, joined our Group as a director of Shanxi Grace Vineyard, became primarily responsible for the operation of Shanxi Vineyard and Shanxi Winery and the production of our wine products and took over the management of the Group.

Through a series of transfers of shares in Dragonet to Mr. Chan, in March 2004, Mr. Janvier ceased to be a shareholder of Dragonet in order to focus on his other investments and business ventures. In March 2006, Mr. Chan transferred all of the interest he directly and indirectly held in the issued shares of Dragonet for a nominal consideration of HK\$1 per share to Ms. Wong and Ms. Chan, his wife and his daughter, respectively. Since then and prior to the commencement of the Reorganisation, Dragonet was held as to 50% and 50% by Ms. Wong and Ms. Chan, respectively.

Operating Subsidiaries during the Track Record Period

During the Track Record Period, our business and financial results were contributed primarily by six major operating subsidiaries in the PRC, namely, Shanxi Grace Vineyard, Deep Blue, Ningxia Grace Vineyard, Shanxi Ziyuan, Xiamen Taofu and Ningxia Ganlin (disposal of which was completed on 1 June 2018).

Shanxi Grace Vineyard

Shanxi Grace Vineyard was established on 7 August 1998 in the PRC as an operating company with limited liability for the operation of Shanxi Winery. Throughout the Track Record Period and up to the Latest Practicable Date, based on its business registration certificate, Shanxi Grace Vineyard had a registered capital of RMB46,800,000, which was indirectly wholly owned by the Company through Medford Global and Dragonet, our intermediate investment holding companies incorporated in the BVI and Hong Kong, respectively. For details of the compliance with the relevant laws in the PRC regarding the increase of registered capital of Shanxi Grace Vineyard and transfer of equity interest between the equity owners, in 2004 and 2010, respectively, see “— Compliance with relevant applicable laws and regulations in respect of the increase of registered capital and transfer of equity interest of Shanxi Grace Vineyard”.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Deep Blue

Deep Blue was established on 14 July 2010 in the PRC as an operating company with limited liability for the trading of the Group's wine products in the PRC. Throughout the Track Record Period and up to the Latest Practicable Date, Deep Blue had a registered capital of US\$200,000, which was indirectly wholly owned by the Company through Grandtel and Excellence Regent, our intermediate investment holding companies incorporated in the BVI and Hong Kong, respectively.

Ningxia Grace Vineyard

Ningxia Grace Vineyard was established on 12 September 2012 in the PRC as an operating company with limited liability for the operation of the Ningxia Winery. Throughout the Track Record Period and up to the Latest Practicable Date, Ningxia Grace Vineyard had a registered capital of US\$5,000,000, which was indirectly wholly owned by the Company through Grand Fiesta and Genwood, our intermediate investment holding companies incorporated in the BVI and Hong Kong, respectively.

Shanxi Ziyuan

Shanxi Ziyuan was established on 21 November 2013 in the PRC as an operating company with limited liability for the operation of the Shanxi Vineyard. Throughout the Track Record Period and up to the Latest Practicable Date, Shanxi Ziyuan had a registered capital of HK\$1,300,000, which was indirectly wholly owned by the Company through Mercci and Fly Dragon, our intermediate investment holding companies incorporated in the BVI and Hong Kong, respectively.

Xiamen Taofu

Xiamen Taofu was established on 29 September 2012 in the PRC as an operating company with limited liability for the management of our wine products' online customer service platform in the PRC. At incorporation, Xiamen Taofu had a registered capital of US\$165,000, which was wholly owned by Wide Source, a Hong Kong holding intermediary, which was in turn wholly owned by Ms. Chan. Ms. Chan, having considered that the sales performance of Xiamen Taofu has stabilised and its online sales capability has matured with lessened commercial risks, concluded that it is in the best interests of our Group to acquire Xiamen Taofu. As such, on 22 February 2017, all 100 issued shares in Wide Source were transferred from Ms. Chan to Clover Star, an intermediate investment holding company in Hong Kong wholly owned by the Company, for a nominal consideration of HK\$100. Since then, and up to the Latest Practicable Date, Xiamen Taofu has been indirectly wholly owned by the Company through Clover Star and Wide Source, our intermediate investment holding companies incorporated in the BVI and Hong Kong, respectively.

Ningxia Ganlin

Ningxia Ganlin was established on 15 October 2010 in the PRC as an operating company with limited liability for the operation of the Ningxia Vineyard. Throughout the Track Record Period, Ningxia Ganlin had a registered capital of HK\$350,000, which was indirectly wholly

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

owned by the Company through Interfusion and Corpwealth Asia, our intermediate investment holding companies incorporated in the BVI and Hong Kong, respectively.

On 1 June 2018, Ms. Chan, one of our Controlling Shareholders, and our Company, entered into a share purchase agreement, pursuant to which our Company transferred and Ms. Chan acquired the entire issued share capital of Interfusion for a consideration of RMB1. For details, see “— Reorganisation — (6) Transfer of shares of Interfusion” below.

REASONS FOR THE LISTING

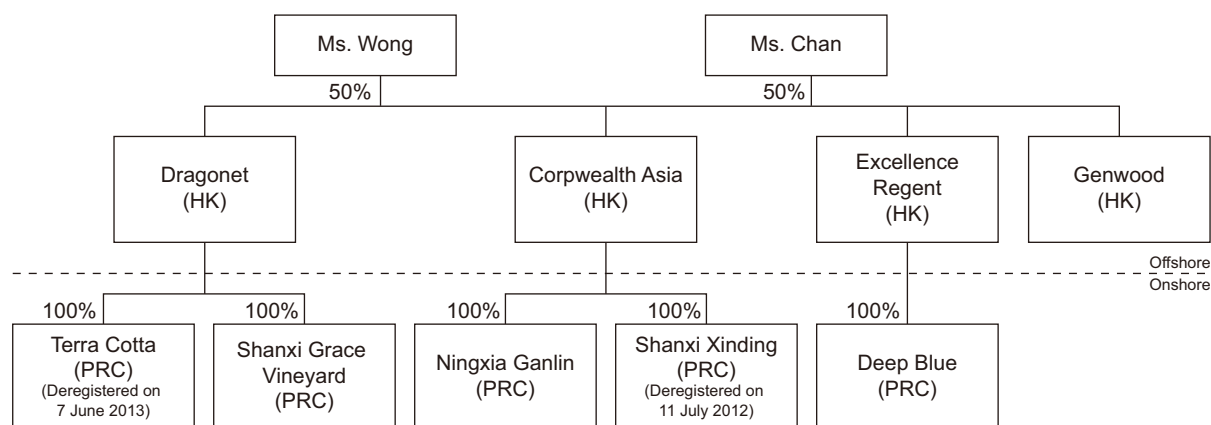
We believe that the Listing and proceeds from the Share Offer will enhance our capital base and facilitate the implementation of our business strategy. The net proceeds from the Share Offer will provide financial resources to our Group to complete the construction of the second phase of our Ningxia Winery, fund increased marketing efforts to promote the “Grace Vineyard (怡園酒莊)” brand and expand our market share in the wine market in the PRC and Hong Kong. A public listing status will also broaden the recognition of our brand “Grace Vineyard (怡園酒莊)” and enhance our corporate profile with the general public and potential investors and provide a platform for future capital raising. For details, see “Future Plans and Use of Proceeds” in this prospectus.

REORGANISATION

Beginning in January 2012, we undertook the Reorganisation in preparation for our proposed Listing. The Reorganisation consisted of the following principal steps, which were intended to consolidate our winery business in the PRC into an offshore corporate holding structure for the Listing.

Corporate Structure Prior to the Reorganisation

The chart below sets forth the shareholding structure of our Group immediately prior to the Reorganisation in January 2012.



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(1) *Incorporation of BVI holding companies and our Company*

(A) Palgrave Enterprises

On 3 January 2012, Palgrave Enterprises was incorporated in BVI with limited liability and with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 1 February 2012, 100 shares were allotted and issued at par value as fully-paid to Ms. Wong.

(B) Macmillan Equity

On 3 January 2012, Macmillan Equity was incorporated in BVI with limited liability and with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 1 February 2012, 100 shares were allotted and issued at par value as fully-paid to Ms. Chan.

(C) Our Company

On 14 February 2012, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. The authorised share capital of our Company on incorporation was HK\$380,000 divided into 380,000,000 Shares of HK\$0.001 each. Upon incorporation, one subscriber Share was transferred by Mapcal Limited, the corporate secretarial service provider, to Macmillan Equity for a nominal consideration of HK\$0.001. The share transfer was completed on 14 February 2012. On 29 February 2012, our Company allotted and issued 1 Share at par value to Palgrave Enterprises.

Since then, our Company was held as to 50% by Macmillan Equity and 50% by Palgrave Enterprises.

(2) *Incorporation of intermediate BVI holding companies*

(A) Incorporation of Grandtel

On 1 February 2012, Grandtel was incorporated in BVI with limited liability and with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 13 March 2012, 100 shares were allotted and issued at par value as fully-paid to our Company.

(B) Incorporation of Interfusion

On 1 February 2012, Interfusion was incorporated in BVI with limited liability and with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 13 March 2012, 100 shares were allotted and issued at par value as fully-paid to our Company.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(C) Incorporation of Medford Global

On 1 February 2012, Medford Global was incorporated in BVI with limited liability and with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 13 March 2012, 100 shares were allotted and issued at par value as fully-paid to our Company.

(D) Incorporation of Grand Fiesta

On 20 August 2012, Grand Fiesta was incorporated in BVI with limited liability and with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 6 September 2012, 100 shares were allotted and issued at par value as fully-paid to our Company.

(3) Deregistration of Shanxi Xinding and Terra Cotta

(A) Shanxi Xinding

Prior to the cessation of operation in 2012, Shanxi Xinding was principally engaged in the cultivation of grapes in Xinding, Shanxi. On 1 March 2012, the board of directors of Shanxi Xinding considered the area unsuitable for growing good quality grapes and resolved to apply for deregistration of the company, which was completed on 11 July 2012. Shanxi Xinding was solvent immediately prior to its deregistration. Since then, Shanxi Xinding ceased to be a member of our Group.

(B) Terra Cotta

Terra Cotta was incorporated on 8 October 2006 for the purpose of acquiring land for growing grapes in Shaanxi Province. Our Group subsequently decided not to proceed with the acquisition of land and instead focused on the business operation in Shanxi. Terra Cotta has never commenced any business since its establishment. On 18 June 2012, the board of directors of Terra Cotta resolved to apply for deregistration of the company, which was completed on 7 June 2013. Terra Cotta was solvent immediately prior to its deregistration. Since then, Terra Cotta ceased to be a member of our Group.

(4) Transfer of shares of the intermediate Hong Kong holding companies and further allotment of Shares in our Company

(A) Transfer of shares of Excellence Regent by way of share swap

Pursuant to a share sale and purchase agreement dated 20 September 2012 entered into between Ms. Chan and Ms. Wong as vendors and our Company as purchaser, (i) Ms. Chan transferred all 50 issued shares in Excellence Regent to Grandtel in consideration of our Company allotting and issuing 50 Shares to Macmillan Equity; and (ii) Ms. Wong transferred all 50 issued shares in Excellence Regent to Grandtel in consideration of our Company allotting and issuing 50 Shares to Palgrave Enterprises. The share transfer was completed on 5 November 2012 whereby our Company issued 50 Shares each to Palgrave

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Enterprises and Macmillan Equity. Since then, Excellence Regent became a directly wholly-owned subsidiary of Grandtel and our Company was held as to 50% and 50% by Palgrave Enterprises and Macmillan Equity, respectively.

(B) Transfer of shares of Corpwealth Asia by way of share swap

Pursuant to a share sale and purchase agreement dated 20 September 2012 entered into between Ms. Chan and Ms. Wong as vendors and our Company as purchaser, (i) Ms. Chan transferred all 50 issued shares in Corpwealth Asia to Interfusion in consideration of our Company allotting and issuing 50 Shares to Macmillan Equity; and (ii) Ms. Wong transferred all 50 issued shares in Corpwealth Asia to Interfusion in consideration of our Company allotting and issuing 50 Shares to Palgrave Enterprises. The share transfer was completed on 5 November 2012 whereby our Company issued 50 Shares each to Palgrave Enterprises and Macmillan Equity. Since then, Corpwealth Asia became a directly wholly-owned subsidiary of Interfusion and our Company was held as to 50% and 50% by Palgrave Enterprises and Macmillan Equity, respectively.

(C) Transfer of shares of Dragonet by way of share swap

Pursuant to a share sale and purchase agreement dated 20 September 2012 entered into between Ms. Chan and Ms. Wong as vendors and our Company as purchaser, (i) Ms. Chan transferred all 50 issued shares in Dragonet to Medford Global in consideration of our Company allotting and issuing 50 Shares to Macmillan Equity; and (ii) Ms. Wong transferred all 50 issued shares in Dragonet to Medford Global in consideration of our Company allotting and issuing 50 Shares to Palgrave Enterprises. The share transfer was completed on 5 November 2012 whereby our Company issued 50 Shares each to Palgrave Enterprises and Macmillan Equity. Since then, Dragonet became a directly wholly-owned subsidiary of Medford Global and our Company was held as to 50% and 50% by Palgrave Enterprises and Macmillan Equity, respectively.

(D) Transfer of shares of Genwood by way of share swap

Pursuant to a share sale and purchase agreement dated 20 September 2012 entered into between Ms. Chan and Ms. Wong as vendors and our Company as purchaser, (i) Ms. Chan transferred all 50 shares in Genwood to Grand Fiesta in consideration of our Company allotting and issuing 50 Shares to Macmillan Equity; and (ii) Ms. Wong transferred all 50 shares in Genwood to Grand Fiesta in consideration of the Company allotting and issuing 50 Shares to Palgrave Enterprises. The share transfer was completed on 12 October 2012 whereby our Company issued 50 Shares each to Palgrave Enterprises and Macmillan Equity. Since then, Genwood became a direct wholly-owned subsidiary of Grand Fiesta and our Company has held as to 50% and 50% by Palgrave Enterprises and Macmillan Equity, respectively.

(E) Allotment of Shares of our Company

By a resolution of the Board of Directors dated 5 November 2012, 16 and 282 Shares were allotted and issued at par value of HK\$0.001 each to each of Palgrave Enterprises and Macmillan Equity, respectively. Upon completion, our Company was owned as to 31% by Palgrave Enterprises and as to 69% by Macmillan Equity.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(5) *Incorporation of additional subsidiaries of the Group, transfer of shares of Hong Kong subsidiaries and further allotment of Shares to Macmillan Equity*

(A) Incorporation of Ningxia Grace Vineyard

On 12 September 2012, Ningxia Grace Vineyard was established as a wholly foreign-owned enterprise in the PRC with a registered capital of US\$5,000,000 and wholly-owned by Genwood.

(B) Incorporation of Fly Dragon

On 16 April 2013, Fly Dragon was incorporated in Hong Kong with limited liability whereby 1 share was issued at par value to True Friendship Limited, a corporate secretarial services provider.

(C) Incorporation of Mercci

On 1 October 2013, Mercci was incorporated in the BVI with limited liability and with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 15 October 2013, 100 shares in Mercci were allotted and issued at par value to our Company.

(D) Transfer of Shares in Fly Dragon

On 17 October 2013, 1 share in Fly Dragon was transferred by True Friendship Limited, the corporate secretarial services provider, to Mercci for a nominal consideration of HK\$1 and 99 shares in Fly Dragon were allotted and issued to Mercci at par value for a consideration of HK\$99. The share transfer and allotment were completed on 17 October 2013. Since then, Fly Dragon has been a directly wholly-owned subsidiary of Mercci.

(E) Incorporation of Shanxi Ziyuan

On 21 November 2013, Shanxi Ziyuan was established as a wholly foreign-owned enterprise in the PRC with a registered capital of HK\$1,300,000 and wholly-owned by Fly Dragon.

(F) Incorporation of Clover Star

On 4 January 2017, Clover Star was incorporated in the BVI with limited liability and with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 8 February 2017, 100 shares in Clover Star were allotted and issued at par value to our Company.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(G) Acquisition of Xiamen Taofu through acquisition of shares in Wide Source

On 22 February 2017, all 100 shares in Wide Source were transferred by Ms. Chan to Clover Star for a nominal consideration of HK\$100. The share transfer was completed on 22 February 2017. Since then, and up to the Latest Practicable Date, Wide Source, together with its wholly-owned subsidiary Xiamen Taofu, became an indirectly wholly-owned subsidiary of our Company.

(H) Loan capitalisation and further allotment of Shares to Macmillan Equity and Palgrave Enterprises

Pursuant to a deed of confirmation dated 8 September 2017, the amount of HK\$124,649,191 owed by our Company to Ms. Chan is deemed to have been fully repaid by the allotment and issue of 217 Shares to Macmillan Equity on 14 September 2017. On 14 September 2017, 83 Shares were allotted and issued to Palgrave Enterprises at par value. Since then, and up to the Latest Practicable Date, our Company has been held as to 30% and 70% by Palgrave Enterprises and Macmillan Equity, respectively.

(6) Transfer of shares of Interfusion

Pursuant to a share purchase agreement dated 1 June 2018 entered into between Ms. Chan, one of our Controlling Shareholders, and our Company, our Company transferred and Ms. Chan acquired the entire issued share capital of Interfusion (which in turn held the entire equity interest of Ningxia Ganlin through Corpwealth Asia) for a consideration of RMB1, which was arrived at with reference to (i) the consolidated net liabilities of Interfusion as at 31 March 2018 of approximately RMB5.7 million (which can be primarily attributed to the aggregate amount of approximately RMB9.0 million due to our Group from Ningxia Ganlin), and (ii) the fair value of Ningxia Ganlin as at 31 March 2018 of RMB0 as determined by an independent valuer (given that the total consolidated liabilities of Interfusion of approximately RMB9.1 million (mainly inclusive of the amount due to our Group of approximately RMB9.0 million) exceeded its total consolidated assets of approximately RMB3.4 million (mainly inclusive of the book value of the Ningxia Vineyard Land Parcel and the plants, properties and equipment thereon of approximately RMB3.3 million) as well as the fair value of its operating assets (including the Ningxia Vineyard Land Parcel), RMB0 is the lowest value that can be determined by the independent valuer for an entity in net liabilities position). For details of the reasons, see “Business — Raw Materials — Disposal of the Ningxia Vineyard” in this prospectus. The transfer has been completed on 1 June 2018. Since then, each of Interfusion, Corpwealth Asia and Ningxia Ganlin are no longer subsidiaries of our Group.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Compliance with relevant applicable laws and regulations in respect of the increase of registered capital and transfer of equity interest of Shanxi Grace Vineyard

Shanxi Grace Vineyard was established on 7 August 1998 in the PRC by Dragonet and SPGMG (a State-owned enterprise and an Independent Third Party) with an initial registered capital of US\$2,100,000 (equivalent to approximately RMB13,650,000) contributed by Dragonet as to US\$1,890,000 (equivalent to approximately RMB12,285,000) and by SPGMG as to US\$210,000 (equivalent to approximately RMB1,365,000), representing 90% and 10% of the registered capital, respectively.

On 5 July 2004, the registered capital of Shanxi Grace Vineyard was increased by RMB11,193,000 (equivalent to approximately US\$1,722,000), which was fully contributed by Dragonet. The increase in the registered capital of Shanxi Grace Vineyard was approved by the People's Republic of Shanxi and the Shanxi Administration for Industry and Commerce, and the relevant licences and certificates were duly obtained in June and July 2004, respectively, to reflect such increase. As a result, Dragonet and SPGMG respectively owned 94.52% and 5.48% equity interest in Shanxi Grace Vineyard (the **"Registered Capital Increase"**).

Pursuant to an equity interest transfer agreement dated 27 October 2010 entered into between Dragonet and SPGMG, SPGMG transferred its entire equity interest of 5.48% in Shanxi Grace Vineyard to Dragonet (the **"Transfer of Equity Interests"**) for a consideration of US\$1,508,000 (equivalent to approximately RMB9,802,000), which was settled on 7 December 2010. The consideration was determined after arm's length negotiations between Dragonet and SPGMG and it was fully settled in cash by Dragonet. Since then, Dragonet became the sole shareholder of Shanxi Grace Vineyard and Shanxi Grace Vineyard became a wholly foreign-owned enterprise. The Transfer of Equity Interests was approved by the Jinzhong City Ministry of Commerce, the People's Government of Shanxi and the Shanxi Administration for Industry and Commerce, and the relevant certificates and licences were obtained in November 2010.

As advised by our PRC Legal Advisers, in accordance with the requirements set out in the Provisions for the Alteration of Investors' Equities in Foreign-funded Enterprises (外商投資企業投資者股權變更的若干規定), the Rules on the Evaluation and Management of State Assets (國有資產評估管理辦法) and the Detailed Rules for the Implementation on the Administrative Measures for State-Owned Assets Assessment (國有資產評估管理辦法施行細則), as SPGMG was a wholly State-owned enterprise, its equity interest was deemed to be changed as a result of the Registered Capital Increase. SPGMG was required to (i) apply for an appraisal of its State-owned equity interests, which is to be conducted by the relevant appraisal institution, and (ii) obtain a confirmation from the State-owned asset governing authority prior to the Registered Capital Increase. Our PRC Legal Advisers have advised us that SPGMG did not comply with these requirements and as a result, the Registered Capital Increase could be deemed invalid by the State-owned asset governing authority.

As advised by our PRC Legal Advisers, in accordance with the Law of the PRC on the State-owned Assets of Enterprises (中華人民共和國企業國有資產法), the Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (企業國有資產評估管理暫行辦法) and the Interim Measures for the Administration of the Transfer of the State-owned Property Rights of Enterprises (企業國有產權轉讓管理暫行辦法), prior to the Transfer of Equity

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Interests, SPGMG should have applied for the transfer to be appraised and openly conducted at a legally established equity exchange. As advised by our PRC Legal Advisers, SPGMG did not comply with these requirements and as a result, there is a risk that proceedings may be commenced by the relevant State-owned governing authority and the Transfer of Equity Interests could be deemed invalid and Dragonet could be required to return the relevant equity interests in Shanxi Grace Vineyard to SPGMG.

Our PRC Legal Advisers further advised us that there is no effective remedial procedure under current applicable PRC laws and regulations that could be taken by Dragonet and/or Shanxi Grace Vineyard to rectify the aforesaid non-compliances by SPGMG in relation to the Registered Capital Increase and the Transfer of Equity Interests. The Directors confirm that the Group had no knowledge, and had not been advised, of the legal requirements applicable to SPGMG prior to the Registered Capital Increase and the Transfer of Equity Interests.

In the event that the Registered Capital Increase and the Transfer of Equity Interests were to be revoked or invalidated by the relevant courts or authorities and Dragonet are unable to repurchase SPGMG's entire equity interest in Shanxi Grace Vineyard, the shareholding in Shanxi Grace Vineyard could be restored to 90% and 10% held by Dragonet and SPGMG, respectively, and Shanxi Grace Vineyard would become a non wholly owned subsidiary of our Group. For details of the potential risks associated with the aforesaid non-compliances, see "Risk Factors — Risks Relating to Our Business — Failure of compliance with the relevant PRC legal procedures applicable to the increase in the registered capital and the transfer of equity interest of Shanxi Grace Vineyard may affect our equity interest in Shanxi Grace Vineyard" in this prospectus.

On the basis that (i) Shanxi Grace Vineyard obtained the licences and certificates issued by the relevant PRC government authorities approving, *inter alia*, the Registered Capital Increase and the Transfer of Equity Interests, and (ii) the Registered Capital Increase and the Transfer of Equity Interests respectively occurred more than 13 and seven years ago and that since then and up to the Latest Practicable Date, we are not aware of any investigations or proceedings being conducted or commenced by the relevant authorities which may lead to the revocation or invalidation, our Directors are of the view that the risk that the Registered Capital Increase and the Transfer of Equity Interests will be revoked or invalidated by the relevant courts or authorities is not likely.

In response to the aforesaid non-compliances by SPGMG, a letter of undertaking was issued by SPGMG on 12 April 2012 stating, amongst others, that (i) SPGMG has obtained the necessary internal resolutions (such as shareholder resolutions, board resolutions, etc.) to approve the transactions of the Change of Equity Interests and the Transfer of Equity Interests, (ii) the relevant transaction documents and applications to the relevant approval and registration authorities were signed by SPGMG's authorised representatives, (iii) in the event that the Change of Equity Interests and Transfer of Equity Interests are revoked or invalidated by the relevant authorities or courts, SPGMG will comply with the requisite procedures under the PRC laws and will re-enter into and complete the Change of Equity Interests and the Transfer of Equity Interests on the same commercial terms to the extent it is permissible under the applicable PRC laws, (iv) prior to the completion of the re-entering into the increase of registered capital and the transfer of equity interest, the rights exercised by Shanxi Vineyard shall remain unchanged and unaffected, and (v) SPGMG shall indemnify Dragonet and Shanxi Grace

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

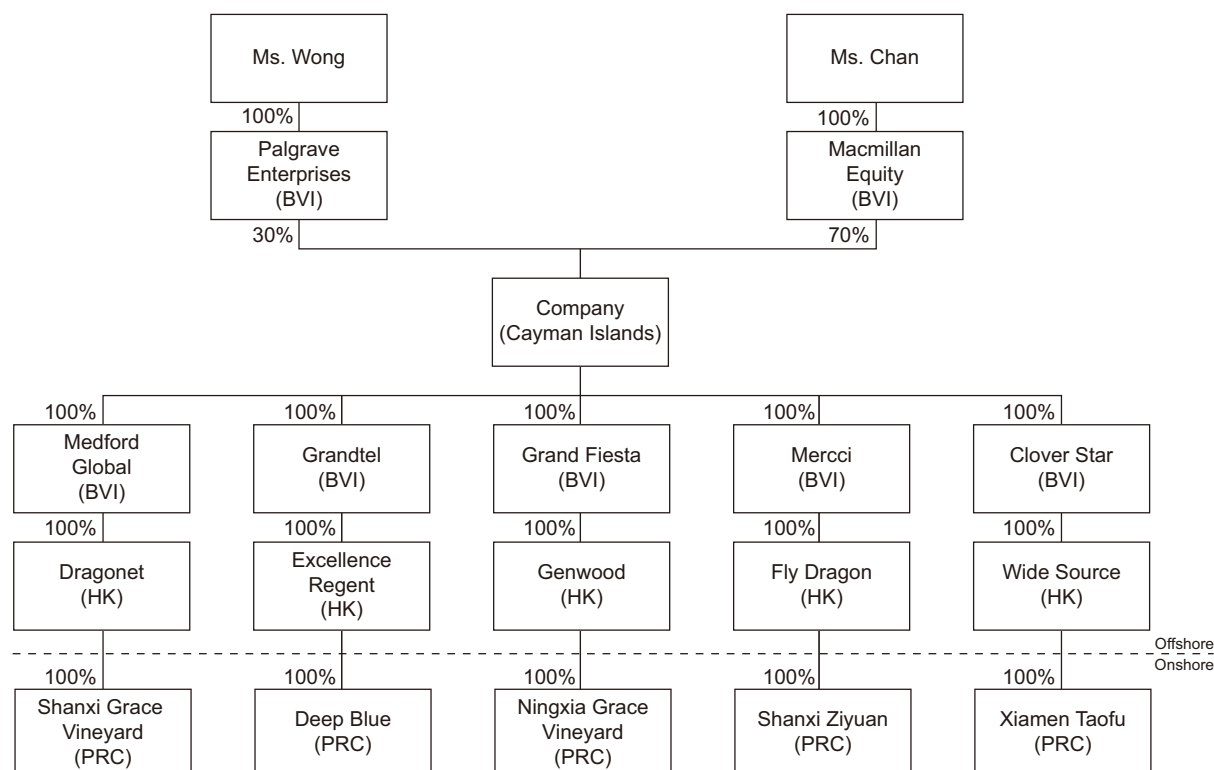
Vineyard for all losses incurred (save for the consideration paid in relation to the Transfer of Equity Interests) in the event that the Registered Capital Increase and the Transfer of Equity Interests are revoked or invalidated.

In addition, our Controlling Shareholders have entered into a Deed of indemnity in favour of our Company, pursuant to which they have, amongst others, agreed and undertaken, jointly and severally, to indemnify Shanxi Grace Vineyard for any loss incurred as a result of the revocation or invalidation of the Registered Capital Increase and the Transfer of Equity Interests should this not be fully indemnified by SPGMG.

Save as disclosed in above, the Company confirmed that, as advised by the PRC Legal Advisers, it has obtained all necessary approvals for effecting the Reorganisation from the relevant authority in the PRC and that the Reorganisation complies with relevant applicable laws and regulations.

Corporate structure immediately after the completion of the Reorganisation

The following diagram illustrates our corporate and shareholding structure immediately after the Reorganisation and immediately prior to completion of the Share Offer and the Capitalisation Issue.



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

SAFE REGULATIONS

Pursuant to Circular of the State Administration of Foreign Exchange on Issues Concerning the Administration of Foreign Exchange in Offshore Financing and Return Investments by Domestic Residents through Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “**SAFE Circular No. 37**”), which was promulgated by SAFE and became effective from 4 July 2014, when PRC individual residents invest in offshore Special Purpose Vehicles (“**SPVs**”) with their legitimate onshore and offshore assets or equities, they must register with local SAFE branches with respect to their investments. The SAFE Circular No. 37 also requires PRC individual residents to file changes to their registration when their offshore SPVs undergo material events such as the change of basic information including PRC individual residence shareholder, name and operation period, as well as capital increase or decrease, share transfer or exchange, merger or division.

Since the individual Controlling Shareholder, being Ms. Chan, is not a PRC domestic resident as defined under the SAFE regulations, Ms. Chan is not subject to the requirements under the SAFE regulations for the Reorganisation and the Listing.

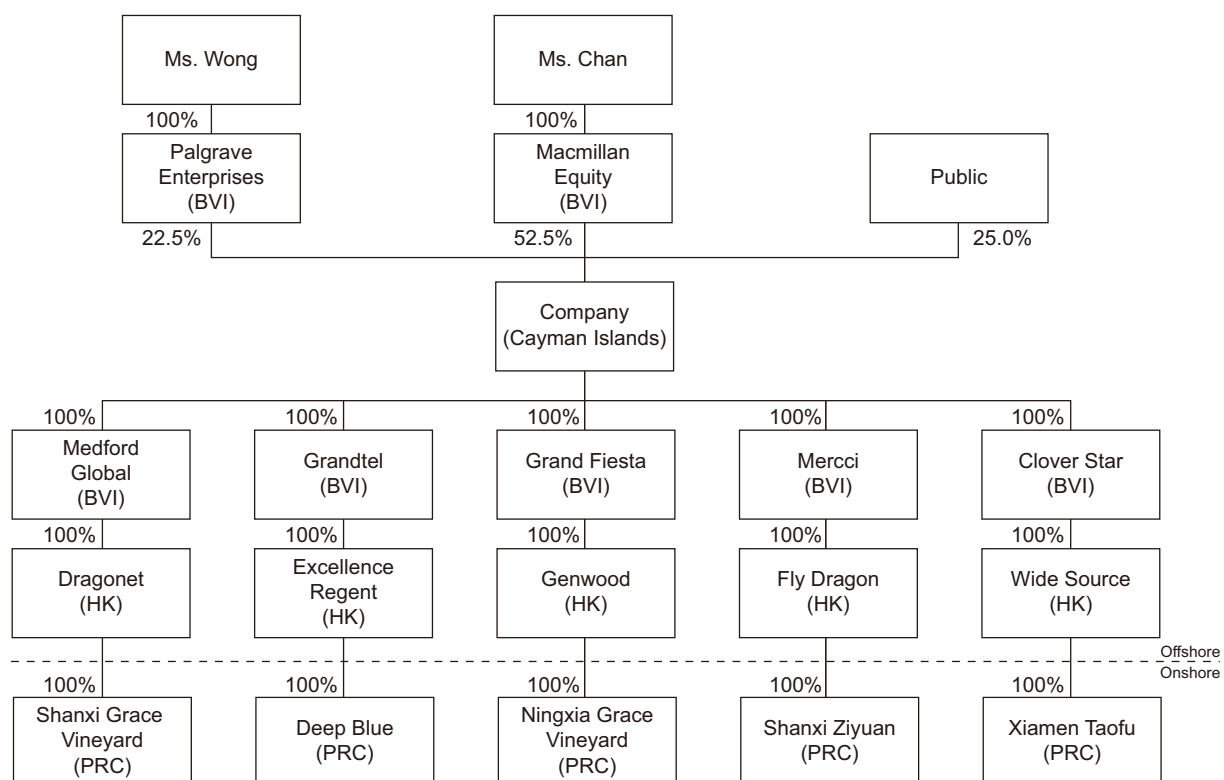
SHARE OFFER AND CAPITALISATION ISSUE

Conditional upon the share premium account of our Company being credited as a result of the Share Offer, our Company will capitalise all or a portion, as the case may be, of the balance of the share premium account and apply such sum in paying up in full at nominal value a total of 419,999,300 Shares and 179,999,700 Shares for allotment and issue to Macmillan Equity and Palgrave Enterprises, respectively, in proportion to their respective existing shareholding immediately prior to the completion of the Share Offer. As a result, Macmillan Equity, Palgrave Enterprises and the public will hold approximately 52.5%, 22.5% and 25.0%, respectively, of the enlarged issued share capital of our Company immediately upon the completion of the Share Offer and the Capitalisation Issue, assuming that any options granted under the Share Option Scheme is not exercised.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Corporate structure immediately after the completion of the Share Offer and the Capitalisation Issue

The following diagram illustrates our corporate and shareholding structure immediately upon completion of the Share Offer and Capitalisation Issue, without taking into account any Share which may be issued pursuant to the exercise of any options which may be granted pursuant to the Share Option Scheme.



OVERVIEW

Branded as “Grace Vineyard (怡園酒莊)”, we are an award-winning, established wine maker based in Shanxi committed to making quality wine that caters to a wide range of customer taste and pricing preferences. During the Track Record Period, substantially all of our wine products were sold in the PRC and our biggest sales location was our home base in Shanxi, where we derived approximately 61.8% of our revenue on weighted average and are the largest wine maker, with a market share of approximately 14.9% in terms of retail sales revenue in 2016, according to the F&S Report. In the overall PRC wine market, we are the 16th-ranked domestic wine maker in 2016 in terms of retail sales revenue, according to the F&S Report.

Our “Grace Vineyard (怡園酒莊)” wine product portfolio, which principally comprises red wine, can broadly be categorised according to quality and price into (1) the *higher-end* wine portfolio, a series of mid to high-end wine products with a retail price ranged from RMB199 to RMB598 per 750 ml bottle which targets at executive clientele and corporate customers with higher spending power and a focus on quality in their wine selection, and (2) the *entry-level* wine portfolio, which has a more affordable retail price of RMB125 per 750 ml bottle or below and caters to the more price-conscious mass market. Our wine product mix varied between our *higher-end* wine portfolio and *entry-level* wine portfolio during the Track Record Period, which we adjust in response to customer preferences, PRC government policies on alcoholic beverages consumption and spending, as well as the overall sentiment of the PRC wine market. To suit our customers’ diversified tastes and preferences, we also from time to time (1) make white and sparkling wine as well as seasonal series and special blends of red wine, and (2) import an insignificant volume of overseas-made wine.

Our business commenced in 1997 in Shanxi and we have since grown into a well-recognised wine maker in the PRC known for our product quality and value for money. Our “Grace Vineyard (怡園酒莊)” brand is particularly highly-regarded in Shanxi, evidenced by our sales performance in the province during the Track Record Period and also our recognition as a “Top Shanxi Brand” by the Shanxi Administration for Industry and Commerce. Our wine product portfolio is well-decorated with industry awards and recognitions in the PRC and overseas, such as a gold medal and the “best value for money” award received from La Revue du Vin de France, Chinese Edition, in 2017. They are also well-received by sommeliers in the PRC and Hong Kong and are served in a number of multi-national luxury hotel chains. Our awards and industry accolades are detailed in “— Our Wine Product Portfolio — Awards and recognitions” below.

Our wine products are currently made at our Shanxi Winery, which grosses a GFA of approximately 29,064.27 sq.m. with 125 wine-making tanks. With approximately 95.2%, 80.6% and 70.1% of our wine-making tanks estimated to be occupied during the wine-making seasons of FY2015, FY2016 and FY2017, respectively, we consider that we in general sufficiently utilise our Shanxi Winery and require additional wine-marking facilities to attain future growth. During the Track Record Period, we began the construction of a new winery in Ningxia, which has a site area of approximately 72,800 sq.m. and is expected to be installed with 75 wine-making tanks by the end of 2020. The first phase construction of our Ningxia Winery was completed in December 2017 with a GFA of approximately 8,600 sq.m. and 41 wine-making tanks. During the Track Record Period, we had also been growing and harvesting self-cultivated grapes we used to make wine at our Shanxi Vineyard and Ningxia Vineyard and also purchased externally-sourced grapes of various types from adjacent vineyards in Ningxia, which is one of the most prominent grape cultivation and wine-making

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regions in the PRC. In FY2015, FY2016 and FY2017, our self-cultivated grapes accounted for approximately on weighted average 61.7% of the total volume (being 100%, 71.2% and 40.6% of the total volume, respectively, for each of FY2015, FY2016 and FY2017) of grapes we used to make wine. During the Track Record Period, externally-sourced grapes accounted for on weighted average 38.5% in terms of volume (being nil, 28.8% and 59.4% of the total volume, respectively for each of FY2015, FY2016 and FY2017) of the grapes we used to make wine.

In order to rectify certain defects to the land use rights and non-compliant land usage of the Ningxia Vineyard Land Parcel, we ceased to operate our Ningxia Vineyard and disposed of the Ningxia Vineyard Land Parcel to Ms. Chan, a Controlling Shareholder on 1 June 2018. As a result, we no longer cultivate and harvest grapes in Ningxia and our Shanxi Vineyard is our single source of self-cultivated grapes. It is our Directors' current intention to substitute the cultivation capacity of the Ningxia Vineyard with grapes cultivated in our Shanxi Vineyard and increased purchase of externally-sourced grapes from Ningxia. Our Directors are confident that this will not result in any material disruption to our business model and operational activities. See "— Raw Materials — Grapes" for their basis.

Our wine products are principally sold through a network of 13 distributors mainly to the PRC and also to Hong Kong and other international markets. During the Track Record Period, approximately 61.3% of our revenue was derived from wine products on average in terms of revenue were sold in Shanxi through an exclusive distributor, Shanxi Jiajia, with whom we have a long-established business relationship of more than 12 years. We consider that we do not unduly rely on Shanxi Jiajia as our business relationship has been mutually-beneficial, amicable and sustainable. See "— Sales and Distribution — Distributors — Relationship with our distributors" below for further details. Aside from Shanxi, our other key sales markets in the PRC are Fujian, Zhejiang, Henan, Hunan and Guangdong provinces. We also actively pursue and expand our online sales capability through scalable, third-party operated online virtual space in the PRC such as JD.com and TMall. From time to time, we sell directly to end-users mainly to cater to personal, corporate and business events. Sales to our distributors remained as our principal sales channel throughout the Track Record Period and our distributors are accounted for as our customers in our financial statements.

According to the F&S Report, the wine market in the PRC had dipped from 2012 to 2014 principally due to the government's frugality campaigns in the PRC that restrict luxurious spending on alcoholic beverages. These campaigns had a particularly negative effect on the sales performance of our *higher-end* wine portfolio (which generally has a higher profit margin and was our previous business focus) and our overall financial performance. During the financial years ended 31 December 2012 to 2014, our revenue, sales volume, gross profit and net profit declined at a negative CAGR of approximately 26.1%, 20.9%, 31.2% and 46.2%, respectively, based on our unaudited management accounts. Our Directors consider that, compared to other industry peers in the overall PRC wine market (which recorded a negative CAGR in terms of sales volume and sales revenue of 10.9% and 6.1%, respectively, from 2012 to 2014, according to the F&S Report), our efforts to counter the negative impacts of the government's frugality campaigns in the PRC were not as effective. This can be attributed to our Directors' vision back in 2012 on the continual popularity of our *higher-end* wine portfolio (which failed to materialise from 2012 to 2014). As we generally plan ahead the composition of our grape cultivation and wine-making plans a year in advance, our inventory level was predominantly made up of our *higher-end* wine portfolio from 2012 to 2014, which did not correspond with customer demands under the government's frugality campaigns in the PRC.

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We have since responded to the government's frugality campaigns in the PRC by (1) adjusting our wine product mix with increasing focus on our *entry-level* wine portfolio since 2014, which led to an increased contribution to our actual sales volume and revenue compared to previous years, (2) optimising our wine-making and operational process by, amongst others, establishing our presence in Ningxia, and (3) adjusting the composition of and commercial terms with our network of distributors, all of which have enabled us to have a better control throughout our production chain and sales channels. Coupled with the expanding population, increasing urbanisation, uplift of living standards and growing popularity of wine consumption in the PRC, the wine market in the PRC has been recovering since 2015, according to the F&S Report. In addition, wine makers (such as ourselves) are able to offer more affordable, value for money wine products and the PRC public are increasing inclined to consume wine in family and social gatherings rather than business occasions. As such, we had been able to stabilise our financial results in FY2015 and achieved growth both in terms of revenue and profit from 2014.

Our financial results during the Track Record Period was on a declining trend and our revenue and profit had decreased by approximately 21.9% and 38.6%, respectively, from FY2015 to FY2016. This decline is principally attributable to our non-recurring sales events at a higher than usual average selling price during FY2015, comprising (1) a direct sales of approximately RMB2.4 million to the father of Ms. Chan, an executive Director and a Controlling Shareholder, for his personal use, and (2) two direct bulk sales amounting to approximately RMB15.2 million to Independent Third Parties, mainly to cater to business and corporate events of the relevant end-users. Excluding these sales events, our revenue and gross profit in FY2015 would have been approximately RMB50.8 million and RMB25.3 million, respectively. These sales events by their own nature did not recur to a comparable scale during FY2016 and without taking into account of which our revenue derived through our principal sales channel of distributors would, on a pro-forma basis, have been on a moderate upward trend. Based on our audited financial results for FY2017, our revenue has once again been growing stably and we currently expect that our results of operations will continue to improve after the Listing by diversifying our wine product portfolio in response to customer preferences, continual implementation of the government's frugality campaigns in the PRC and the overall sentiments of the PRC wine market, enhancing the awareness and image of our "Grace Vineyard (怡園酒莊)" brand, extending the outreach of our sales channel, and increasing our product quality and wine-making capacity with the establishment of our Ningxia Winery. See "— Business Strategies" below for the strategies we deploy to improve our business and financial performance. **Potential investors should carefully read the risk factors headed "Risk Factors — Risks Relating to Our Business — Our business and financial performance had been and may be adversely affected by the uncertainties within wine industry in the PRC arising from the government's frugality Campaigns" and "Risk Factors — Risks Relating to Our Business — The non-recurring sales events in FY2015 did not recur to a comparable scale during the remainder of the Track Record Period and up to the Latest Practicable Date and are not indicative of our future financial performance".** Detailed analysis of our financial performance during the Track Record Period is set out in "Financial Information".

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The table below shows our key sales and financial performance during the Track Record Period:

	FY2015				FY2016				FY2017			
	Revenue	Sales volume	Average selling price	Gross profit margin	Revenue	Sales volume	Average selling price	Gross profit margin	Revenue	Sales volume	Average selling price	Gross profit margin
	RMB'000 (%)	Bottles '000	RMB/ bottle		RMB'000 (%)	Bottles '000	RMB/ bottle		RMB'000 (%)	Bottles '000	RMB/ bottle	
<i>Higher-end wine portfolio</i>	44,881 (65.6%)	403	111.5	81.8	29,559 (55.4%)	231	128.0	80.4	44,256 (62.9%)	311	142.3	74.8
<i>Entry-level wine portfolio</i>	22,098 (32.3%)	827	26.7	31.2	23,074 (43.2%)	852	27.1	36.0	24,687 (35.1%)	863	28.6	25.1
<i>Others</i>	1,457 (2.1%)	37	39.7	54.8	734 (1.4%)	8	88.6	72.6	1,441 (2.0%)	28	50.7	46.3
Total	68,436 (100%)	1,267	54.0	57.8	53,367 (100%)	1,091	48.9	51.8	70,384 (100%)	1,202	58.5	48.4

COMPETITIVE STRENGTHS

We are an award-winning, established wine maker based in the PRC with the largest market share of 14.9% in Shanxi in terms of retail sales revenue in 2016, according to the F&S Report. We have the following competitive strengths that we believe differentiate us from our competitors, contributed to our market position and will continue to drive our future growth:

Award-winning “Grace Vineyard (怡園酒莊)” brand and quality wine products giving us high profile and public awareness in the PRC

Throughout our business history of over two decades, we have successfully established our “Grace Vineyard (怡園酒莊)” brand as an icon of quality, value-for-money wine products in our key markets in the PRC. Our “Grace Vineyard (怡園酒莊)” brand is particularly well-recognised in our home base in Shanxi, where we were selected as a “Top Shanxi Brand” by the Shanxi Administration for Industry and Commerce in 2006. We believe that our strong brand value and recognition have contributed to our strong sales performance in the province, as we continued to be the largest wine producer with a market share of 14.9% in terms of retail sales revenue in 2016. In 2016, Shanxi accounted for approximately 0.8% of the PRC wine market in terms of sales revenue, according to the F&S Report.

Domestic and international awards and industry recognition of our “Grace Vineyard (怡園酒莊)” brand and wine products have enabled us to extend our product outreach beyond Shanxi to other parts of the PRC, Hong Kong and other international markets. We were named in 2017 as the “Winery with Greatest Market Influence” by La Revue du Vin de France (Chinese edition), a renowned international industry publication based in France, as well as the “Chinese Fine Wine Producer of the Year” in 2016 by Vinehoo.com, a popular wine commentary site in the PRC. We attribute the recognition of our “Grace Vineyard (怡園酒莊)” brand to our devotion to the quality of our wine products, which are well-received by sommeliers in the PRC and Hong Kong and are served in a number of multi-national luxury hotel chains. Our success in building up a

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well-recognised wine-making business in the PRC was acknowledged by the Harvard Business School, which chose us as a case study in its curriculum.

We believe that our “Grace Vineyard (怡園酒莊)” brand, which appears on every bottle of wine we make, will continue to assure the wine consumption public of quality, PRC-made wine products and drive our sales performance.

Diverse wine product portfolio catering to a broad range of customer pricing preferences

Our diverse wine product portfolio principally comprises red wine series, each catering to customers with different quality and pricing preferences, and can be broadly categorised into (1) the *higher-end* wine portfolio, a series of mid to high-end wine products with a retail price ranged between RMB199 to RMB598 per 750 ml bottle which targets at executive clientele and corporate customers with higher spending power and a focus on quality in their wine selection, and (2) the *entry-level* wine portfolio, which has a more affordable retail price of RMB125 per 750ml bottle or below and caters to the more price-conscious mass market. As the wine consumption public in the PRC has a wide range of demographics and differentiating tastes and preferences, our diverse range of wine product portfolio allows us to capture a range of market sub-segments and continue to expand our market share. To further enrich our wine product offering, we from time to time make white wine in accordance with market preferences and also launched “Angelina”, a sparkling wine series, in line with the growing popularity of this wine type among younger and female population in the PRC.

Our diverse wine portfolio gives us the ability to respond to market trends, and customer pricing preferences. This is particularly important with the implementation and enforcement of the government’s frugality campaigns in the PRC since 2012, which restrict luxurious spending on alcoholic beverages and reduce the demand for our *higher-end* wine portfolio. We have since been able to utilise our *entry-level* wine portfolio to maintain and stabilise our sales pipelines. During the Track Record Period, we adjusted the cultivation schedule and composition of our self-cultivated grapes and accordingly our wine-making process between our *higher-end* and *entry-level* wine portfolios in response to market trends and demands, which led to an increased contribution of our *entry-level* wine portfolio to our actual sales volume and revenue compared to the previous years. During FY2015, FY2016 and FY2017, the revenue contribution of our *entry-level* wine portfolio amounted to approximately 32.3%, 43.2% and 35.1%, respectively.

Strategic presence in Shanxi and Ningxia giving us a vertically integrated production chain and the ability to grow

Our Shanxi Winery, our principal wine-making facility, has a GFA of approximately 29,064.27 sq.m. and 125 wine-making tanks. In 2016, we also began the construction of our Ningxia Winery, which is expected to have a total GFA of 72,800 sq.m. and 75 wine-making tanks. The first phase construction of our Ningxia Winery was completed in December 2017 and is expected to be fully operational after in 2018 grape harvest season, with the remaining second phase construction expected to be completed by the end of 2020. Both Shanxi and Ningxia are considered prominent wine-making regions in the PRC, each with suitable climate and favourable national and regional government policies that encourage, support and incentivise wine-making businesses. In particular, the wine industry in Ningxia has become vibrant over the past few years and the Ningxia regional government continues to provide favorable policies and

other intangible supports to the wine industry. In FY2015, FY2016 and FY2017, we received approximately RMB0.6 million, RMB0.2 million and RMB0.3 million of government grants from the Ningxia regional government.

During the Track Record Period, our self-cultivated grapes were grown in our Shanxi Vineyard and Ningxia Vineyard. After we ceased to operate the Ningxia Vineyard and the disposal of the Ningxia Vineyard Land Parcel on 1 June 2018, our Shanxi Vineyard is our single source of self-cultivated grapes. During the Track Record Period, our self-cultivated grapes accounted for on weighted average 61.5% of the total volume (being 100%, 71.2% and 40.6% of the total volume, respectively, in FY2015, FY2016 and FY2017) of grapes we used to make wine. Our self-cultivated grapes give us a vertically integrated production chain, greater control over our product and raw material quality, which are particular important for making *higher-end* wine portfolio. Our Shanxi Vineyard has a site area of approximately 480,488.53 sq.m. and together with the abundance of external suppliers of grapes in Ningxia are considered generally sufficient for our current wine-making requirements and sustain our future growth plans. With grapes cultivation and/or wine-making bases in Shanxi and Ningxia, we are able to spread our risks against unfavourable weather conditions and other natural hazards that are unfavourable to wine-making process. With a combined total of 200 wine-making tanks in Shanxi and Ningxia by the end of 2020, our wine-making capability in both locations is currently expected to allow us to capture the future growth of the overall wine consumption in the PRC, which is forecasted by Frost & Sullivan at a CAGR of 6.8% from 2016 to 2021. To sustain the additional wine-making capacity at our Ningxia Winery and to make up for the closure of the Ningxia Vineyard, we expect to purchase more externally-sourced grapes in the future.

Reliable network of distributors and growing online sales capability contributing to our sales performance

We have a network of 13 distributors which act as our principal sales channel. All of our distributors work with us closely on the sales and marketing direction of our wine products, and share our vision on their value and market positioning. We have a long-lasting and commercially viable relationship with some of our key distributors who have contributed to our market position to-date. In particular, we have a close collaboration with Shanxi Jiajia, our sole and exclusive distributor in Shanxi, for over 12 years and through mutual dedicated efforts have built up our brand image, public awareness and leading sales level in Shanxi with the largest market share in terms of retail sales revenue in 2016.

We generally assign a geographical sales location to each distributor which is considered by our management as having strong local industry knowledge, business network and connection as well as wholesale and retail capability in that location. We generally do not appoint more than one distributor in each geographical location to avoid cannibalisation and competition. It is under this distributorship policy that we have established the current sales level and market position in our key markets in the PRC, namely Shanxi, Fujian, Zhejiang, Henan, Hunan and Guangdong provinces. We will continue to gradually and organically extend the outreach of our wine products beyond these key markets in the PRC by carefully selecting and appointing new distributors in other geographical locations. We expect our network of distributors will continue to principally drive our sales performance.

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Starting in 2012, our wine products are sold in third-party operated online sales virtual space through Xiamen Taofu in the PRC such as JD.com and TMall, giving us access to the growingly popular e-commerce in the PRC. During FY2017, the revenue contribution of our online sales was approximately 4.5%. We consider that the growth in our online sales are in line with the purchase pattern and consumer behaviour of the wine consumption public in the PRC over the recent years, and will continue to present us with sales growth and diversification opportunities. We are also negotiating for a multi-faceted sales arrangement with a scalable, “online-to-offline” wine and spirit retailer in the PRC with multiple popular online sales platforms and over 1,000 physical retail locations across the PRC.

Dedicated and responsive marketing efforts that continues to raise our brand image

We consider marketing to be an important aspect of our brand value and the profile of our wine products. We frequently promote our brand and wine product portfolio in industry publications in the PRC, Hong Kong and overseas, and participate in industry fairs and exhibitions to raise our brand and product awareness. We also invite media, sommeliers and social elites to wine tasting events and wine pairing dinners so that they can promote our brand and wine products through their respective, established media channels, professional platforms and networks. Our marketing efforts within the wine-making industry have earned us the awards and industry accolades set out in “— Our Wine Product Portfolio — Awards and recognitions” below.

A key initiative of our marketing efforts is the operation of our “Chateau”, an accommodation facility at our Shanxi Winery which promotes wine tourism and also raises the brand and profile of our “Grace Vineyard (怡園酒莊)” brand and wine products.

In line with our efforts to promote online sales, we invite “key opinion leader” to promote our wine products through blogs and social media sites to strengthen our online sales. Launch of new wine series are also announced and marketed on our online sales to generate interests and sales level, which we believe are also helpful to our principal sales channel of distributors.

We also work with our distributors to promote our wine products at their local retail locations. Restaurants that serve our wine products through our distributors are sometimes allowed to use our brand names mainly to market and promote these wine products with our prior consent.

Energetic management and technical teams with in-depth experience and exposure to international wine making businesses

We are led by our executive Directors and senior management to manage and operate our business to the relevant industry standard. Our management team is energetic, driven and passionate about our wine-making business and constantly strive to improve and respond to emerging industry trends. With diversified experiences and backgrounds, our management team has members originated from Hong Kong, PRC and Malaysia, most with education and/or work experiences overseas. This allows us to incorporate various management and operational insights into our business and decision-making process. Members of our senior management have co-operated for an average of nine years and are able to work efficiently and seamlessly as a team and execute our business plans and strategies in an effective manner. See “Directors and Senior Management” for the detailed descriptions of our management team’s experiences and qualifications.

BUSINESS

We also have a strong technical and operational team which oversees our grape cultivation, wine-making and quality assurance processes. Our grape cultivation team, for example, comprises members with university degrees in agricultural studies and applies their technical knowledge and expertise in supervising our farming workforce. Our wine-making staff members are also deeply experienced and use their unique insights in experimenting, blending and making our wine products. We believe that the professionalism and expertise of our technical and operational team give us the ability to make quality, value-for-money wine products.

BUSINESS STRATEGIES

We intend to continue solidifying our market position within the wine market in the PRC and enhancing our market penetration into different customer segments and preferences. Our principal business strategies to attain growth, improve our financial performance and maintain a sustainable sales pipelines are set out below.

See “Future Plans and Use of Proceeds” for our detailed plans to apply the proceeds from the Share Offer to implement our business strategies below.

Enhancement of our wine-making capacity with our new Ningxia Winery

We believe that the wine market in the PRC will continue to recover and grow in line with expanding population, increasing urbanisation, uplift of living standards and growing popularity of wine consumption in the PRC. In addition, wine makers (such as ourselves) are able to offer a more affordable, value-for-money wine products and the PRC public are increasing inclined to consume wine in family and social gatherings rather than business occasions. According to the F&S Report, wine consumption in the PRC is expected to increase at a CAGR of 6.8% from 2016 to 2021.

To tap into future market opportunities, we began during the Track Record Period the construction of our Ningxia Winery and its wine-making functions are expected to commence by the end of 2017. We expect that our Ningxia Winery will benefit our wine-making and sales capability in the following ways:

- Our Ningxia Winery is expected to timely process our externally-sourced grapes (which we purchase entirely in Ningxia), thereby avoiding the transportation costs and risks of decay and contamination otherwise associated with having to transport those grapes to our Shanxi Winery.
- With two wine-making locations in Shanxi and Ningxia, we are able to spread our risks against weather and other natural hazards that are generally location-specific and are unfavourable to our wine-making processes.

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- The Ningxia regional government places significant focus on and investment in the wine industry and continues to provide favorable policies and other intangible supports to the industry.
- With a site area of approximately 72,800 sq.m., our Ningxia Winery is expected to bring our total number of wine-making tanks to 200 by the end of 2020, giving us an additional estimated wine-making capacity of 650 tonnes of wine or a grape-processing capacity of 1,000 tonnes of grapes per year and allowing us to capture the projected growth in the PRC wine market and achieve market share growth. We expect to purchase more externally-sourced grapes from the active grape cultivation market in Ningxia to sustain our Ningxia Winery's additional wine-making capacity.
- The additional wine-making space in our Ningxia Winery allows us to house more advanced and a greater variety of wine-making plants and equipment, which in turn improves the quality of our wine products and enhances our wine-making capability for an expanded wine product range. For example, our Ningxia Winery houses state-of-the-art facilities to make our "Angelina" series of sparkling wine.
- Considered as one of the most prominent wine-making regions in the PRC over the recent years, Ningxia hosts an abundant number of wine distributors, wholesalers and retailers, which are expected to turn into a reliable sales channel upon completion of our Ningxia Winery and tap into as a new key sales market. Ningxia also boasts an active grape cultivation market which allows us to source specific types of grapes for our Ningxia Winery's ancillary wine-making needs in a cost-efficient and timely manner.

The first phase construction of our Ningxia Winery was completed in December 2017 and will give us an additional 41 wine-making tanks. The second phase construction, which includes decoration and fitting of additional production space and purchase of additional production equipment and machineries, is expected to be completed after the Listing and by the end of 2020. We expect that the total number of wine-making tanks at our Ningxia Winery will be 75.

Diversification of our wine product portfolio and market responsive optimisation of our product mix to suit customer preferences and achieve market share growth

We have a wine product portfolio ranging from the upscale *higher-end* wine portfolio to the affordable *entry-level* wine portfolio catering to customer segments from mid to high-end to the mass market. We adjust the cultivation schedule and composition of our self-cultivated grapes and accordingly fine tune our wine-making process between our *higher-end* and *entry-level* wine portfolios in response to market trends and demands, the continual enforcement of the government's frugality campaigns and the overall sentiments of the wine market in the PRC. After the implementation of the government's frugality campaigns in the PRC, we utilise our *entry-level* wine portfolio to maintain the sales pipelines of our wine products, which led to an increased contribution of our *entry-level* wine portfolio to our actual sales volume and revenue compared to previous years. In FY2015, FY2016 and FY2017, the revenue contribution of our *entry-level* wine portfolio amounted to approximately 32.3%, 43.2% and 35.1%, respectively.

The composition of our *higher-end* wine portfolio has also been adjusted in response to market needs, with an expanded ratio of mid-end wine products such as “Deep Blue”, our best-selling wine series in FY2016. With our enhanced wine-making capacity in our new Ningxia Winery, we will continue to optimise our wine product portfolio with adjustments to our grape cultivation and wine-making process to adapt to market changes and maintain a healthy and sustainable sales pipeline.

In terms of market share growth, we intend to utilise our new wine-making facilities at our Ningxia Winery and further expand and diversify our wine portfolio to refresh our appeal to existing customers as well as widen our customer base. Centre to our new series introduction plans are a seasonal wine series for Lunar New Year, which aligns with the gradual market trend in the PRC to celebrate the occasion with wine, and our “Angelina” series of sparkling wine, a market sub-segment that has become increasingly popular among female and young population in the PRC. In the forthcoming years, we also plan to introduce one new *higher-end* series, as well as one new *entry-level* wine series to cater to the mass market. We believe that our expanded wine product portfolio will allow us to directly benefit from the recovery of the overall wine consumption in the PRC, which is forecasted by Frost & Sullivan to increase at a CAGR of 6.8% from 2016 to 2021.

Enhancing our “Grace Vineyard (怡園酒莊)” brand awareness to widen our customer base

We will devote substantial marketing efforts to enhance the public awareness of our “Grace Vineyard (怡園酒莊)” brand as a well-recognised wine maker in the PRC. While we consider ourselves established and widely known in our key sales locations such as Shanxi, where we are the largest market player in terms of retail sales revenue in 2016 according to the F&S Report, additional resources will be deployed in other PRC provinces and regions to raise the profile of our wine products. Our marketing plans include (1) the continual operation of our “Chateau”, an accommodation facility at our Shanxi Winery that promotes wine tourism and also our brand and wine products, (2) the engagement of “key opinion leader” who promote our wine products on our websites and social media sites, (3) a series of wine tasting events and wine pairing dinners attended by media, sommeliers and social elites who in turn promote our wine products through their respective established media channels, professional platforms and network, (4) a series of advertising, marketing and celebration events in conjunction with our 20th anniversary, which will provide us with a stronger media profile, and (5) the ongoing improvement of our wine formula which allows us to remain competitive among industry publications and awards. Together with our enhanced corporate image and awareness after the Listing, we expect that our marketing efforts will enable us to maintain ourselves as an award-winning, established wine maker based in the PRC.

We believe that the awareness of our brand and wine products will be further enhanced with the establishment of our new Ningxia Winery and our presence in Ningxia, one of the most prominent wine-making regions in the PRC.

Extending our product outreach by optimising our distributorship model and expanding our online sales capability

We intend to further optimise the composition of and commercial terms with our principal sales channel of distributors. We actively manage our distributorship network by adding more quality distributors, extending our sales outreach, engaging new distributors in geographical locations previously untapped by us, and eliminating ones with limited sales capability or efforts. In 2016, we began to collaborate with a new distributor, namely ASC Fine Wines (Shanghai) Co., Ltd., which is one of the largest distributors and wholesalers of wine and spirits in the PRC. Sharing our common vision in terms of the market position, brand value and quality of our wine products, this new distributor has exclusive rights to introduce and sell our wine products to sommeliers, luxury hotels and restaurants in the PRC which our Directors believe is an effective channel to raise the market awareness and improve the brand profile of our wine products. We are also in the process of negotiating for a sales arrangement with a Chengdu-based scalable “online-to-offline” PRC wine and spirit retailer with multiple popular online platforms and over 1,000 physical retail locations across the PRC and is listed on the National Equities Exchange and Quotations of the PRC. Our potential sales arrangement is expected to be multi-faceted, ranging from online sales (which we will be provided with online platforms and charged a platform royalty) to retail sales at physical stores (which we will have a buyer and seller relationship with the new retailer). We have not entered into any legally-binding document nor agreed any key commercial terms with the “online-to-offline” PRC wine and spirit retailer. From time to time, we will also explore collaboration opportunities with new distributors to expand our sales channel, in particular when we were to expand into a new or under-penetrated geographical locations within the PRC in addition our existing key markets in Shanxi, Fujian, Zhejiang, Henan, Hunan and Guangdong provinces. Our PRC Legal Advisers have confirmed to us that the extended sales of our wine products to other provinces and regions in the PRC through distributors do not involve any material licensing, legal or regulatory requirements in addition to the current licenses and permits in our possession. In particular, we are not required to obtain any additional food production license for our new sales locations in the PRC. While we currently have no intention to expand our sales capability to a new international market, we will engage overseas legal advisers if and when we choose to do so to ensure legal and regulatory compliance. New distributorship arrangements are usually proactively sought after by us, through our business network and participation in industry exhibitions, fairs and other promotional events, or from time to time referred to us by our business partners such as existing distributors, customers and third-party online sales virtual space providers. Among the key sales market we intend to tap into is Ningxia, one of the most prominent wine-making region in the PRC. We are negotiating with potential nationwide and regional distributors to build up a reliable sales pipelines once our new Ningxia Winery is operational by the end of 2018.

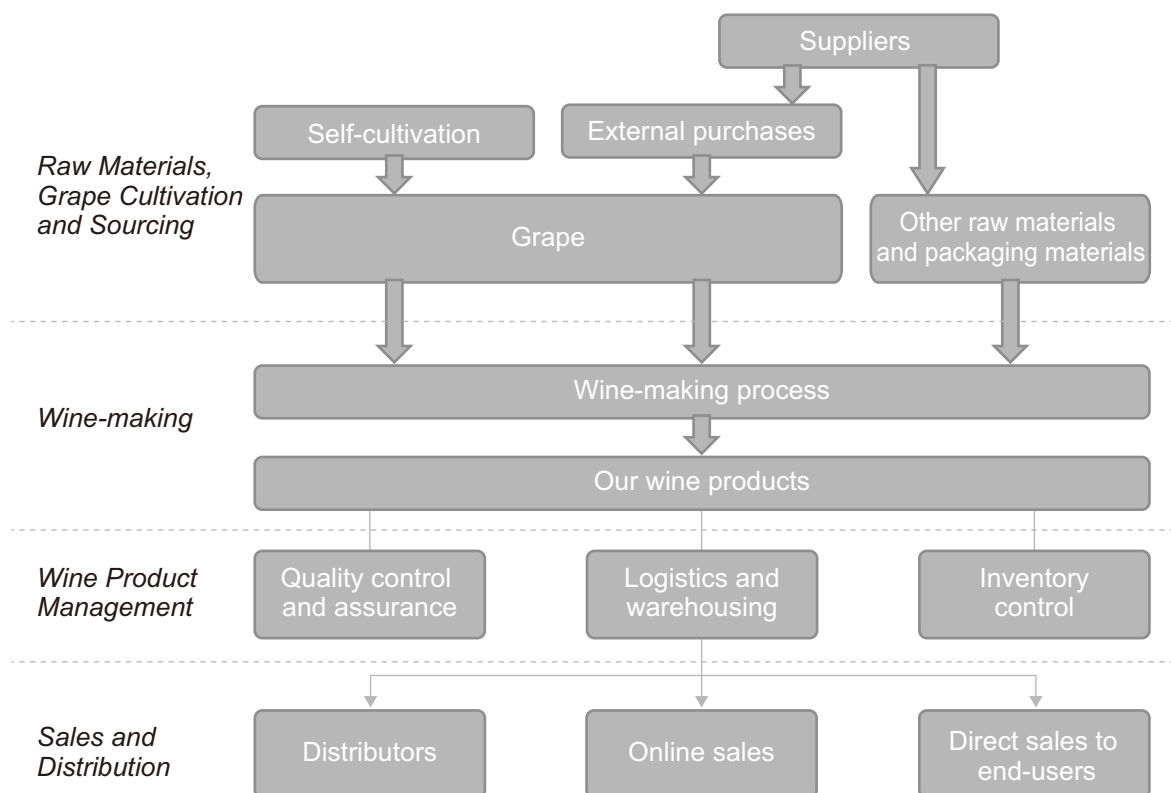
With the extended outreach of internet and changing purchasing habit in the PRC, we will also continue to proactively pursue and expand our online sales capability through scalable third-party operated online virtual space in the PRC such as JD.com and TMall, which allow us to promote, sell and market our products in a cost-effective manner. During the Track Record Period, we had entered into marketing arrangements with a number of online platforms to place our wine products in prominent space within their sites and participated in various promotional and cross-site sales events of our online platforms.

We expect that our optimised sales channels will allow us to widen our customer base and improve our sales performance.

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BUSINESS MODEL

Our business principally involves in the production and sales of our “Grace Vineyard (怡園酒莊)” wine products which are mainly red wine and are broadly categorised into (1) *higher-end* wine portfolio; and (2) *entry-level* wine portfolio. The diagram below shows our principal business model during the Track Record Period:



Notes:

- (1) During the Track Record Period, our self-cultivated grapes accounted for on weighted average 61.5% of the total volume (being 100%, 71.2% and 40.6% of the total volume, respectively, for each of FY2015, FY2016 and FY2017) of the grapes we use to make wine.
- (2) We adopt prudent wine portfolio management measures covering (i) quality control and assurance; (ii) logistics and warehousing; and (iii) inventory control. For further details, see “— Quality Control and Assurance”, “— Logistics and Warehousing” and “— Inventory Control” below.
- (3) We implement our quality control measures on our wine products as well as grapes we purchase from external sources. See “— Quality Control and Assurance” below for further details.
- (4) We exercise inventory control on our finished goods for online sales and direct sales to end-users as well as on our distributors. See “— Inventory Control” and “— Sales and Distribution” below for further details.

We from time to time also make white wine and sparkling wine to suit market demands and our customers’ diversified tastes and preferences. In addition to our principal business, we also imported and sold a small volume of overseas-made wine (which was accounted for as our revenue) and sold our excess self-cultivated grapes to other wine makers (of which the net gain was accounted for as our other income) during the Track Record Period. We did not change our principal business throughout the Track Record Period and up to the Latest Practicable Date.




BUSINESS

OUR WINE PRODUCT PORTFOLIO

We principally make a range of red wine under the brand name of “Grace Vineyard (怡園酒莊)”. Our wines are broadly categorised into (1) *higher-end* wine portfolio; and (2) *entry-level* wine portfolio. The selling prices set out below are suggested retail prices provided to our distributors, who may deviate from our retail pricing guidelines immaterially with our prior approvals.



Higher-end wine portfolio

Our *higher-end* wine portfolio targets executive clientele and corporate customers who have higher spending power and focus on quality in their wine selection. These wine products are normally aged in our oak barrels imported from France for at least nine months before bottling. The table below shows details of our *higher-end* wine portfolio:

Wine series	Chairman’s Reserve (莊主珍藏)	Deep Blue (深藍)	Tasya’s Reserve (怡園珍藏)
			
Retail price per 750 ml bottle as at the Latest Practicable Date (RMB)	568	306	199

Entry-level wine portfolio

Our *entry-level* wine portfolio usually consists of a single grape variety and/or blended base wines and is designed to target the more price-conscious mass market. Several five-star hotels in Hong Kong and the PRC have featured our *entry-level* wine portfolio in their house wine selection. The table below shows the details of our *entry-level* wine portfolio:

Wine series	Vineyard Series (怡園系列)	Premium Series (精選系列)
		
Retail price per 750 ml bottle as at the Latest Practicable Date (RMB)	72	125

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Others

To suit our market trend and our customers' tastes and preferences, we from time to time (1) make white and sparkling wine (capturing the growing popularity of these wine types in the PRC), (2) seasonal renditions or special blendings of our red wine series (which do not form other standard wine product portfolio and may be made and offer based on demand and availability of suitable types of grapes), and (3) import overseas-made wine in the PRC. The table below shows some of our other wine products:

Wine series	Angelina Series (德寧系列)	Sonata Series (奏鳴曲系列)	Symphony Series (協奏曲系列)
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Retail price per 750 ml bottle as at
the Latest Practicable Date
(RMB)

158/288

399

178

The table below shows a breakdown of our revenue by our wine product portfolios during the Track Record Period:

	FY2015		FY2016		FY2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Higher-end wine portfolio	44,881	65.6	29,559	55.4	44,256	62.9
Entry-level wine portfolio	22,098	32.3	23,074	43.2	24,687	35.1
Others	1,457	2.1	734	1.4	1,441	2.0
Total	68,436	100.0	53,367	100.0	70,384	100.0

The table below shows a breakdown of our sales volumes by our wine product portfolios during the Track Record Period:

	FY2015		FY2016		FY2017	
	bottles '000 (Note)	%	bottles '000 (Note)	%	bottles '000	%
Higher-end wine portfolio	403	31.8	231	21.2	311	25.9
Entry-level wine portfolio	827	65.3	852	78.1	863	71.8
Others	37	2.9	8	0.7	28	2.3
Total	1,267	100.0	1,091	100.0	1,202	100.0

Note: An average of approximately 98% of the wine products we sold in FY2015, FY2016 and FY2017 had net volume of 750 mL per bottle, with the remaining having net volume of 375 mL, 1.5 L and 5 L per bottle.

BUSINESS

Awards and recognitions

Our wine products have received the following awards and industry accolades:

Award/recognition	Year	Issuer/organiser of Awards
Platinum Best in Show Medal — Best Red Single-Varietal, Decanter Asia Wine Awards	2017	Decanter
Bronze Award, Decanter Asia Wine Awards	2017	Decanter
Commended Award, Decanter Asia Wine Awards	2017	Decanter
Bronze Medal, Asian Chardonnay Masters	2017	The Asian Chardonnay Masters
Best Value for Money, RVF Chinese Wine Awards	2017	La Revue du Vin de France (Chinese edition)
RVF Honorary Awards, RVF Chinese Wine Awards	2017	La Revue du Vin de France (Chinese edition)
Silver Award, RVF Chinese Wine Awards	2017	La Revue du Vin de France (Chinese edition)
Gold Medal, RVF Chinese Wine Awards	2017	La Revue du Vin de France (Chinese edition)
Winery with Great Market Influence, RVF Chinese Wine Awards	2017	La Revue du Vin de France (Chinese edition)
Chinese Fine Wine Producer of the Year, Vinehoo Annual Award	2016	Vinehoo.com
Silver Medal, RVF Chinese Wine Awards	2015	La Revue du Vin de France (Chinese edition)
Best Value for Money, RVF Chinese Wine Awards	2015	La Revue du Vin de France (Chinese edition)
Silver Award, Decanter World Wine Awards	2011	Decanter
Silver Winner 2010, Cathay Pacific Hong Kong International & Spirit Competition	2010	The IWSC Group
Bronze Medal, The International Wine Challenge of Asia . .	2004	The Wine Institute of Asia
Silver Medal, The International Wine Challenge of Asia . .	2004	The Wine Institute of Asia
Silver Award, The Hong Kong International Wine Challenge	2003	The Wine Institute of Asia

RAW MATERIALS

Grapes are our principal raw materials, which is generally crushed into juice prior to our wine-making process, where we add other grape juice (if necessary), yeast, additives and base

wine (if necessary) based on individual wine formula. During the Track Record Period, we cultivated and harvested a majority of grapes we used to make wine and also purchased a small volume of grapes from external sources for our ancillary wine-making needs. Other raw materials are sourced from suppliers in the PRC. Our packaging materials include bottles, bottle caps, labels, corks and packaging boxes, which we sourced from suppliers in the PRC. We do not enter into long-term agreements with our suppliers for raw materials and packaging materials because (1) grapes, the most important raw material of our wine-making process, are readily available from external sources near our wineries, in particular in Ningxia, one of the most prominent grape cultivation and wine-making regions in the PRC over the past few years, (2) our other raw materials and packaging materials are readily available from an abundance of sources across the PRC, and (3) we have the flexibility to select suppliers based on pricing, quality and other commercial concerns without long-term contractual commitments. During the Track Record Period, we did not encounter any difficulty in sourcing raw materials and packaging materials to a sufficient level for our wine-making needs.

We usually plan one year ahead our wine-making schedule and composition based on prevailing market trends and customer preferences and accordingly adjust our grape cultivation plans and begin to source other raw materials and packaging materials. We conduct tests on our grapes and other raw materials to ensure product quality and food safety standards prior to our wine-making process. For our inventory control levels over our raw materials and packaging materials, see “— Inventory Control” below.

Grape

Grapes are our most important raw materials. We use various types of grapes in our wine-making process, including cabernet sauvignon, merlot, marselan, aglianico, shiraz, cabernet franc and chardonnay. Our Directors believe that quality grapes are in particular key to making quality *higher-end* wine series due mainly to customer preferences over quality and our ability to exert a higher degree of quality control. Our grape are either self-cultivated or externally-sourced.

During the Track Record Period, our self-cultivated grapes were harvested at our Shanxi Vineyard and Ningxia Vineyard, some of which are leased from collectively-owned land from the local villagers' committees, collective economic organisations and individuals in Shanxi. See “— Properties — Lease of properties — Lease of collectively-owned land” below for further details. During the Track Record Period, our self-cultivated grapes accounted for approximately on weighted average of 61.5% in terms of volume 79.3% (being 100%, 71.2% and 40.6% of the total volume, respectively, for each of FY2015, FY2016 and FY2017) of the grape we used to make wine. Excess self-cultivated grape are sometimes sold to neighbouring wineries depending on our current and projected wine-making needs. These sales are accounted for as our other income in our financial statements.

During the Track Record Period, we also purchased externally-sourced grapes from neighbouring vineyards in Ningxia (which is one of the most prominent grape cultivation and wine-making regions in the PRC with an abundant supply of grapes). This sourcing practice allows us to (1) reduce our risks against insufficient self-cultivated grape yield due to adverse weather or other natural disasters, and (2) maintain a stable relationship with neighbouring vineyards and wineries which give us access to industry knowledge and referral of potential

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sales channels in Ningxia. Externally-sourced grapes are generally priced at prevailing market prices (which vary based on crop performance and weather conditions at the specific time), purchase volume and grape type. During the Track Record Period, externally-sourced grapes accounted for on weighted average 38.5% in terms of volume (being nil, 28.8% and 59.4% of the total volume), respectively for each of FY2015, FY2016 and FY2017) of the grapes we used to make wine. Based on our financial results and operational statistics during the Track Record Period, our Directors consider that there was generally no material difference between self-cultivated grapes and externally-sourced grapes in terms of impacts on our costs and wine-making process, except that we generally have a higher degree of control over self-cultivated grapes and their crop quality, which is more important for making *higher-end* wine portfolio.

Disposal of the Ningxia Vineyard

In order to rectify certain defects to the land use rights and non-compliant land usage of the Ningxia Vineyard Land Parcel, we ceased to operate our Ningxia Vineyard and disposed of the Ningxia Vineyard Land Parcel to Ms. Chan, a Controlling Shareholder (the “**Disposal**”). Pursuant to a share purchase agreement dated 1 June 2018 entered into between Ms. Chan and our Company, Ms. Chan acquired the entire issued share capital of Interfusion (which indirectly wholly-owns Ningxia Ganlin through Corpwealth Asia and thus the Ningxia Vineyard Land Parcel), and the relevant property, plant and equipment on the Ningxia Vineyard, at a consideration of RMB1. The expected gain on disposal before tax is approximately RMB5.7 million. Such consideration was arrived at with reference to (1) the consolidated net liabilities of Interfusion as at 31 March 2018 of approximately RMB5.7 million (which can be primarily attributed to the aggregate amount of approximately RMB9.0 million due to our Group from Ningxia Ganlin), and (2) the fair value of Ningxia Ganlin as at 31 March 2018 of RMB0 as determined by an independent valuer (given that the total consolidated liabilities of Interfusion of approximately RMB9.1 million (mainly inclusive of the amount due to our Group of approximately RMB9.0 million) exceeded its total consolidated assets of approximately RMB3.4 million (mainly inclusive of the book value of the Ningxia Vineyard Land Parcel and the plants, properties and equipment thereon of approximately RMB3.3 million) as well as the fair value of its operating assets (including the Ningxia Vineyard Land Parcel), RMB0 is the lowest value that can be determined by the independent valuer for an entity in net liabilities position). As the Disposal is by way of a disposal of a limited company (i.e. Interfusion), the property, plant and equipment on the Ningxia Vineyard will not be subject to any write-off by our Group as a result of the Disposal. As such, our Directors are of the view that the Disposal will not result in any write-off related financial impact on our Group. The Disposal was legally and properly completed on 1 June 2018, and as Ms. Chan will cause Ningxia Ganlin to repay an aggregate amount of approximately RMB9.0 million due to us before the Listing. Ms. Chan has confirmed that she has no intention to use the Ningxia Vineyard Land Parcel for grape-cultivation or wine-making activities, whether in association with us or not. Our Directors have confirmed that we will not purchase any externally-sourced grapes from the Ningxia Vineyard subsequent to the Disposal.

As a result of the Disposal, we no longer cultivate and harvest grapes in Ningxia and our Shanxi Vineyard is our single source of self-cultivated grapes. In FY2015, FY2016 and FY2017, we cultivated approximately 42.9, 189.8 and 223.0 tonnes of grapes in the Ningxia Vineyard,

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respectively, representing approximately 9.6%, 37.8% and 21.2%, of the grapes we used to make wine during the same periods. It is our Directors' current intention to substitute the cultivation capacity of the Ningxia Vineyard (which produced only a weighted average of approximately 22.7% (in terms of volume) of the grape we used to make wine during the Track Record Period) with grapes cultivated in our Shanxi Vineyard and increased purchase of externally-sourced grapes from adjacent vineyards in Ningxia. Our Directors are confident that the Disposal will not result in any significant changes in or material disruption to our business model and operational activities on the following basis:

1. **We have established and assured access to an abundant supply of externally-sourced grapes in Ningxia.** We have a proven track record since 2009 of purchasing externally-sourced grapes from nearby vineyards in Ningxia which are unaffiliated with wineries. In FY2015, FY2016 and FY2017, approximately nil, 28.8% and 54.4% (in terms in volume), respectively, of the grapes we used to make wine was sourced externally from Ningxia. According to Frost & Sullivan, Ningxia is one of the most prominent wine-making and grape cultivation regions in the PRC, producing 216,000 tonnes, 194,900 tonnes and 190,000 tonnes of grapes in 2015, 2016 and 2017, respectively. In comparison, the average volume of self-cultivated grapes grown at the Ningxia Vineyard used for our wine-making purpose during the Track Record Period (approximately 154.6 tonnes per annum) and the expected wine-making capacity of the Ningxia Winery (1,000 tonnes of grapes upon completion of both phases) represent a very small fraction of Ningxia's overall grape production volume.

The table below shows the volume of grapes we used for wine-making purpose, which shows an increasing trend of using externally-sourced grapes both in terms of volume and percentage during the Track Record Period. As demonstrated below, we have used more externally-sourced grapes in FY2017 than self-cultivated grapes and our Directors currently expect to continue with this raw material model.

	FY2015		FY2016		FY2017	
	Tonnes	%	Tonnes	%	Tonnes	%
Self-cultivated grapes.....	447.9	100.0	357.9	71.2	427.6	40.6
Externally-sourced grapes	—	—	144.5	28.8	626.4	59.4
Total	<u>447.9</u>	<u>100.0</u>	<u>502.4</u>	<u>100.0</u>	<u>1,054.0</u>	<u>100.0</u>

To ensure that we have assured access to sufficient externally-sourced grapes to fulfill our wine-making and sales needs, we have entered into non legally-binding letters of intents with five nearby vineyards in Ningxia to guarantee the procurement of an aggregate of 1,700 tonnes of externally-sourced grapes during the 2018 grape harvest season. This guaranteed volume of externally-sourced grapes far exceeds the average volume of self-cultivated grapes grown at the Ningxia Vineyard used for our wine-making purpose during the Track Record Period (approximately 154.6 tonnes per annum), the average volume of externally-sourced grapes used for our wine-making purpose during the Track Record Period (approximately 256.8 tonnes per annum), and

the combination of the two. The grape species and quality parameters (such as sugar contents) are clearly specified in the letters of intent in line with our 2018 wine-making plans.

2. **Increased use of externally-sourced grapes will not result in any adverse impact to our cost structure and profit margin.** The increased use of externally-sourced grapes does not materially affect our material costs. According to the biological asset valuation conducted by Avista, the per unit market value of our self-cultivated grapes in the Ningxia Vineyard (which represents that purchase price as though the grapes were externally-sourced) for FY2017 ranged from approximately RMB9,000 to RMB10,500 per tonne in general, which was even lower than the per unit cultivation cost of the self-cultivated grapes grown at the Ningxia Vineyard at approximately RMB13,400 per tonne. We attribute the cost-efficiency of our externally-sourced grapes to economies of scale, which external grape suppliers are able to enjoy given their more extensive cultivation size and scale compared to our Shanxi Vineyard and the Ningxia Vineyard. In terms of transportation costs, our Directors have confirmed that based on their experiences in procuring externally-sourced grapes, the costs associated with transporting such grapes to from adjacent vineyards to the Ningxia Winery would be insignificant.

Based on the above, the expected lower costs associated with the increased use of externally-sourced grapes would translate into higher profit margin for our wine products. As the wine products we sell each year were made with grapes cultivated or purchased in prior harvesting seasons, our gross profit margin during the Track Record Period was not directly corresponding to the percentage of self-cultivated and externally-sourced grapes in the same grape harvesting season. It is expected that the abovementioned impacts of our increased use of externally-purchased grapes on our gross profit margin and costs of sales will be gradually reflected in the subsequent years when the wine products produced during the Track Record Period are sold.

3. **Sufficient quality grapes for our *higher-end* wine portfolio.** Self-cultivated grapes and grape quality play a more important role in making our *higher-end* wine portfolio. In FY2015 and FY2016, 100% and 74.6% of our *higher-end* wine products were made with self-cultivated grapes while nil and 25.4% were made with externally-purchased grapes. In FY2015 and FY2016, our Shanxi Vineyard produced approximately 68.0% and 31.7%, respectively of the grapes we used to make our *higher-end* wine portfolio, while the Ningxia Vineyard produced approximately 32.0% and 42.9%, respectively. The use of grapes cultivated and purchased in the 2017 grape harvesting season for our different wine products is still subject to their fermentation process, crushed juice quality and review by our wine-makers, which will be determined and accurately ascertained in or around April 2019 before the wine-making season. Based on our preliminary review of the quality of our grapes harvested in 2017, we estimate that the proportion of self-cultivated grapes from our Shanxi Vineyard, self-cultivated grapes from the Ningxin Vineyard and externally-purchased grapes to be used for making our *higher-end* wine series will not be materially different from that of FY2016. To ensure that we continue to have access to quality grapes to sustain the marketability and sales performance of our wine products, we will dedicate our Shanxi Vineyard to self-cultivate grapes for our *higher-end* wine portfolio (by adjusting the grape types and

species grown at our Shanxi Vineyard each season). Although a portion of the grapes cultivated in the Ningxia Vineyard during the Track Record Period were used or expected to be used for our *higher-end* wine portfolio, the historical proportion of sources of grapes has not been resulted from any constraints on the capacity of the respective vineyards in cultivating grapes qualified for making our *higher-end* wine portfolio. Instead, the production volume of grapes qualified for making higher-end wine portfolio could be strategically adjusted to our targeted volume (as determined by the forecasted future sales volume and inventory level) of the particular types of grapes by way of adjusting the density arrangements of the vines during the cultivation seasons and adjustment in fertilizing. Our Directors currently expect that our Shanxi Vineyard will be able to cultivate sufficient grapes for over 60% of the estimated annual production volume of our *higher-end* wine portfolio of approximately 320,000 bottles, drawing from their experiences in adjusting the composition and cultivation method of our Shanxi Vineyard. In particular, we had since 2013 intentionally reduced the grape cultivation volume in our Shanxi Vineyard with the knowledge that the Ningxia Vineyard and our grape suppliers in Ningxia would then be able to share our wine-making needs. By adjusting vine arrangements and optimising agricultural land use, we expect that the grape cultivation capacity of our Shanxi Vineyard will expand from 2018 and return to the level prior to the opening of the Ningxia Vineyard. In addition, we will continue with our current practice of purchasing externally-sourced grapes of desirable quality from Ningxia (which offers a variety of grape types and species which can be used to make both *higher-end* and *entry-level* wine) to make *higher-end* wine.

4. **Our business model following the Disposal is not untested.** Prior to 2012, it has historically been our business model for more than 15 years to utilise our Shanxi Vineyard as the major source of self-cultivated grapes primarily for *higher-end* wine portfolio and procure externally-sourced grapes for both our *higher-end* and *entry-level* wine portfolio. This business model conforms to industry norms as, according to Frost & Sullivan, it is not uncommon for scalable PRC and international wine-makers to utilise both self-cultivated and externally-sourced grapes. Our Directors are well-experienced with, and fully appreciate, the risks associated with its business model, which in their opinion are no more onerous than those involved with our business activities prior to the Disposal. See “Risk Factors — Risk Relating to Our Business — Our business is subject to unexpected weather condition, unforeseeable natural disasters as well as global climatic change which may result in grape crop failure and in turn insufficient quality grapes for wine-making and deterioration of our wine quality”.

It is also the long-term intention of our Directors to identify a suitable parcel of land in Ningxia to re-open the Ningxia Vineyard in a fully compliant manner. Any such land acquisition will be conducted in the most commercially viable possible manner and time to us and our Shareholders as a whole.

We had not during the Track Record Period encountered any significant shortage of grapes for our wine-making process. See “Financial Information — Key Factors Affecting Our Results of Operations — Cost of materials used and staff cost” for a sensitivity analysis of our cost of materials used.

Base wine and grape juice

Some of our wine formula may require us to purchase base wine and grape juice from neighbouring wineries. The base wine purchased by us are usually blended into crushed grapes and then go through the same wine-making process and, depending on the wine product, might include barrel ageing, fining and clarification, further filtering and bottling. During the Track Record Period, the purchase costs of base wine were insignificant. Base wine and grape juice are generally used for immediate production and do not retain as part of our inventory.

Yeast and additives

Yeast and additives are added during our wine-making process to stimulate the fermentation process. They are sourced from suppliers across the PRC. During the Track Record Period, the purchase costs of yeast and additives were insignificant to our total costs of sales.

Bottles

Substantially all of our wine products are bottled in 750 mL glass bottles, while a small fraction of our wines are bottled in 375 mL, 500 mL, 1.5 L, 3 L and 5 L glass bottles. We source our glass bottles primarily through a supplier based in Shandong province, the PRC.

Bottle caps, labels and corks

We generally purchase the corks, labels and other bottle caps from local suppliers in Shandong province, Beijing and Tianjin, the PRC. In recent years, we have also started to use screw caps which our Directors believe will streamline our bottling process and bring greater convenience to our end-users.

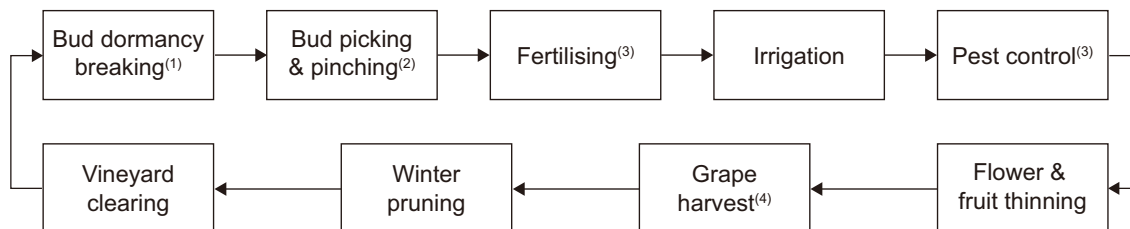
GRAPE CULTIVATION

We apply traditional cultivation methods to our self-cultivated grapes. Traditional cultivation relies on manual labour and is subject to environmental and natural conditions and thus experiences variations from year to year. During the Track Record Period, our self-cultivated grapes were grown in our Shanxi Vineyard and Ningxia Vineyard. Following the cessation of the Ningxia Vineyard's operations and the disposal of the Ningxia Vineyard Land Parcel on 1 June 2018, our Shanxi Vineyard is our single source of self-cultivated grapes. We engage local farmers (as casual workers) to cultivate grapes. We also provide seeds and other auxiliary materials as well as technical expertise to our farmers. Our farmers are responsible for the cultivation of grapes under our management and supervision.

In order to ensure our self-cultivated grapes are of desirable qualities, we conduct regular tests and laboratory analysis on their sugar content, total acidity, pH value and other factors. We actively supervise the planting activities of our farmers and we generally maintain long-term relationships with them. Our Directors estimate that our Shanxi Vineyard produces approximately 0.55 tonnes of grapes (translating into approximately 0.36 tonnes of wine) per mu, subject always to the quality of grapes, the actual growth state of grapes and other factors such as weather and hazards. The average age of our grape vines in our Shanxi Vineyard are approximately 20 years old.

Cultivation process

The entire cultivation process of grapes commences from the preparation of raw materials and bud dormancy breaking to the harvesting which takes approximately six months. The chart below illustrates the major steps of a typical grape cultivation process:



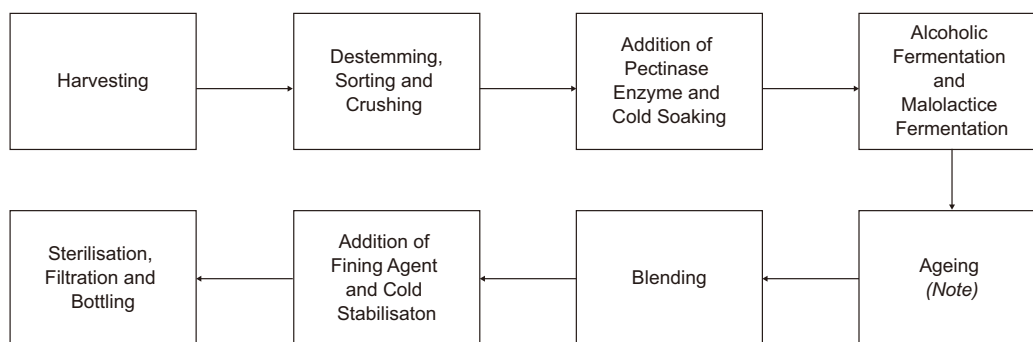
Notes:

- (1) **Preparation and bud dormancy breaking:** Procure qualified seeds and auxiliary materials required for production, choose certain types of grapes, cut grapevine, prepare a trellis for the grapevines, and plant the grapevines on a frost-free day in late winter or early spring.
- (2) **Bud picking and pinching:** Cut off all the fruit as well as all the vines except for the strongest that branch off the cane, as the grapevine should not be allowed to produce any fully matured fruits as these can damage the young vine with their weight. In later years, it is a common practice to prune back 90% of the new growth on older vines each year. When grapevines are dormant, they are required to be pruned, as they will lose vigour. This process is typically completed in late winter when there is no frost.
- (3) **Fertilising and Pest control:** Pest control is needed as grapevines are naturally hardy. Keep weeds at bay by hand-weeding, and cover the grapevines in bird net if necessary. Vine moth is one of the few pests that can decimate grapevines.
- (4) **Harvesting:** When the grapes are ripe with good flavour, test its ripeness by sampling a few grapes from different areas and taste them. If the grapes are sweet, picking will start as they become ready for harvest. Colour and size are not necessarily a good indication of ripe grapes, but taste. As grapes will not continue to ripen after picking, therefore it is crucial not to pick them prematurely.

WINE-MAKING PROCESS

Our wine products share a common principal wine-making process, varying in the types of grapes used and other factors or processes (such as length of fermentation and ageing process) in accordance with our individual wine formulas. Generally, our *higher-end* wine portfolio requires a production lead-time of 16 to 18 months on average, and our *entry-level* wine portfolio requires a production lead-time of seven to ten months on average. Actual production lead-time may vary from time to time depending on the fermentation and ageing requirements of each wine formula as well as the quality of grape yield each season. The flowchart below shows a typical process to make our wine products.

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Note: Depending on the individual wine formula, our *higher-end* wine portfolio and certain other wine go through ageing.

Harvesting

Our grapes are either self-cultivated or purchased from external sources. For our self-cultivated grapes, the harvest season runs from late August to early October each year, when we would test and inspect the levels of sugar content, proportion of rotten or dried grapes, flavour and ripeness to ensure that the grape are of good qualities and desirable for making our wine products. Our farmers would then handpick the desirable ripen grapes, carefully collect and then transport them to our wine-making facilities. Once they arrive at our wine-making facilities, our quality control team performs inspection to ensure desirable quality that there are no leaves, dirt, under ripe, rotten or dried grapes that are mixed with the grapes. At the point of harvest, our farmers would only handpick grapes with desirable quality and any grape which are below the desirable quality would not be picked. As such, only the harvested grapes are included in the harvested volume, and accordingly only the harvested grapes are included in the fair value of agricultural produce at the date of harvest. Difference between the fair value of the agricultural produce and the cultivation cost are included in the changes in fair value of agricultural produce. To the best knowledge of our Directors, volume of unpicked grapes and the impact to our results of operation was insignificant during the Track Record Period. As grapes with desirable quality being picked would be transported to our wine-making facility immediately, we generally didn't record any scrapped grape after picking.

Grapes self-cultivated or externally-sourced in Ningxia are usually crushed into grape juice prior to arriving at our current wine-making facilities in Shanxi to lower transportation costs and avoid decay. During the Track Record Period, we engaged an Independent Third Party food processor to crush our self-cultivated or externally-sourced grapes in Ningxia. Going forward, we expect that we will cease to engage the food processor once our Ningxia Winery becomes fully operational.

Destemming, sorting and crushing

After harvesting and inspection of quality, those grapes of desirable quality are immediately destemmed, crushed, and transferred straight into fermentation tanks for the subsequent stages. Destemming is the process which removes the stems and stalks out of the grape tree. The purpose of destemming is to preserve the flavour of the grapes and to remove the green and stalky taste in our products. Crushing is the stage of breaking the grape skin in such a way as to free the pulp and the juice, whilst increasing extraction. The must, which refers to the grape juice with skin and pulp pips, retains the colour by keeping the skin.

Our destemming, sorting and crushing facilities are in operation only during the grape harvesting season. The whole process is usually completed within a week.

Addition of pectinase enzyme and cold soaking

After the grapes are crushed, we add pectinase enzyme and sulphur dioxide into the crushed fruits (also known as “must”) extraction. Pectinase is used to increase the rate of extraction of grape juice, whilst sulphur dioxide acts as an anti-oxidant and antibacterial agent. The must is then pumped and transferred into fermentation tanks and soaked in a temperature ranging from approximately 5°C to 8°C for two to five days for initial colour and flavour extraction.

Alcoholic fermentation and malolactic fermentation

After the cold soak period, the crushed fruits in the tanks will be inoculated with yeast to start the process of alcoholic fermentation. The key role of yeast is to convert sugar into alcohol whilst enhancing individual grape varieties aroma. After alcohol fermentation, the skins are kept in contact with fermented wine for further extraction for approximately two to three days. The base wine is then drained and pressed, followed by malolactic fermentation by addition of lactic bacteria. This process converts the malic acid naturally present in the grapes into lactic acid which would improve the mouthfeel, whilst also acting as part of the wine stability process.

Ageing

In the wine-making process of our *higher-end* wine portfolio and certain other wines, the work-in-progress would then undergo the process of ageing in wooden oak barrels. Our *entry-level* wine products do not undergo the ageing process. In the ageing process, the work-in-progress are stored or aged in wooden oak barrels imported from France for at least nine months at specific temperature and humidity, in order to intensify the aroma and colour of the wine.

Blending

Blending is a procedure necessary for and in accordance with in-depth tasting, which is vital in achieving the consistency in flavour and taste from year to year. The process of blending involves the mixing of wine produced from different grape varieties and batches to achieve the desired taste that is in accordance with the public recognition of the different series of our wine products. Our production team is responsible for ensuring that the tastes and flavours of our different blends are consistent.

Addition of fining agent and cold stabilisation

Fining consists of adding to a wine a clarifying product capable of coagulating and making large particles precipitate and clarifying the wine. The wine is then chilled to approximately –4°C to remove tartrate crystals formed and to ensure that crystals residue would not form after bottling.

Sterilisation, filtration and bottling

We then perform a stringent and germ free filtration process to remove bacteria and the residue formed. The semi-finished wine is then delivered to our advanced bottling line for bottling, corking and labelling. We currently have one fully automated bottling line using machines to bottle, cork and label the finished wine products. The wine-making process is then completed and the wine products will be transported to our warehouse for storage.

As our wine-making process usually concludes in the months following the grape harvesting season from early August to early October each year, the availability of our ready-to-sell wine products generally is subject to seasonal patterns. We usually plan one year ahead of our wine-making schedule and composition based on prevailing market trends and customer preferences, and adjust our grape cultivation and production plans accordingly to ensure that there is sufficient inventory level to sustain our sales pipelines all year-round.

Our *entry-level* wine series generally have a shelf life of approximately three years and our *higher-end* wine series generally have a shelf life of approximately seven years.

WINE-MAKING FACILITIES

Shanxi Winery

Our current winery facilities are located in Taigu, Shanxi, the PRC, which occupy a GFA of approximately 29,064.27 sq.m. Our Shanxi Winery houses wine processing plants and machinery, fermentation tanks, oak barrels (which are barrels sourced from French wine makers to give our wine products a vintage flavour), crushers, filtration facilities and refrigerating facilities, as well as our bottling and packaging line, warehouse, staff quarters, and wine cellars. As at the Latest Practicable Date, we had 125 wine-making tanks, 2,200 oak barrels and one fully-automated bottling line. Our Shanxi Winery also houses our laboratories where we carry out quality control tests and wine products research and development. We consider that we generally sufficiently utilise our Shanxi Winery.

Restricted by the harvesting season of grapes in the PRC (which runs from August to early October each year), our principal wine-making process generally takes place in the second-half of each year (with the exception of ageing process which continues all year-round). The capacity and utilisation of our wine-making facilities is predominantly driven by the availability of our wine-making tanks, which may be occupied during the entirety or part of our wine-making season by (1) our work-in-progress during the fermentation process, and (2) semi-finished wine of previous vintages (which are intentionally retained to allow a higher variety of vintages within our wine product portfolio). The time our work-in-progress and semi-finished wine occupy our wine-making tanks depends on the individual wine formula, which is in turn subject to various factors such as the estimated demand for individual wine series, yield and procurement level of particular types of grapes, and our prevailing inventory level. According to our Directors and technical team, semi-finished wine of previous vintages are generally kept in our wine-making tanks to preserve their taste and quality and for a longer preserved time. The table below shows

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the estimated occupancy rate of our wine-making tanks during the wine-making seasons of FY2015, FY2016 and FY2017, which our Directors believe is the best possible indicator of the utilisation rate of our wine-making facilities:

	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>
Approximate capacity of wine-making tanks (tonnes of wine).....	2,200	2,200	2,200
Approximate amount of work-in-progress in occupation of wine-making tanks (tonnes of wine) ⁽¹⁾	2,098	1,778	1,671
Approximate occupancy rate of wine-making tanks estimated by our Directors (%).	95.2%	80.6%	75.8%

Notes:

- (1) Our Directors estimated the amount of work-in-progress in occupation of our wine-making tanks by adding together (1) amount of work-in-progress in occupation of our wine-making tanks as at 31 August of FY2015, FY2016 and FY2017, generally being the month-end immediately prior to our wine-making season, and (2) the amount of crushed grapes we added into our wine-making tanks during the wine-making seasons of each of FY2015, FY2016 and FY2017.

We believe that we in general sufficiently utilise our Shanxi Winery and require additional wine-making facilities to attach future growth.

Ningxia Winery

In 2015, we commenced the construction of our second winery facilities in Qingtongxia, Ningxia. The location in Ningxia gives us a series of operational and business advantages. For example, as one of the most prominent wine-making regions in the PRC over the recent years, our Ningxia Winery gives us access to an abundant supply of quality externally-sourced grape, industry knowledge and potential sales channel. We are also able to spread our risks between Shanxi and Ningxia against weather and other natural hazards that are unfavourable to our wine-making process, as well as save time and costs and avoid the risks against decay and contamination associated with having to otherwise transport grape externally-sourced in Ningxia to our Shanxi Winery. Our Ningxia Winery is expected to have a site area of approximately 72,800 sq.m. The first phase construction of our Ningxia Winery was completed in December 2017 with 41 wine-making tanks and the second phase is expected to have 34 wine-making tanks by the end of 2020, depending on the progress of actual construction works. Upon completion of both phases, our annual wine production capacity will further increase by approximately 650 tonnes of wine to a total of approximately 2,800 tonnes of wine (on the assumption that all wine-making tanks are unoccupied by work-in-progress and ready for use for at least one time during the wine-making season in the second-half of each year). We believe that the enhanced wine-making capacity would enable us to continue producing quality wine to meet market demand in case of unforeseeable events which may cause temporarily slowdown of the operation of our Shanxi Winery, as well as satisfy a long-term growing demand for our wine products and the growth of the wine industry in the PRC in general. See “— Business Strategies” above for the potential benefits of our Ningxia Winery.

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The estimated total investment in the construction of our Ningxia Winery is RMB69.1 million of which approximately RMB15.0 million (equivalent to HK\$18.4 million)⁽⁴⁾ will be funded by the net proceeds from the Share Offer. The table below shows details of the construction plans of our Ningxia Winery:

Construction plans	Additional wine-making capacity	Construction Completion date	Estimated investment ⁽¹⁾	Source of funds
			RMB million (equivalent to HK\$ million)	
1st Phase of Ningxia Winery				
New wine-making facilities	41 wine-making tanks 390 tonnes of wine ⁽²⁾	December 2017 ⁽³⁾	39.6 (48.5)	Our internal resources
2nd Phase of Ningxia Winery				
New wine-making facilities	34 wine-making tanks 260 tonnes of wine ⁽²⁾	Expected to be by the end of 2020	29.5 (36.1)	Net proceeds from the Share Offer and our internal resources
Total estimated investment for construction of Ningxia Winery			69.1 (84.6)	

Notes:

- (1) Investment costs refer to the total investment costs which include all costs associated with all aspects of construction prior to the commencement of operation. Rental, licensing fees and utilities deposits are not included in the investment costs.
- (2) The total annual wine-making capacity is calculated on the assumption that all wine-making tanks are unoccupied by work-in-progress and ready for use for at least one time during the wine-making season in the second-half of each year.
- (3) The first phase construction of our Ningxia Winery was completed in December 2017 and we are in the process of obtaining the documents of the construction completion-based check and acceptance from the relevant government authorities in the PRC. The first phase of our Ningxia Winery is expected to be fully operational before the 2018 grape harvest season.

See “Future Plans and Use of Proceeds” for further details of the implementation of the construction process at our Ningxia Winery.

Breakeven period and investment payback period

Breakeven refers to the stage of operation where the monthly revenue is able to cover the monthly operating costs and expenses on an accounting basis, while the average investment payback refers to its accumulated net cash inflow from the commencement of operation is able to cover the total investment amount (which includes investments from internal resources). The time required to achieve a breakeven point and investment payback point depends on various factors including the changes in the market demand for the respective wine made, the cost of their respective raw materials and the general economic conditions.

We expect that the first phase of our Ningxia Winery will start to generate profit within 24 months after it commences operation, while the investment payback period is expected to be approximately ten years; and the second phase of our Ningxia Winery is expected to start to generate profit within 24 months after it commences its wine-making functions, while the investment payback period is expected to be approximately ten years.

The historical breakeven period and investment payback period for our facilities are not indicative of our future performance as our Group's revenue, expense and operating results may vary from period to period in response to factors beyond our control.

SUPPLIERS

During the Track Record Period, we cultivated and harvested a majority of grapes we used to make wine. Our major suppliers are therefore principally suppliers for other raw materials such as base wine and grapes and packaging materials such as bottles, bottle caps, corks and labels. We have a list of pre-approved suppliers and we select them taking into account their prior dealings with us, quality, prices, reputation, background and after-sale services. Except for corks which we transfer payment to our suppliers within one month upon delivery, we usually pay our suppliers in two instalments, a pre-payment made prior to delivery of the relevant products and a remainder payments made within 90 days after delivery. We generally do not have long-term agreements with our suppliers.

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During the Track Record Period, we did not experience any interruption or shortage of supply, or failure to secure sufficient quantities of raw materials and packaging materials that had a material adverse impact on our business or results of operations. The table below shows the key information of our five largest suppliers (by purchase amount) during the Track Record Period:

For FY2015

Rank	Name of supplier	Approximate percentage of our total purchases attributable to the supplier		Principal business activities	Products supplied to Our Group	Approximate years of business with our Group as at the Latest Practicable Date
		RMB'000	%			
1.	Yantai Changyu Glass Co., Ltd (煙台長裕玻璃製品有限公司).	1,196	14.9%	Based in the PRC. This supplier specialises in the manufacturing of glass packaging products, ie. bottles, that will be supplied within the PRC and worldwide.	Wine bottles	16
2.	Yantai Kylin Packing Co., Ltd (煙台麒麟包裝有限公司).	1,094	13.7%	Based in the PRC. This supplier specialises in the manufacturing of corks, PVC and foils related products within the PRC.	Corks and foils	16
3.	Supplier A.	758	9.5%	Based in the PRC. This supplier specialises in the manufacturing of paper based packaging products that will be supplied within the PRC.	Wine cases	12
4.	Schwarz Druck Trading (Shanghai) Co., Ltd (施瓦茨印刷貿易(上海)有限公司).	450	5.6%	This supplier is the PRC subsidiary of DYNAMIC SYSTEMS GmbH which is headquartered in Germany. It is a security printing company that provides a variety of print solutions, system solutions and consulting services worldwide.	QR code labels	2
5.	M.A. Silva Corks (Beijing) Co., Ltd (北京麥斯沃軟木塞製品有限公司).	354	4.4%	This supplier principally engages in the distribution of corks in the PRC. It is a subsidiary and the PRC distribution arm of MASilva group, a manufacturer of corks headquartered in Portugal.	Corks	3
Five largest suppliers combined		3,852	48.1%			
Total Purchase		8,009	100%			

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For FY2016

Rank	Name of supplier	Approximate percentage of our total purchases attributable to the supplier		Principal business activities	Products supplied to our Group	Approximate years of business with our Group as at the Latest Practicable Date
		RMB'000	%			
1.	Yantai Changyu Glass Co., Ltd (煙台長裕玻璃製品有限公司)	2,217	18.3%	Based in the PRC. This supplier specialises in the manufacturing of glass packaging products, ie. bottles, that will be supplied within the PRC and worldwide.	Wine bottles	16
2.	M. A. Silva Corks (Beijing) Co., Ltd (北京麥斯沃軟木塞製品有限公司) . . .	1,161	9.6%	This supplier principally engages in the distribution of corks in the PRC. It is a subsidiary and the PRC distribution arm of MASilva group, a manufacturer of corks headquartered in Portugal.	Corks	3
3.	Supplier B	827	6.8%	Based in the PRC. This supplier engages in the distribution of wine and providing consulting services on the production of wine mainly in Ningxia of the PRC.	Base wine	1
4.	Yantai Kylin Packing Co., Ltd (煙台麒麟包裝有限公司).	704	5.8%	Based in the PRC. This supplier specialises in the manufacturing of corks, PVC and foils related products within the PRC.	Foils	16
5.	Supplier C	611	5.0%	Based in the PRC, this supplier is an agricultural company principally engages in the cultivation, research, and distribution of pasture and related agricultural products. It has 233 employees in the PRC.	Grapes	1
Five largest suppliers combined		5,520	45.5%			
Total Purchase		12,117	100%			

BUSINESS

For FY2017

Rank	Name of supplier	Approximate percentage of our total purchases attributable to the supplier		Principal business activities	Products supplied to our Group	Approximate years of business with our Group as at the Latest Practicable Date
		RMB'000	%			
1.	Supplier C	2,316	17.0%	Based in the PRC, this supplier is an agricultural company principally engages in the cultivation, research, and distribution of pasture and related agricultural products. It has 233 employees in the PRC.	Grapes	1
2.	Yantai Changyu Glass Co., Ltd (煙台長裕玻璃製品有限公司)	2,042	15.0%	Based in the PRC. This supplier specialises in the manufacturing of glass packaging products, ie. bottles, that will be supplied within the PRC and worldwide.	Wine bottles	16
3.	M. A. Silva Corks (Beijing) Co., Ltd (北京麥斯沃軟木塞製品有限公司)	1,570	11.6%	This supplier principally engages in the distribution of corks in the PRC. It is a subsidiary and the PRC distribution arm of MASilva group, a manufacturer of corks headquartered in Portugal.	Corks	3
4.	Cork Supply China Co., Ltd. (科森瓶塞(天津)有限公司)	1,109	8.2%	This supplier principally engages in the distribution of corks in the PRC. It is a subsidiary of Cork Supply Group, a company that principally engages in the manufacturing of corks, foils and bartops headquartered in the US.	Corks	2
5.	Supplier B	984	7.2%	Based in the PRC. This supplier engages in the distribution of wine and providing consulting services on the production of wine mainly in Ningxia of the PRC.	Base wine	1
Five largest suppliers combined		8,021	59.0%			
Total Purchase		13,589	100%			

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We are not dependent on any single supplier. For FY2015, FY2016 and FY2017, our largest supplier (by purchase amount) accounted for approximately 14.9%, 18.3%, and 17.0% of our total purchases, respectively. Our five largest suppliers (by purchase amount) together accounted for approximately 48.1%, 45.5%, and 59.0% of our total purchases for FY2015, FY2016 and FY2017, respectively.

During the Track Record Period, none of our Directors, chief executive, Substantial Shareholders or any of their respective close associates had any shareholding interest in our five largest suppliers (by purchase amount).

SALES AND DISTRIBUTION

We principally sell our wine products through a network of distributors mainly to the PRC and also to Hong Kong and other international markets. We also actively pursue and expand our online sales capability through scalable third-party operated online virtual space in the PRC such as JD.com and TMall. From time to time, we sell our wine products directly to end-users for personal use or to cater to personal, corporate and business events.

The table shows a breakdown of our revenue by sales channels during the Track Record Period:

	FY2015		FY2016		FY2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Distributors	49,190	71.9	52,144	97.7	63,133	89.7
Direct sales to end-users	19,246	28.1	1,223	2.3	4,082	5.8
Online sales	—	—	—	—	3,169	4.5
Total	68,436	100	53,367	100	70,384	100

Our network of distributors has throughout our business history remained as, and will continue to be, our principal sales channel, accounting for approximately 71.9%, 97.7% and 89.7% of our revenue, respectively, during FY2015, FY2016 and FY2017. During FY2015, the revenue contribution of our direct sales to end-users was exceptionally high at approximately 28.1% because of our non-recurring sales events at a higher than usual average selling price in FY2015, comprising (1) a direct sales of approximately RMB2.4 million to the father of Ms. Chan, an executive Director and a Controlling Shareholder, for his personal use, and (2) two direct bulk sales of approximately RMB15.2 million to Independent Third Parties, mainly to cater to business and corporate events of the end-users. Because these events by their own nature are not recurring (and in fact did not recur to a comparable scale during FY2016 and FY2017), our direct sales to end-users are currently not a focus of our sales and marketing efforts.

In terms of geographical coverage, our distribution channels principally extend to Shanxi, Fujian, Zhejiang, Henan, Hunan and Guangdong provinces of the PRC and we also sell our wine products to Hong Kong and other international markets through distributors. Shanxi was our

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biggest sales location during the Track Record Period, where we derived approximately 61.3% of our revenue on weighted average. The table below shows a breakdown of our revenue by geographical locations during the Track Record Period:

	FY2015		FY2016		FY2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Shanxi	33,628	49.1	37,947	71.1	47,192	67.1
PRC (except for Shanxi) ⁽¹⁾	33,392	48.8	14,395	27.0	21,758	30.9
Hong Kong	1,241	1.8	954	1.8	1,158	1.6
Other international markets	175	0.3	71	0.1	276	0.4
Total	68,436	100.0	53,367	100.0	70,384	100.0

Note:

(1) Fujian, Zhejiang, Henan, Hunan and Guangdong provinces.

Distributors

Our principal sales network consisted of 13 distributors as at the Latest Practicable Date. Our distributors are carefully selected by us with reference to their business track record, financial stability, extent of sales network, marketing capability and above all their visions on the quality, marketing direction and pricing strategies of our wine products. Each distributor is generally assigned with, or otherwise has sales capability in, a geographical location to avoid cannibalisation and undue competition among our distributors. They contributed to our sales performance with their established business network, local industry knowledge and sales presence in their respective responsible locations. We generally allow our distributors to appoint sub-distributors to further extend the outreach of our wine products. Substantially all of our distributors are principally engaged in both wholesale distribution and direct retail of alcoholic beverages. Appointment of sub-distributors must be notified to us, of which our sales team retains records and adjusts our distribution strategies and marketing efforts accordingly to avoid undue competition among distributors and sub-distributors. We do not have a direct business relationship with any sub-distributor.

Our principal distribution channels are (1) wholesale distribution, which means our distributors on-sell our wine products to sub-distributors, wholesalers and retailers, and (2) retail distribution, which means our wine products are directly sold at our distributors' retail locations. All of our distributors have a seller and buyer relationship with us and revenue is recognised upon delivery of our wine products to our distributors (at which point titles are passed to our distributors). We have no franchise nor consignment arrangement with our distributors. Because the detailed breakdown between wholesale and retail distribution forms parts of the sales records kept by each distributor which we have no access to and is not contained in the periodic sales and inventory reports submitted to us by our distributors, we have no accurate records of the respective revenue contribution of wholesale and retail distribution. Our Directors, based on their communications with our distributors and their market knowledge, believe that we have a healthy and sustainable balance between wholesale and retail distribution.

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Our Directors consider that our distributorship model has enabled us to focus on our strengths in cultivating grapes and making quality, value-for-money wine products and avoid the significant capital investments, start-up costs and the need for experienced management and operational personnel to otherwise establish a sizeable direct sales network to sustain our current sales level. Our Directors believe, and Frost & Sullivan concurs, that given (1) the extent of the wine market in the PRC, (2) the common practice for wholesalers and retailers of alcoholic beverages to offer a wide range of wine products from various wine makers, and (3) the presence of sizeable wine retailers in the PRC, it is common for PRC-based wine makers to principally deploy a distributorship model.

Arrangements with our distributors

We develop and manage our network of distributors by geographical locations to cater for the specific retail landscape and customer demographics. We generally provide pricing guidelines to our distributors, which shall be adhered to by our distributors unless with our prior written consent. We generally approve immaterial deviations from our pricing guidelines, which are mainly in line with our distributors' own promotional and sales events. The makeup of our pricing guidelines may vary from time to time across geographical locations depending on local retail landscape and our marketing strategies in that particular location, and is categorised into wholesale and retail distribution (while retail distributors are expected to adhere to our suggested retail prices, wholesale distributors are allowed to sub-distribute our wine products at prices lower than our suggested retail prices to allow for a margin buffer). See “— Pricing policies” below for further details.

We generally consider that there is no undue competition among our distributors and sub-distributors because (1) each distributor is assigned with a geographical location which is either provided for under our distribution agreements or a mutual understanding in accordance with the geographical outreach of our individual distributors' sales capability, (2) our sales team keeps thorough records of the intended sales locations and channels of each purchase order made by our distributors, as well as each sub-distributor appointed by our distributors, so as to closely monitor the extent of competition across our distributorship network, and (3) we maintain a relatively low number of distributors of 13 considering the extensiveness and size of the wine market in the PRC, Hong Kong and overseas.

The table below shows the movement of our distributors during the Track Record Period:

	FY2015	FY2016	FY2017
New distributor(s)	1	1	9
Terminated distributor(s)	3	1	1
Total number of distributors as at the end of the relevant period	5	5	13

The rapid increase in the number of distributors from FY2016 to FY2017 was due to nine sub-distributors previously engaged by Fuzhou Liyuan having been transferred to us and becoming our direct distributors and the cessation of our relationship with terminated distributors during the Track Record Period was due to unsatisfactory sales performance. See “— Independence of our distributors” below for further details. These distributors have

historically been doing business with Fuzhou Liyuan and our Directors do not consider that our direct engagement with them would result in cannibalisation. In 2016, we also switched to a new distributor (which is one of the largest wine and spirit distributors and wholesalers in the PRC) which has exclusive rights to introduce and sell our wine products to sommeliers, luxury hotels and restaurants in the PRC, and our Directors believe that it is an effective channel to raise the market awareness and brand profile of our wine products. During the Track Record Period, we did not receive any form of royalty from our distributors for the initial setup. Based on the above, our Directors believe that there is no risk of cannibalisation in respect of our distributorship model.

We are currently in the process of negotiating a sales arrangement with a scalable, “online-to-offline” PRC wine and spirit retailer which has multiple popular sales platforms and over 1,000 physical retail locations across the PRC. This sales arrangement is expected to be multi-faceted, ranging from online sales (which we will be provided with online platforms and charged a platform royalty) to retail sales at physical stores (which we will have a buyer and seller relationship with the new retailer). Our Directors consider that any undue competition between this new retailer and our existing distributors is unlikely because (1) our existing distributors are generally deeply rooted and penetrated in their responsible geographical locations and are unlikely to be significantly challenged by the nationwide operations of the new retailer, (2) it is unlikely for the new retailer to share any significant overlapping market with our existing distributors as its nationwide operations do not have a material geographical focus, and (3) to our Directors’ best understanding, none of our existing distributors currently sell our wine products to the new retailer. Upon commencement of the potential sales arrangement, we will closely monitor the sales and inventory reports (including the sales volume and value in each geographical region) of the new retailer and work closely with our existing distributors to identify any significant competition issues. Any material competition will be addressed by us adjusting our sales volume to the new retailer and existing distributors to ensure the sustainability of all of our sales channels.

We place a “QR Code” on the label of each bottle of wine we made which (1) enables us to track the sales location of our wine products to avoid cannibalisation under competition among our distributors (and sub-distributors appointed by them), and (2) allows our customers and end-users to differentiate authentic wine products made by us from counterfeit products.

Sales recognition and inventory risks

We believe our distributorship model is sustainable and that our financial results during the Track Record Period reflected actual demand from the end-users of our wine products given that we have strict sales return policy in place and closely monitor the inventory levels of our distributors.

We have a buyer and seller relationship with our distributors and there is no recourse of our wine products delivered to our distributors unless they are damaged during the transportation process. In case our wine products are damaged due to improper handling of our distributors, we will exceptionally accept sales return provided that (1) the relevant distributor has not previously returned our products, and (2) the aggregate value of the returned wine products does not exceed RMB5,000 and accounts for no more than 1% of the aggregate purchase value of the relevant distributor in the relevant year. During the Track Record Period, we accepted minimal

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returns of our wine products from our distributors, with an aggregate value of approximately RMB256,000, nil and nil, respectively, during FY2015, FY2016 and FY2017. We did not receive any return request due to obsolescence issue.

We keep a close eye on the inventory levels of our distributors, with whom we communicate on a regular basis. We also peruse the sales reports of our distributors regularly (setting out sales value, sales to major customers and inventory level) in order to ascertain the overall sales trend of our wine products and stock available in the market. Sales reports are obtained upon request from larger-scaled distributors (such as Shanxi Jiajia) on a monthly basis and requested from smaller-sized distributors from time to time. We generally do not accept new purchase orders from our distributors if they hold more than three months of inventory in terms of turnover days. During the Track Record Period, our Directors were not aware of any irregular sales pattern that would suggest, or otherwise notified by our distributors of, any occasion of “*channel stuffing*” or any existence of materially obsolete stock in respect of our wine products sold or delivered to our distributors. We are generally not required (and had not been required during the Track Record Period) to repurchase the remaining balance of our distributors’ inventory upon termination of our business relationship as we generally allow our terminated distributors to sell their remaining inventories.

Certain distributors are subject to an annual minimum purchase commitment under our distribution agreements. During the Track Record Period, we were not aware of any occasion where our distributors had difficulty in meeting the minimum purchase commitments or otherwise had material inventory accumulation due to these commitments. We closely monitor the impacts of these minimal purchase commitments on our distributors’ inventory level and may where necessary adjust these commitments every year based on the actual operational status of our distributors and our good-faith negotiations with them.

Revenue is recognised upon delivery of goods to our distributors, at which point the legal titles of our wine products is passed to our distributors. Our Directors have confirmed that during the Track Record Period, there was no occasion where (1) we retained significant risks of ownership over our wine products delivered to our distributors although legal titles had been passed, given our strict sales return policy and minimal returned products, (2) wine products were sold to distributors on a “right of return” basis that would deviate from our sales return policy above, (3) with the exception of Fuzhou Liyuan as discussed in “— Independence of our Distributors — Fuzhou Liyuan” below, payments were significantly delayed or otherwise materially different from our distribution agreements, (4) we were required to repurchase our wine products at a price with adjustment that covers our distributors’ cost of holding the products, including financing cost, or (5) we guaranteed a minimal resale value. As such, our Directors have confirmed that our revenue recognition policy is appropriate to our business operations.

Internal control policies

We have adopted internal control policies designed to prevent our distributors from engaging in corruption or bribery activities or non-compliance with relevant laws and regulations. For example, our distributor selection policy requires our management to (1) conduct background checks on potential distributors, and (2) assess and periodically review the potential distributors’ qualifications.

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In order to strengthen our internal control over the legal and regulatory compliance of our distributors, we have adopted policies:

- (1) to explicitly provide in our distributorship agreements, as set out in “— Distribution agreements” below, that they must comply with all applicable laws and regulations, in particular anti-corruption laws and regulations, and to require our distributors to undertake not to engage in any corrupt conduct,
- (2) to provide our existing distributors with our written policies and guidelines that they must follow in selling our wine products, failing which we will have the right to terminate their engagement as our distributors, without penalty on our part, and hold them liable for any loss suffered by us as a result,
- (3) to vet the qualifications and track record of distributors by reviewing their certificates, licences and permits and records, if any, for non-compliance with laws and regulations, fraudulent or improper conduct at least annually,
- (4) to require our sales and marketing team to communicate with our distributors from time to time and understand how they conduct daily operations,
- (5) to set up a hotline for our staff, distributors or end-users to report their complaints or concerns,
- (6) to obtain their sales record for checking on a sampling basis and to conduct site visits, where practicable, to check whether they may be involved in legal or regulatory noncompliance or misconduct in respect of their sales of our products, and
- (7) to terminate our relationship with any distributor which is suspected for conducting activities that do not comply with the applicable anti-corruption laws and regulations.

During the Track Record Period, we were not aware of our distributors having breached any applicable law and regulation which in turn had materially affected our reputation or business.

From time to time, our distributors (or sub-distributors or retailers engaged by them) may use our “Grace Vineyard (怡園酒莊)” brand in promoting and selling our wine products. We generally permit, either provided under our distribution agreements or as a mutual understanding, the use of our “Grace Vineyard (怡園酒莊)” brand in ordinary business activities ancillary to the sales and marketing of our wine products, provided that in doing so they must act in a professional manner and must refrain from acting in a way that would be detrimental to our reputation, prospects and market position. Distributors (and sub-distributors or retailers engaged by them) shall cease to use our “Grace Vineyard (怡園酒莊)” brand once they cease to sell our wine products.

Our sales and marketing team closely monitors and sales and promotional activities of our distributors (and sub-distributors or retailers engaged by them) and reports to our management any act that might be negative to our reputation and brand value. We may terminate our distribution relationship with the relevant distributor in the occurrence of incidents materially detrimental to us. Throughout the Track Record Period, we were not aware of any sales and

promotional activity conducted by our distributors (and sub-distributors or retailers engaged by them) that had a material adverse effect on our reputation, prospects and market position.

Credit terms and accounts receivable

We generally offer a credit term ranging from 30 days to 90 days to our distributors, which our Directors consider is in line with industry norm in the wine market of the PRC, Hong Kong and overseas. Our trade receivables and debtors' turnover days had reduced during the Track Record Period, mainly due to the repayment of a substantial portion of overdue trade receivables from Fuzhou Liyuan during FY2017 with all remainder having been settled as at 31 August 2017. See "— Independence of our distributors — Fuzhou Liyuan" below for details. As at 31 December 2015, 2016 and 2017, our trade receivables amounted at approximately RMB39.5 million, RMB42.0 million and RMB12.8 million, respectively, and during FY2015, FY2016 and FY2017, the turnover days of our trade receivables amounted to approximately 194 days, 279 days and 142 days, respectively. We consider that our distributors are generally credit-worthy and past dues from our distributors are by and large recovered and subsequently settled and that our distributorship network is sustainable.

Given that we cultivated and harvested the majority of grapes we used to make wine during the Track Record Period, we consider that the credit term offered to our distributors would not result in material cash flow mismatch in terms of our ordinary business operations. Our cash flow remained at an upward trend during the Track Record Period. As at 31 December 2015, 2016 and 2017, our cash and cash equivalents amounted at approximately RMB22.6 million, RMB51.4 million and RMB32.2 million, respectively.

Distribution agreements

We enter into written distribution agreements with all of our distributors to govern our relationships, which allows us to manage and control our distributorship network and align our distributors with our overall business operations and sales and marketing strategies. Our distribution agreements generally have terms of one to five years, and we generally enter into shorter-term agreements with distributors which we do not have a long-established business relationship with to give us the flexibility to revise or terminate our contractual arrangements based on actual sales performance and adherence to our pricing and other sales policies. We actively manage our distributors with the key salient terms of our distribution agreements, which we frequently negotiate upon renewal with our business objectives in mind.

Our distribution agreements and distributorship model generally include the following key salient terms and sales practice:

<i>Term:</i>	Generally one to five years. Renewal is subject to negotiation and the distributor meeting sales and performance targets.
<i>Payment and credit terms:</i>	We generally require our distributors to settle our invoices by bank transfer and offer them a credit term ranging from 30 days to 90 days from the invoice date or upon receipt of our invoice.

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<i>Designated geographical area:</i>	Certain distributors are designated with a geographical location under the distribution agreements. Our distributors are generally not allowed to sell our products outside of their designated geographical locations and they are not allowed to sell our wine products online.
<i>Minimum purchase commitments and sales target:</i>	We set annual minimum purchase commitments and sales targets for each of our distributors which may be adjusted by us every year.
<i>Use of our name:</i>	Certain distributors (and sub-distributors and retailers engaged by them) are allowed to use our “Grace Vineyard (怡園酒莊)” brand or any portion of it in their ordinary sales and marketing efforts of our wine products. In doing so they must act professionally and refrain from any act that would be determined to our reputation, prospects and market position
<i>Pricing:</i>	We generally provide pricing guidelines to our distributors, which must be adhered to by our distributors unless with our prior written consent. We generally approve immaterial deviations from our pricing guidelines, which are mainly in line with our distributors’ own promotional and sales events. The makeup of our pricing guidelines may vary from time to time across geographical locations depending on local retail landscape and our marketing strategies in that particular location. We generally provide two sets of pricing guidelines to our distributors, namely (1) suggested retail prices for retail distribution, and (2) suggested downstream wholesale prices for wholesale distribution (which are generally lower than the retail prices to provide for a margin buffer to sub-distributors). See “— Pricing policies” below for further details.
<i>Return of products:</i>	There is no recourse of our wine products delivered to our distributors unless they are damaged during the transportation process. In case our wine products are damaged due to improper handling of our distributors, we will exceptionally accept sales return provided that (1) the distributor has not previously returned our products, and (2) the aggregate value of the returned wine products does not exceed RMB5,000 and account for more than 1% of the aggregate purchase value of the distributor.

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Early termination right:

We are entitled to terminate our distribution agreements under various scenarios, including where the distributor conducts activities that infringe any of our intellectual property rights and damage the reputation of our brand, or where the distributor become insolvent or entered into bankruptcy or liquidation proceedings, or if the distributor fails to meet the specified sales target.

We also provide rebates to our distributors to incentivise them to reach the sales target. We set the rebate amounts and the associated sales targets of each wine product on an annual basis depending on, amongst other factors, the market conditions and trend. We take into account each distributor's recent sales performance in determining the rebates. We typically offer our rebates in kind with bottles of additional wine added to their next order. Such rebates in terms of monetary value generally amount to no more than 5% of the distributor's gross sales in the prior month. In FY2015 and FY2016, we did not provide any rebate to our distributors. In FY2017, we rebated wine products amounting to approximately RMB509,000 in monetary value (calculated based on our average selling prices to distributors).

Relationship with our distributors

Each distributor is generally assigned with a responsible geographical location and we generally appoint no more than one distributor for each single sales location. We therefore have a certain extent of reliance on our distributors in respect of their respective responsible sales location. In terms of our financial results as a whole, a substantial portion of our revenue throughout our business history and the Track Record Period was derived from sales in our home base in Shanxi, where we collaborated with one single, exclusive distributor, Shanxi Jiajia. For FY2015, FY2016 and FY2017, Shanxi Jiajia accounted for approximately 48.6%, 70.6% and 66.4% of our revenue and was our largest single distributor and customer. We therefore rely on Shanxi Jiajia.

Our business relationship with Shanxi Jiajia is long-established for over 12 years and dates back to 2002 when we were a start-up with operations in Shanxi only. In search for a stable, reliable and well-connected sales partner which share our vision and is willing to build up the reputation, sales and marketability of our wine products in Shanxi, we began our collaboration with Shanxi Jiajia, whose was referred to Ms. Chan, an executive Director and a Controlling Shareholder, by a business acquaintance, and was previously engaged in retail and distribution in Shanxi with a business and personal network across the province. With our Group and Shanxi Jiajia both committed to establish and grow our respective start-up businesses of making wine and wine retail and distribution, we both dedicated substantial efforts in expanding the sales network and performance of our wine products and the value and reputation of our "Grace Vineyard (怡園酒莊)" brand and have through this process developed a close collaboration relationship.

Shanxi Jiajia is wholly-owned by an Independent Third Party who was referred to Ms. Chan, a Controlling Shareholder and an executive Director, by a Shanxi-based business acquaintance in 2002 and established its wine distribution business in Shanxi upon reaching a collaboration with our Group. To the best of Ms. Chan's knowledge, the owner of Shanxi Jiajia engaged in various distribution and sales of various commodities and equipment (such as medical

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equipment) in Shanxi and had built up an extensive personal and business network in Shanxi, which we believe contributed to the continuing growth of our sales and marketing capability over the years. Our Directors have been advised by Shanxi Jiajia that they had been profitable throughout the Track Record Period, and based on our business collaboration of more than 12 years with no significant interruption or material overdue payment, believe that Shanxi Jiajia is financially sound and has the financial resources to continue to act as our major distributor. As at the Latest Practicable Date and solely based on information provided by Shanxi Jiajia, Shanxi Jiajia operated 13 physical retail locations in Shanxi (each branded independently of us and targeted at the end-users of our wine products), and distributed our wine products to more than 80 hotels and restaurants, 1,000 wine and spirits sub-distributors, as well as 1,500 wine and spirits retail locations, all within the precinct of Shanxi.

Since the commencement of our distributorship arrangements in 2002, Shanxi Jiajia has remained as our sole and exclusive distributor in Shanxi and our Directors have every intention to continue with this arrangement, subject to viable commercial terms, because (1) we have a long-lasting, closely-knitted business relationship tracing back to the initial start-up stage of our Group and have together developed our “Grace Vineyard (怡園酒莊)” brand and wine products into an established, award-winning wine maker to-date, (2) Shanxi Jiajia has an extensive sales and marketing network in Shanxi and strong knowledge of the local wine market which contributed to our market-leading position as the largest wine maker in the province in terms of retail sales revenue in 2016, and (3) the historical sales performance of Shanxi Jiajia has been satisfactory. As our wine products also account for a substantial portion (over 98% in 2016 to the best knowledge of our Directors) of Shanxi Jiajia’s revenue, we consider our long term relationship with Shanxi Jiajia is mutually beneficial and will be sustainable.

Throughout our business relationship, one of Shanxi Jiajia’s corporate entities, 山西加佳怡園酒業有限公司, bears a portion of our “Grace Vineyard (怡園酒莊)” brand as part of its corporate name. Though not officially licensed by us, this arrangement can be traced to our initial collaboration model and business vision back in 2002 to dedicate joint efforts in building up the sales, marketability and reputation of our “Grace Vineyard (怡園酒莊)” brand and wine products. As we have firmly established our brand and wine products with market-leading position in Shanxi, Shanxi Jiajia currently only retains our brand name in its corporate name, and does not in any way trade or operate under our brand name or any portion of it. Traded under various names unrelated to us, Shanxi Jiajia is currently a successful wine distributor and retailer in Shanxi, and has remained profitable throughout the Track Record Period, to our Directors’ best knowledge.

To better protect our “Grace Vineyard (怡園酒莊)” brand, we have received an undertaking from Shanxi Jiajia to, amongst others, (1) refrain from, and procure its directors, employees, shareholders, agents and officers to refrain from, committing any act which may have a negative impact on the reputation or image of our “Grace Vineyard (怡園酒莊)” brand, and (2) cease to use or otherwise utilise our “Grace Vineyard (怡園酒莊)” brand or any portion of it in its corporate entity or in the course of its business operations in any way upon termination or cessation of its business relationship with us. Given that our relationship with Shanxi Jiajia has been beneficial to our sales and marketing performance for over 15 years, our Directors are of the view that the continual existence of a portion of our brand name in Shanxi Jiajia’s corporate identity will not be detrimental to us or otherwise subject our Group to material commercial and reputational risks.

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We consider that our business relationship with Shanxi Jiajia is beneficial and complementary to us, and we do not unduly rely on Shanxi Jiajia because:

- **Complementary business model.** According to F&S Report, it is not common for wine makers in the PRC to directly engage in the retail and sales of wine products because of the substantial investment, labour force and business connection required to build up a sizeable sales and distribution network. Likewise, it is not common for wine distributors and retailers in the PRC to engage in the wine-making business because of the industry norm to sell alcoholic beverages of various types and brands at a single retail location, and also the substantial capital investment and specific technical knowledge required to cultivate grapes and make wine. As such, our distributorship arrangements with Shanxi Jiajia allow us to focus on our expertise in making quality, value-for-money wine while maintaining a satisfactory sales pipeline.
- **Mutual reliance.** While we rely on Shanxi Jiajia for approximately 61.3% of our revenue during the Track Record Period on weighted average, we accounted for a substantial portion (over 98% in 2016 to the best knowledge of our Directors) of Shanxi Jiajia's revenue. As such, our relationship with Shanxi Jiajia is mutually beneficial and is likely to be sustainable in the foreseeable future.
- **Long-lasting relationship.** We have a long-established and closely collaborated relationship with Shanxi Jiajia for over 12 years, throughout which Shanxi Jiajia has contributed to the value and recognition of our “Grace Vineyard (怡園酒莊)” brand and the sales and marketability of our wine products with satisfactory sales performance. There has not been any significant disagreement or interruption throughout our business relationship with Shanxi Jiajia. While our Directors believe that there is no lack of wine distributors in Shanxi with comparable resources and network to Shanxi Jiajia, its dedicated sales efforts to us, strong knowledge of our wine products and common vision on our brand value and marketing direction have historically proven to be beneficial to our business and financial results.
- **Industry landscape.** According to Frost & Sullivan, our relationship with Shanxi Jiajia is not uncommon in the wine market of the PRC because it is customary for PRC-based wine makers (such as ourselves) to engage no more than two distributors in one single sales region. Our relationship with Shanxi Jiajia is also in line with our overall distributorship model and sales efforts in each other sales location, where we generally appoint no more than one responsible distributor.
- **Long-term distribution agreement.** We enter into long-term distribution agreement with Shanxi Jiajia for five years, the longest term among our distributors, which gives us stability and assurance of our sales pipelines in Shanxi. Key salient terms of our distribution agreement with Shanxi Jiajia are set out in “— Distribution agreement with Shanxi Jiajia” below. The current distribution agreement will expire in December 2020, and our Directors have confirmed that barring unforeseeable circumstances, both Shanxi Jiajia and us have every intention to renew our distributorship arrangement in substantially similar terms.

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- **Alternative distribution options.** Our Directors are satisfied that, in the unlikely event of the termination of or a material disruption to our business arrangements with Shanxi Jiajia, we will be able to appoint alternative distributor(s) in Shanxi on commercially viable terms and in a timely manner. According to Frost & Sullivan, there is an abundant number of alternative wine distributors (both national and regional market players) which have the resources and sales network to support our sales pipelines in Shanxi, given the growing wine consumption and market size in the province. We also believe that our “Grace Vineyard (怡園酒莊)” brand, which is well-recognised in Shanxi and a “Top Shanxi Brand”, will enable us to replace Shanxi Jiajia if such need arises. Although it will take us a period of time and management and financial resources to adjust our sales and marketing model and deal with negative impacts, we believe that the hypothetical loss of Shanxi Jiajia as our single distributor in Shanxi will not materially interrupt our business operations.

From FY2016 to FY2017, the revenue contribution of Shanxi Jiajia decreased from approximately 70.6% to 66.4%. As we grow our network of distributors and extend our product outreach beyond Shanxi, the revenue contribution of our sales to Shanxi Jiajia may continue to decrease.

Our Directors and Shanxi Jiajia have each confirmed that (1) Shanxi Jiajia is an Independent Third Party and is not a connected person nor an associate of a connected person of our Company under the GEM Listing Rules, (2) none of our Directors, Substantial Shareholders and current and past employees holds any equity interest, directorship or any other duty, interest and responsibility in Shanxi Jiajia throughout our business relationship, and (3) during the Track Record Period, all sales to Shanxi Jiajia were made on normal commercial terms which were fair and reasonable to our Group.

Distribution agreement with Shanxi Jiajia

Our current distribution agreement and distributorship model with Shanxi Jiajia have the following key salient terms and sales practice:

<i>Duration:</i>	Five years from 1 January 2016 with three months prior notice for renewal.
<i>Payment:</i>	Payment must be settled within two months from the invoice date. An annual compound interest of 0.5% will be applied on any payment overdue.
<i>Designated geographical location:</i>	Exclusively in Shanxi, except for online sales, and exclusive retail sales of our “Vineyard Series” in Shanxi.
<i>Minimum purchase requirement and sales target:</i>	We set a minimum purchase requirement and a sales target every year and which are reviewed every year based on actual performance. If sales target are not met, the exclusivity right will be immediately terminated.

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<i>Pricing:</i>	Any deviations from our pricing policies must obtain prior consent from us.
<i>Return of products:</i>	No return unless products are faulty.
<i>Early termination right:</i>	We are entitled to terminate our distribution agreement where Shanxi Jiajia conducts activities that infringe any of our intellectual property rights, or causing damage the reputation of our brand, Shanxi Jiajia becomes insolvent or entered into bankruptcy or liquidation proceedings, or if Shanxi Jiajia fails to meet the sales target. We are also entitled to terminate the distribution agreement at our discretion with immediate effect by giving 30 days prior notice. Shanxi Jiajia is entitled to terminate our distribution agreement if we are subject to bankruptcy or liquidation proceedings or if our operations materially deteriorate.
<i>Intellectual property rights:</i>	Strict prohibition on any usage or modification of our brand name for any purpose without prior consent from us. Shanxi Jiajia is allowed to use in ordinary business activities ancillary to the sales and marketing of our wine products, provided that in doing so they must act in a professional manner and must refrain from acting in a way that would be detrimental to our reputation, prospects and market position.

Save for Shanxi Jiajia, we do not consider ourselves materially rely on any distributor in respect of our business operations and financial results as a whole, with each other distributor contributing less than 17% of our revenue throughout the Track Record Period.

Independence of our distributors

Each of our distributors is an Independent Third Party and is not a connected person nor an associate of a connected person of our Company under the GEM Listing Rules and is not owned by our current or previous employees.

Fuzhou Liyuan

Fuzhou Liyuan is a distributor of our Group based in Fujian province, the PRC. For FY2015, FY2016 and FY2017, Fuzhou Liyuan accounted for approximately 13.3%, 16.7% and 6.8%, respectively, of our revenue and was our second, second and third largest distributor during the same periods.

Fuzhou Liyuan was wholly-owned by Ms. Chan, an executive Director and a Controlling Shareholder, and was a close associate of a core connected person of our Company under the GEM Listing Rules. The origin of Fuzhou Liyuan dates back to 2008, when we had commenced to develop the market in Fujian province (which our management envisioned to have a sizeable wine consumption public) and was looking for suitable distributors that share our vision on the

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value, marketing direction and pricing strategies of our wine products. Instead of directly cooperating with existing distributors in the market, Ms. Chan identified a team of sales personnel who are suitable for our Group. Consequently, Ms. Chan set up Fuzhou Liyuan as a private investment in distribution business in Fuzhou province. Fuzhou Liyuan had been managed and operated by a team of personnel experienced with the wine distribution business and led by Mr. Xu Zhishan (“**Mr. Xu**”), an Independent Third Party. Throughout the business history of Fuzhou Liyuan, Ms. Chan had remained as a passive financial investor with no active or direct involvement in its decision making. Because our Group and Fuzhou Liyuan were independently and separately managed and operated, our relationship with Fuzhou Liyuan was no different than that with our other distributors, and our sales to Fuzhou Liyuan had been on normal commercial terms which are fair and reasonable to our Group, except for our credit arrangements with it which are further discussed below.

In December 2016, to focus her management efforts on our Group and to streamline her business profile, Ms. Chan disposed of her entire interests in Fuzhou Liyuan to Mr. Xu, who continues to independently manage and operate Fuzhou Liyuan in a commercially viable manner. The consideration for the disposal was RMB873,800, which was determined after arm’s length negotiations with reference to the registered capital, revenue, gross profit and positive cash flow of Fuzhou Liyuan taking into account, amongst others, the financial resources available to, and being commercial viable to, Mr. Xu, and above all, the commercial needs for the Group to maintain to sustainable sales pipelines in Fujian and Guangdong provinces, both of which were previously maintained through Fuzhou Liyuan. Fuzhou Liyuan recorded a revenue of approximately RMB8.2 million and RMB11.8 million in FY2015 and FY2016, respectively, and recorded a gross profit of approximately RMB2.1 million and RMB3.1 million in FY2015 and FY2016, respectively, with a positive cashflow of approximately RMB0.9 million in FY2016. After the disposal, Ms. Chan ceased to have any influence whatsoever in Fuzhou Liyuan and continues to devote her time and efforts principally to our Group. Our sales to Fuzhou Liyuan had been accounted for as related party transactions during FY2015 and FY2016 until the date of the disposal.

Our Directors have reviewed our sales to Fuzhou Liyuan and have confirmed that they had been and remain to be on normal commercial terms which are fair and reasonable to our Group, and the terms of our distribution agreement with Fuzhou Liyuan were and remain to be substantially similar to those agreements with our other distributors as set out in “— Distribution agreements” above. Given the selling prices for each wine series were, apart from minor pricing differences primarily driven by geographical regions, generally sold to our distributors at substantially the same price, the historical gross profit margin and average selling price per bottle for each wine series during the same period of our sales to Fuzhou Liyuan and those of our other distributors are substantially the same. We had historically allowed Fuzhou Liyuan a longer period to settle its trade payables to us due to the assurance of Ms. Chan’s equity ownership and the fact that our Group shared the same controlling shareholder with Fuzhou Liyuan, resulting in an exceptional amount of trade receivables as at 31 December 2015 and 2016 at approximately RMB39.5 million and RMB42.0 million respectively, and exceptionally long turnover days of these trade receivables at 194 days during FY2015 and 279 days during FY2016. Shortly after the disposal by Ms. Chan in December 2016, overdue receivables from Fuzhou Liyuan had been fully repaid by 31 August 2017, resulting in the normalisation of our trade receivables (at approximately RMB12.8 million as at 31 December 2017) and turnover days (at 142 days) during FY2017. Throughout FY2017, the settlement of our trade receivables from Fuzhou Liyuan returned to a level comparable to other distributors and Fuzhou Liyuan has

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been, and is expected to continue to be, by and large in compliance with the credit term of 90 days offered to it under our distribution agreement. See “Financial Information — Description of Selected Items of Consolidated Statements of Financial Position — Trade receivables” for a detailed discussion. Because Mr. Xu was not an employee of our Group (but of Ms. Chan), we do not consider that there is any material conflict of interests when conducting sales to Fuzhou Liyuan.

Based on the unaudited management accounts of Fuzhou Liyuan provided to Ms. Chan, Fuzhou Liyuan recorded a net loss of approximately RMB17,000 and RMB241,000, respectively, for FY2015 and FY2016, and net assets of approximately RMB598,000 and RMB319,000, respectively, as at 31 December 2015 and 2016. As at the date of Fuzhou Liyuan’s disposal (being December 2016), based on the unaudited management amounts as at 30 November 2016, being the latest financial information prior to the date of disposal, its net asset value amounted to approximately RMB315,000. After the disposal of Fuzhou Liyuan, (1) as a condition to reaching the consideration for the disposal of Fuzhou Liyuan, (2) in the interests of our Group to continue maintaining a sizeable and stable distribution network in Fujian province, and (3) to clearly delineate our business and avoid competition with that of Fuzhou Liyuan, Ms. Chan reached an agreement with Mr. Xu based on arm-length negotiations for Fuzhou Liyuan to cease to engage in the wholesale distribution of our wine products and all sub-distributors previously engaged by it were transferred to our Group and became our direct distributors.

Our distributorship arrangements with Fuzhou Liyuan continue in the form of retail distribution after the disposal. Fuzhou Liyuan has established a sizable retail distribution network locally in Fujian, mainly by the effort of Mr. Xu. It was in Mr. Xu’s genuine belief, drawing from his years of experiences in operating Fuzhou Liyuan, that its retail distribution business alone would still translate into a viable and profitable business and provide Mr. Xu with more attractive financial reward as compared to being an employee of Fuzhou Liyuan. As a matter of fact, after the disposal, Fuzhou Liyuan continues to record a revenue of approximately RMB9.1 million, a gross profit of approximately RMB2.4 million and a net profit of approximately RMB129,000 in FY2017 solely in reliance of its retail distribution business of our Group’s wine and that Mr. Xu has enjoyed a higher financial reward (taking into account his salary and the profit of Fuzhou Liyuan attributable to him) after the disposal, to the best knowledge of the Directors based on the information provided by Fuzhou Liyuan. To the best knowledge of the Directors, the distribution of our Group’s wine products has been the sole business of Fuzhou Liyuan, whether in the form of wholesale distribution before the disposal and retail distribution before and after the disposal.

For FY2015, FY2016 and FY2017, the wholesale distribution of our Group’s wine products through Fuzhou Liyuan accounted for approximately 13.3%, 16.7% and 6.8%, respectively, of our Group’s total revenue and approximately 16.8%, 23.2% and 8.7%, respectively, of our Group’s total gross profit (before consumption tax and surcharge, as well as gain/loss on biological assets).

For FY2015, FY2016 and FY2017, through wholesale distribution of our Group’s wine products, Fuzhou Liyuan derived a wholesale revenue of RMB4.6 million, RMB6.4 million and nil, representing approximately 56.5%, 53.8% and nil of Fuzhou Liyuan’s total revenue, respectively. For the same periods, the corresponding gross profit derived from wholesale distribution amounted approximately to RMB0.7 million, RMB0.8 million and nil, representing approximately 31.2%, 26.1% and nil of Fuzhou Liyuan’s total gross profit, respectively.

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To the best knowledge and belief of our Directors, after the disposal of Fuzhou Liyuan by Ms. Chan in December 2016, none of our distributors is owned by or otherwise controlled or managed by any connected person, associate of connected persons, or current and previous employee of our Group, Directors, senior management, Substantial Shareholders or their respective associates. We will continue to treat Fuzhou Liyuan in the same manner as other distributors, and continue our sales and business relationship with it on normal commercial terms that are fair and reasonable to us. This will include the overall oversight and management of Fuzhou Liyuan as a distributor using the internal control and corporate governance measures set out in “— Internal control policies” above.

Online Sales

We actively pursue and expand our online sales capability through virtual retail space hosted on scalable, third-party operated online virtual space in the PRC such as JD.com and TMall. In FY2017, our online sales represented approximately 4.5% of our revenue. With the growing prevalence of e-commerce in the PRC over the recent years, we believe that our online sales will allow us to extend the outreach of our wine products across different parts of the PRC and deeply penetrate and market our brands and products. We have arrangements with third-party operated online sales virtual space to place our wine products in internet space. From time to time, we also engage “key opinion leader” to promote our wine products through blogs and social media sites to strengthen our online sales.

Except for an agreed platform fee ranging from RMB12,000 to RMB30,000 per annum and a sales commission ranging from 5.3% to 5.5%, we do not have direct business relationship with the third-party providers of our online sales virtual space. Sales to our online customers are directly paid into our internet payment accounts and our wine products are directly despatched to our online customers from our warehouses. We price our wine products sold online as a starting point, with reference to the suggested retail prices of the same wine series provided to our distributors, adjusted with (1) the prevailing spending patterns of the online communities and alignment with the sales and promotion events organised by the third-party operated online sales platform from time to time, (2) the margins charged that would otherwise be charged by our distributors and/or sub-distributors, and (3) our online competitors’ behaviours and historical online sales performance. For this reason, selling prices to online customers has historically been slightly lower than the suggested retail prices of our distribution channel.

We are also in the process of negotiating for a multi-faceted sales arrangement with a scalable, “online-to-offline” wine and spirit retailer in the PRC. This sales arrangement is expected to be multi-faceted, ranging from online sales (which we will be provided with online platforms and charged a platform royalty) to retail sales at physical stores (which we will have a buyer and seller relationship with the new retailer). We do not consider our potential sales arrangement will result in material changes to our business model and cost structure in the near future because (1) the business model and cost structure of the new “online” component will be similar to our current online sales with our sales conducted through third-party operated online sales platforms, (2) the business model and cost structure of the new “offline” component of physical retail locations will be similar to our current principal sales channel of distributors (and will be accounted for as such) adopting a retail pricing guidelines similar those provided to our current distributors, (3) we have no current intention to substantially expand our sales of wine products through this new sales arrangement because we exercise caution every time we

explore a new sales channel, and (4) our current expansions plans through this new sales arrangement will be confined to one new wine series, namely “New Year Wine (慶春酒)”, which mainly coincides with the celebration of the Lunar New Year in 2018.

Xiamen Taofu

Our online sales are conducted through Xiamen Taofu, our wholly-owned subsidiary, which had a dedicated marketing and operational team of six as at the Latest Practicable Date. Xiamen Taofu was wholly-owned by Ms. Chan, an executive Director and a Controlling Shareholder, prior to 22 February 2017 when we acquired its entire interests. The consideration for the acquisition was HK\$100 which was determined after arm’s length negotiations with reference to the registered capital of Xiamen Taofu. The financial results of Xiamen Taofu were consolidated into our financial statements for FY2017 commencing on the date of the acquisition.

Beginning in 2013, Ms. Chan envisioned the growing popularity of e-commerce in the PRC, where customers enjoy the convenience of making purchases on a “24/7” basis. As the development of new sales and marketing channels comes with significant commercial risks, Ms. Chan had elected to establish Xiamen Taofu as a private investment responsible for the online sales of our wine products, allowing us to focus on our core strength of wine-making.

In February 2017, Ms. Chan, having considered that the sales performance of Xiamen Taofu had stabilised and its online sales capability had matured with lessened commercial risks, concluded that it is in the best interests of our Group to acquire Xiamen Taofu. Forming a part of our Group, Xiamen Taofu allows us to vertically integrate our business with online sales functions, which are not uncommon among wine makers in the PRC according to Frost & Sullivan, into our operations. After the acquisition, we do not rely on any of our Controlling Shareholders or their respective associates in respect of our ordinary sales channels.

Our sales to Xiamen Taofu were classified as sales to a distributor and were accounted for as related party transactions prior to the acquisition. See note 39 to the Accountants’ Report set out in Appendix I to this prospectus for further details. Our Directors have confirmed that Xiamen Taofu had insignificant negative cashflow in FY2015 of approximately RMB41,000 and attained positive cashflow of approximately RMB2.4 million in FY2016, and would not, on a pro-forma basis, have rendered our Group not meeting the Listing requirements under Rule 11.12A(1) the GEM Listing Rules had it been acquired by us prior to the beginning of the Track Record Period. Xiamen Taofu recorded a revenue of approximately RMB3.2 million and RMB4.5 million, respectively, for FY2015 and FY2016 and its net profit/(loss) was approximately RMB(0.6) million and RMB(0.2) million during the same periods. Our PRC Legal Advisers have confirmed that Xiamen Taofu had been in compliance of all relevant PRC laws, rules and regulations in all material aspects throughout the Track Record Period and up to the Latest Practicable Date.

Our online sales conducted through Xiamen Taofu are virtual retail space hosted on third-party operated online sales virtual space such as JD.com and TMall. These retail space are hyperlinked to our wine product website which provides product and promotional information and does not in any way conduct any direct online sales activity and/or operate any online sales virtual space. Our PRC Legal Advisers have confirmed to us that both our online sales conducted through Xiamen Taofu and the internet services provided at our wine product website are not subject to any foreign ownership restriction under the relevant PRC laws and regulations.

Direct sales to end-users

From time to time, we also sell our wine products directly to end-users mainly to cater to their personal, corporate and business events. As these events are by their own nature non-recurring, direct sales to end-users had not been, and are not expected to be, a focus of our sales and marketing efforts. Our sales team generally directly takes orders from our direct sales end-users, which might have obtained our contact details at marketing and promotional events, through our online sales platforms, or via business or personal acquaintances. We also make direct sales at our accommodation and wine tourism facility, “Chateau”, at our Shanxi Winery. Direct sales to end-users are generally priced with reference to the retail pricing guidelines provided to our distributors, which may be adjusted based on the purchase volume and our relationship with the end-users. In general, our direct sales to end-users generate a higher profit margin than our principal sales channel of distributors because we are not subject to the margin charged by distributors and/or sub-distributors.

Our direct sales to end-users were exceptionally high in FY2015, amounting to approximately RMB19.2 million and accounting for approximately 28.1% of our revenue. This was mainly attributable to our non-recurring sales events at a higher than usual average selling price in FY2015, comprising (1) a direct sales of approximately RMB2.4 million to the father of Ms. Chan, an executive Director and a Controlling Shareholder, for his personal use, and (2) two direct bulk sales of approximately RMB15.2 million to Independent Third Parties, mainly to cater to business and corporate events of the end-users. One of these independent direct end-users was a business acquaintance of Ms. Chan’s father for more than 10 years, and the other has been our customer since 2012. The two direct bulk sales to independent end-users comprised (1) 60,600 bottles of our Tasya’s Reserve wine series at a unit price of RMB150 (tax inclusive) per bottle, which were used for a personal event, and (2) 108,900 bottles of our Tasya’s Reserve wine series at a unit price of RMB80 (tax inclusive) per bottle, which were used as gifts to the guests of a property sales event. Compared to the standard retail price of our Tasya’s Reserve wine series of RMB199 per bottle during the Track Record Period, our selling prices to direct end-users, being RMB150 and RMB80, respectively, which we negotiated on arm’s length and a case-by-case basis, varied as a discount from our standard retail price, based on our relationship with the relevant direct end-users, our prevailing operational and inventory level, and most importantly the bulk sales volume. In general, our direct sales to end-users generated a higher profit margin than our principal sales channel of distributors because we were not subject to the margin charged by distributors and/or sub-distributors.

These sales events did not recur in FY2016 and FY2017 to a comparable scale, as our level of direct sales to end-users returned to normal at approximately 2.3% and 5.8%, respectively. Our Directors have confirmed that we did not conduct any direct sales to end-users in a significant scale (and comparable to those in FY2015) during the two financial years ended 31 December 2014.

Certain direct sales to end-users were made to our connected persons during the Track Record Period and were accounted for as related party transactions. See note 39 to the Accountants’ Report set out in Appendix I to this prospectus for further details. Future sales to connected persons, if any, will be made in full compliance with Chapter 20 of the GEM Listing Rules as connected transactions.

Pricing Policies

We adjust pricing guidelines provided to our distributors from time to time, principally based on (1) the market position of our wine products, (2) market trends and customer preferences, (3) implementation and enforcement of the government's frugality campaigns in the PRC, (4) overall market sentiments of the wine industry, (5) our wine-making and inventory level, and (6) other macro-economic factors such as taxes and inflation. Our pricing guidelines may vary from time to time for each geographical sales location based on local retail landscape. We generally provide two sets of pricing guidelines to our distributors, namely (1) suggested retail prices for retail distribution, and (2) suggested downstream wholesale prices for wholesale distribution (which are generally lower than the retail prices to provide for a margin buffer to sub-distributors). We expect our distributors to closely adhere to our suggested retail prices and downstream wholesale prices, and we adopt various internal controls measures to monitor our distributors' compliance with our pricing policies. These measures include periodic review of our distributors' sales reports, physical inspection of retail locations and the use of our "QR-code" system that allows us to trace the original sales point of each bottle of our wine bottles. We also require Shanxi Jiajia, our largest distributor during the Track Record Period, to obtain prior approval for any deviation from our pricing policies. All other distributors are expected to adhere to our pricing policies. During the Track Record Period, we are not aware of any significant deviation our suggested retail prices and downstream wholesale prices. If we become aware of any such deviation which in our opinion will affect the overall marketability and sales performance of our wine products, we will take appropriate and timely action to adjust and control our sales volume to, or even terminate our relationship with, the relevant distributor(s).

We price our wine products sold at online sales platform, as a starting point, with reference to the suggested retail prices of the same wine series provided to our distributors, adjusted with (1) the prevailing spending patterns of the online communities and alignment with the sales and promotion events organised by the third-party operated online sales platform from time to time, (2) the margins charged that would otherwise be charged by our distributors and/or sub-distributors, and (3) our online competitors' behaviours and historical online sales performance. For this reason, selling prices to online customers has historically been slightly lower than suggested retail prices of our distribution channels. Our direct sales to end-users generally follow our retail pricing guidelines provided to our distributions, which we also adjust based on the sales volume and our relationship with the relevant end-users. Generally speaking, selling prices to direct end-users tend to be driven by sales volume, with bulk purchases receiving a lower per bottle price.

Sales Return

Sales to online customers are subject to the sales return policy of are online sales platforms which generally allows customers to return our wine products within seven days for whatever reason. Direct sales end-users share the same sales return policy as our network of distributors as set out in "— Distributors — Sales recognition and inventory risks" above that there is generally no recourse to our delivered wine products unless they are damaged or defected during the transportation process.

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Seasonality

Although we generally generate more revenue during festivals in the PRC, such as Lunar New Year and Mid-Autumn Festival, we consider that our monthly sales performance are not subject to material fluctuations due to seasonal patterns.

Marketing

We consider marketing as an important aspect of our brand value and the profile of our wine products. We frequently promote our brand and wine product portfolio on industry publications in the PRC, Hong Kong and overseas, and participate in industry fairs and exhibitions to raise our brand and product awareness. We also invite media, sommeliers and social elites to wine tasting events and wine pairing dinners so that they could promote our brand and wine products through their respective, established media channels, professional platforms and network. Our marketing efforts within the wine-making industry has earned us the awards and industry accolades set out in “— Our Wine Product Portfolio — Awards and recognitions” above.

A key initiative of our marketing efforts is the operation of our “Chateau”, an accommodation facility at our Shanxi Winery which promotes wine tourism and also raises the brand and profile of our brand and wine products. Income from this operation is insignificant to our operations as a whole, and was accounted for as other income in our financial statements.

In line with our efforts to promote online sales, we invite “key opinion leader” to promote our wine products through their popular blogs and social media sites to strength our online sales. Launch of new wine series are also announced and marketed on our online sales platforms to generate interests and sales level, which we believe are also helpful to our principal sales channel of distributors.

We also work with our distributors to promote our wine products at local retail locations. Restaurants that serve our wine products through our distributors are sometimes allowed to use our brand names mainly to market and promote these wine products.

CUSTOMERS

Our customers are broadly categorised into (1) our distributors, which have a buyer and seller relationship with us, (2) online customers, and (3) direct sales end-users. Prior to our acquisition of Xiamen Taofu in February 2017, Xiamen Taofu was accounted for as our customer in our financial statements. Thereafter, online end-customers are accounted for as our customers as Xiamen Taofu became part of our Group. After the disposal of Fuzhou Liyuan by Ms. Chan in December 2016, the sub-distributors engaged by it were also transferred to us and are now our distributors (and accounted for as our customers).

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The table below shows the key information of our five largest customers (by revenue) during the Track Record Period and their respective revenue contribution:

For FY2015

Rank	Name of customer	Approximate percentage of our revenue attributable to the customer		Sales channel	Principal business activities	Approximate years of business with our Group as at the Latest Practicable Date
		RMB'000	%			
1.	Shanxi Jiajia . . .	33,280	48.6%	Distributor	Based in the PRC. This customer principally engages in the wholesale, distribution and retail of Chinese wine products mainly within Shanxi of the PRC.	13
2.	Fuzhou Liyuan . .	9,126	13.3%	Distributor	Based in the PRC. This customer principally engages in the wholesale, distribution and retail of wine products mainly within the city of Fuzhou of the PRC.	9
3.	Ferro Steel (Suzhou) Trading Co., Ltd (格羅斯蒂(蘇州) 有限公司)	7,769	11.4%	Direct sales to end-user	Incorporated in the PRC. This customer is a trading company specialising in the wholesale of steel products primarily in the city of Suzhou of the PRC and Southeast Asia. This customer is a business acquaintance of Ms. Chan's father for more than 10 years, and used our wine products for a personal event.	3
4.	Ronghui (Fujian) Group Co., Ltd (融匯(福建) 集團有限公司) .	7,446	10.9%	Direct sales to end-user	Based in the PRC. This customer is a company principally engages in the development and investment of properties in the PRC. This customer has since 2012 been our customer. Wine products sold to this customer were used as gifts to the guests of a property sales event.	2

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Rank	Name of customer	Approximate percentage of our revenue attributable to the customer		Sales channel	Principal business activities	Approximate years of business with our Group as at the Latest Practicable Date
		RMB'000	%			
5.	Shanghai Torres Wine Trading Co., Ltd (桃樂絲葡萄酒貿易有限公司)	4,489	6.6%	Distributor	This customer principally engages in the importation and distribution of wine products around the world within the PRC. It is a PRC subsidiary of Miguel Torres SA, a leading winery company headquartered in Spain which recorded annual turnover of EUR263 million in 2015.	14
Five largest customers combined . . .		62,110	90.8%			
Total revenue . . .		68,436	100%			

For FY2016

Rank	Name of customer	Approximate percentage of our total revenue attributable to the customer		Sales channel	Principal business activities	Approximate years of business with our Group as at the Latest Practicable Date
		RMB'000	%			
1.	Shanxi Jiajia . . .	37,669	70.6%	Distributor	Based in the PRC. This customer principally engages in the wholesale, distribution and retail of Chinese wine products mainly within Shanxi of the PRC.	13
2.	Fuzhou Liyuan. . .	8,928	16.7%	Distributor	Based in the PRC. This customer principally engages in the wholesale, distribution and retail of wine products mainly within the city of Fuzhou of the PRC.	9
3.	Xiamen Taofu . . .	2,376	4.5%	Distributor	Based in the PRC. This customer principally engages in the wholesale, distribution and retail of wine products across the PRC.	5

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Rank	Name of customer	Approximate percentage of our total revenue attributable to the customer		Sales channel	Principal business activities	Approximate years of business with our Group as at the Latest Practicable Date
		RMB'000	%			
4.	Shanghai Torres Wine Trading Co., Ltd (桃樂絲葡萄酒貿易有限公司) . .	2,109	4.0%	Distributor	This customer principally engages in the importation and distribution of wine products around the world within the PRC. It is a PRC subsidiary of Miguel Torres SA, a leading winery company headquartered in Spain which recorded annual turnover of EUR263 million in 2015.	14
5.	ASC Fine Wines (Shanghai) Co., Ltd (聖皮爾精品酒業(上海)有限公司) . .	810	1.5%	Distributor	Established in 1996 and based in the PRC, this Customer principally engages in the importation, wholesale, distribution and retail, including online retail, of wine products from more than a hundred of wineries in 16 countries around the world. With approximately 800 employees in the PRC, Hong Kong and Macau, the company is one of the largest imported wine distributors in the country, providing more than a thousand different wine products to their clients across the PRC. This customer is owned by a major global beverage company based in Japan.	1
Five largest customers combined . . .		51,892	97.3%			
Total revenue . . .		53,367	100%			

Note: Xiamen Taofu was acquired by us and became our subsidiary on 22 February 2017. It was accounted for as a distributor prior to such acquisition. See “— Sales and Distributions — Online sales — Xiamen Taofu” above.

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For FY2017

Rank	Name of customer	Approximate percentage of our total revenue attributable to the customer		Sales channel	Principal business activities	Approximate years of business with our Group as at the Latest Practicable Date
		RMB'000	%			
1.	Shanxi Jiajia . . .	46,767	66.4%	Distributor	Based in the PRC. This customer principally engages in the wholesale, distribution and retail of Chinese wine products mainly within Shanxi of the PRC.	13
2.	ASC Fine Wines (Shanghai) Co., Ltd (聖皮爾精品 酒業(上海)有限 公司)	5,570	7.9%	Distributor	Established in 1996 and based in the PRC, this customer principally engages in the importation, wholesale, distribution and retail, including online retail, of wine products from more than a hundred of wineries in 16 countries around the world. With approximately 800 employees in the PRC, Hong Kong and Macau, the company is one of the largest imported wine distributors in the country, providing more than a thousand different wine products to their clients across the PRC. This customer is owned by a major global beverage company based in Japan.	1
3.	Fuzhou Liyuan. . .	4,801	6.8%	Distributor	Based in the PRC. This customer principally engages in the wholesale, distribution and retail of wine products mainly within the city of Fuzhou of the PRC.	9
4.	Shenshang Shangya Trading (Shenzhen) Co., Ltd. (深商 尚雅貿易(深圳) 有限公司). . . .	2,637	3.7%	Distributor	Based in the PRC. This customer principally engages in the wholesale and distribution of Chinese wine products mainly in the city of Shenzhen of the PRC.	1

BUSINESS

Rank	Name of customer	Approximate percentage of our total revenue attributable to the customer		Sales channel	Principal business activities	Approximate years of business with our Group as at the Latest Practicable Date
		RMB'000	%			
5.	Hunan Junde Yayuan Trading Co., Ltd (湖南駿德雅源商貿有限公司). . .	1,139	1.6%	Distributor	Based in the PRC. This customer principally engages in the wholesale and retail of Chinese wine products within Hunan Province of the PRC.	1
Five largest customers combined . . .		60,914	86.4%			
Total revenue . . .		70,384	100%			

A majority of our five largest customers (by revenue) during the Track Record Period was distributors. Sales to Xiamen Taofu were recorded as sales to a distributor prior to our acquisition in February 2017. Our five largest customers (by revenue) accounted for approximately 90.8%, 97.3% and 86.4% of our revenue during FY2015, FY2016 and FY2017, respectively. We will continue to use our network of distributors as our principal sales channel. See “Risk Factors — Risks Relating to Our Business — We rely heavily on our distributorship model to generate a substantial portion of our revenue” for further details. Throughout the Track Record Period, Shanxi Jiajia remained as our largest customer (by revenue) and accounted for approximately 48.6%, 70.6% and 66.4%, respectively, of our revenue during FY2015, FY2016 and FY2017.

With the exception of Xiamen Taofu and Fuzhou Liyuan, the relationship of whom with Ms. Chan, an executive Director and a Controlling Shareholder is set out in “— Sales and Distribution — Distributors” above, none of our Directors, chief executive, Substantial Shareholders has any interest in any of our five largest customers (by revenue) during the Track Record Period.

WINE PRODUCT DEVELOPMENT

To maintain our competitiveness in the market, we have a product development team consisting of five members who are responsible for improving the quality of our existing products and innovating new wine formula. Our product development team is led by our cultivation technology supervisor who also works with overseas wine makers to develop our new wine products.

The main activities of our product development team include the experimentation and formulation of new wine products, testing and decision-making on the selection and procurement of different varieties of grapes, examining the process of fermentation and sampling on the fermented base wines.

Over the next few years, we intend to introduce more new wine products.

QUALITY CONTROL AND ASSURANCE

To ensure the quality of our wine products, we have established a quality management system for the entire procurement and production process, ranging from sourcing of raw materials (including externally-sourced grapes), production, packaging, inventory storage to bottling and logistics. We believe the quality of our wine products largely depends on the quality of grapes we use to make wine. Accordingly, we apply stringent quality criteria during the cultivation process of our self-cultivated grapes and in vetting and selecting our externally-sourced grapes, details of which are shown below:

1. We sample and analyse our self-cultivated grapes throughout and at least six times a year to closely monitor grape quality and to decide on the timing for harvest. The analysis mainly focuses on ripeness, sugar content, total acidity and pH value. Such timing of harvest is essential to the quality of our wine products as overripe or under-ripe grapes could both have a detrimental effect to the quality. We also send our technicians to visit our vineyards and farmers from time to time to closely supervise the nurturing of the grapes.
2. Grapes are picked based on individual vineyard plot ripeness. We send our technicians to record the natural sugar content of the grapes and monitor the collection of grapes during each harvest season. The picked grapes will then be delivered to our production facilities for further processing.
3. We also require all of our external grape suppliers to strictly follow our guidelines on vineyard management and grape growing process.
4. Our staff conducts an inspection when grapes are delivered to our wine-making facilities and all grapes which are not in compliance with our standards will be rejected.

In addition, quality control measures taken during the wine-making process is equally important to ensure the quality of our wine products. As such, we implement the following procedures throughout the process from the arrival of grapes to bottling of our wine products:

1. We have a set of laboratory procedures to monitor the entire wine-making process. Our laboratory monitors and analyses the fermentation rate, temperature and pH value of the juice/wine, acidity level changes and wine colour. The analysis results are important for our wine-making and quality control teams to make quick decisions on treatments that should be undertaken to specific tanks relating to extractions rate, durations and method of extractions, temperatures control and additions of fermentation material which may be added several times per day per tank.
2. We conduct laboratory inspections at least twice a day on all tanks during fermentation, and our staff taste through all the tanks right from the preliminary stage to over 30 samples. Our team works over 12 working hours per day during harvest.
3. After fermentation is completed, our staff perform initial grading to the wine, which is then categorised into our different grades of products between our *entry-level* wine portfolio and *higher-end* wine portfolio.

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4. We use specific tank shape and type for different of grapes (in terms of maturity and variety). In general, some larger tanks are more suitable for producing lesser tannic wine, as they taste less dry; whilst some smaller size tanks are used for our higher quality grapes as they are better in extracting flavours out from the grapes.
5. We use different pumps that are designated for different purpose in different stage of winemaking to minimise flavour losses and to produce a more gentle effect in treating the wine.

As at the Latest Practicable Date, we had a team of five quality control staff members, who are responsible for setting our quality control assurance policies and standards, implementing our quality control system and conducting quality control activities during our wine-making process, and conducting quality assurance inspections during the different stages of the wine-making process.

INVENTORY CONTROL

Our inventories principally comprise (1) raw materials, being mainly bottles, corks, enzymes, additives, labels, lids and paper boxes, (2) work-in-progress, being base wine in tanks or wine in barrels or bottled wine before attaching our labels, and (3) finished goods, being wine products ready to be sold. The balance of our inventories amounted to approximately RMB75.5 million, RMB79.8 million and RMB77.5 million as at 31 December 2015, 2016 and 2017. Our immature grapes are not included as our inventories because they are treated as biological assets in our financial statements. See “Financial Information — Description of Selected Items of Consolidated Statements of Financial Position — Inventories” and “Financial Information — Description of Selected Items of Consolidated Statements of Financial Position — Biological assets” for a detailed discussion of our inventories and biological assets.

During the harvest season of grapes from August to early October each year, we pick and, if necessary, source externally, all grapes required to make wine. The grapes are then processed into base wine, and blended and aged accordingly to achieve the desired taste and quality of the respective wine products that we make. Our inventory levels for our work-in-progress, semi-finished and finished wine products are largely determined by projected sales level in the forthcoming year, which we usually plan a year ahead in accordance with prevailing market trends and customer preferences. We monitor the level of our inventory of raw materials to maintain a level sufficient for us to update our cultivation, wine-making and procurement plans where necessary. We usually have sufficient safe stock levels for each major series of wine products.

For FY2015, FY2016 and FY2017, our average inventory turnover days were approximately 978, 1,102 and 791, respectively, while the balance of our inventories accounted for approximately 43.6%, 39.1% and 59.8%, respectively, of our total current assets during the same period. A majority of our inventories at each year end are semi-finished wine products (being base wine in tanks or barrels or bottled wine before attaching our labels).

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The physical conditions of our inventories are reviewed by our management on a half-yearly basis. Our policy on obsolete or damaged inventory is to write off such inventory when our management considers the obsolete or damaged inventory to have no residual value.

LOGISTICS AND WAREHOUSING

Logistics

Most of our raw materials are delivered to us by our suppliers at their own cost.

Save for Shanxi Jiajia (which arranges for delivery logistics at their own cost), we engage third party logistics companies to deliver our wine products and we are responsible for the delivery costs incurred. During the Track Record Period, we had not suffered any loss or paid any compensation as a result of delays in delivery or poor handling by third party logistics companies.

Warehousing

We generally do not keep grapes in our warehouses as grapes (self-cultivated or externally-sourced) are usually crushed before arriving at our wine-making facilities to lower transportation costs and avoid decay. Our work-in-progress, being base wine in tanks or wine in barrels or bottled wine before attaching our labels, are stored in tanks, barrels and warehouses. After completion of wine-making process, our finished wine products are stored in the warehouses within our wine-making facilities before sales and distribution. For further details of our wine-making facility, see “— Wine-making Facilities” above.

COMPETITION

According to the F&S Report, the PRC wine market is highly competitive, with more than 1,000 wine-making enterprises in 2016. Our key sales location, Shanxi, has a relatively more concentrated wine market compared to the rest of the PRC, with approximately 15 major players, the top five of which took up approximately 62.1% of the market based on retail sales revenue in 2016. We are the largest wine maker with a market share of 14.9% in Shanxi, based on retail sales revenue in 2016 and according to the F&S Report.

We are constantly challenged by the other large-scale wine makers in Shanxi with a market share close to ours. We also face intense competition from other PRC-based wine makers and also from the increasing presence of overseas imported wine in our key sales location within the PRC, being Shanxi, Zhejiang, Fujian, Henan, Hunan and Guangdong provinces. We plan to maintain our core focus on quality to offer value-for-money wine products to the wine consumption public in the PRC and to maintain our competitiveness. See “— Business Strategies” above on the detailed strategies we deploy to maintain and enhance our market position.

According to the F&S Report, there are certain barriers to enter the wine making industry in the PRC, which include (1) obtaining the necessary production licences issued by the government; (2) high requirements for the growing environment for quality wine grapes; (3) retaining professional talent and the techniques of vinification; (4) establishing a stable and

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efficient sales network and customer relationship; (5) maintaining lots of land resources for the cultivation of wine grapes, and (6) large initial capital investment due to the three to four years' of wine production process.

See “Risk Factors — Risk Relating to the Industry in which We Operate — We face intense competition in the domestic PRC market, which may affect our operating results” and “Risk Factors — Risk Relating to the Industry in which We Operate — The entry of international wine operators and enterprises may result in increased competition, decreased revenue and uplifted costs and our Group's success depends on our ability to compete with our international competitors” for our competition risks.

PROPERTIES

We operate our business through a number of properties in the PRC and Hong Kong for our vineyard, wine-making facilities, offices and other operations. These property interests are used for non-property activities as defined under Rule 8.01(2) of the GEM Listing Rules and are primarily comprised: (i) owned land interests of five parcels of owned land with a total site area of approximately 833,197.60 sq.m.; (ii) seven self-owned buildings/structures with a total gross floor area of approximately 19,095.86 sq.m.; and (iii) 25 leased/shared land and/or properties with a total site area/gross floor area of approximately 482,078.53 sq.m.

All of our property interests are for non-property activities for the purpose of the GEM Listing Rules. The aggregate carrying amount of our Group's property interests is above 15% of our total assets. The land and property that are part of our Shanxi Winery as well as our adjacent Shanxi Vineyard, which comprise a number of leased collectively-owned farmland, were valued by the Property Valuer and the full-text valuation report of which is set out in “Appendix III — Property Valuation”. Other property interests including our Ningxia Winery, as well as each of the properties leased in Xiamen, Shanghai and Hong Kong, were not valued by the Property Valuer as each of them had a carrying amount of less than 15% of our total assets as at 31 December 2017.

Owned Land and Properties

Owned land

As at the Latest Practicable Date, our owned land and properties interests included four parcels of land with an aggregate land area of approximately 101,864.27 sq.m. and seven buildings of aggregate floor area of approximately 19,095.86 sq.m. in the PRC. The table below shows the details of our owned land interests in the PRC as at the Latest Practicable Date:

Location	Actual usage	Approximate area (sq.m.)	Expiration date
Shanxi			
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Our Shanxi Winery	23,850	18 November 2048
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Our Shanxi Winery	1,875	1 September 2059
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Our Shanxi Winery	3,339.27	1 September 2059
Sub-total		29,064.27	

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Location	Actual usage	Approximate area (sq.m.)	Expiration date
Ningxia			
Binghe Road West, Zhong Zhuang Village, Daba Town, Qingtongxia City (青銅峽市大壩鎮中莊村濱河大道西側) ⁽¹⁾	Our Ningxia Winery	72,800	20 March 2063
Total		101,864.27	

Note:

- (1) As advised by our PRC Advisers, the late construction and late completion of our construction constitute non-compliances under PRC laws and regulations. For details, see “— Title defects and non-compliance incidents relating to our property interests” below.

Owned buildings

The table below shows a summary of the buildings owned by us:

Location	Actual usage	Approximate gross floor area (sq.m.)
Shanxi		
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Cooling system room	499.31
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Sewerage system room	293.08
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Warehouse	2,341.57
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Warehouse	12,171.40
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Production (fermentation room)	1,737.69
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Staff dormitory	1,950.45
No. 11802, Unit 1, Tower 3, Yujin Huafu Commercial and Residential Block, Taigu County (太谷縣御錦華府商住 小區一期工程第3幢1單元11802號) ^(Note)	Office	102.36
Total		19,095.86

Note: As advised by our PRC Legal Advisers, our property interests in this building are subject to certain defects. For details, see “— Title defects and non-compliance incidents relating to our property interests” below.

Title defects and non-compliance incidents relating to our property interests

Details and steps taken for the title defects and non-compliances

No.	Background	Particulars of title defects/non-compliance	Reasons	Legal consequences and maximum potential liabilities	Rectification measures taken and status
1.	<p>Pursuant to the contracted management agreement (the "Contracted Management Agreement") entered into between the People's Government of Shaogang Town of Qingtongxia City (the "Shaogang Town People's Government") and Ningxia Ganlin (our subsidiary) in 2013, amongst others, (i) the land use rights of the Ningxia Vineyard Land Parcel was contracted to Ningxia Ganlin in respect of the Ningxia Vineyard Land Parcel of equivalent to approximately 731,333.33 sq.m. from 1 April 2011 until 31 March 2041. Our PRC Legal Advisers have advised that the Contracted Management Agreement was sealed and signed which evidences the Shaogang Town Peoples' Government agreement to it. We did not commence cultivation of grapes for wine-marking purpose on the Ningxia Vineyard Land Parcel until 2013 because of the agricultural works we undertook to prepare the soil for satisfactory grape quality for wine-making purpose. These works included vine plantation and trial cultivation.</p>	<p>As advised by our PRC Legal Advisers, pursuant to the PRC Land Administration Law (中華人民共和國土地管理法) and its implementing regulations, Regulations of Ningxia Hui Autonomous Region on Land Administration and other relevant regulations, the use of land with an aggregate area between 60 and 600 hectares is subject to the approval of the People's Government of the Ningxia Hui Autonomous Region (the "Ningxia People's Government").</p> <p>As the area of the Ningxia Vineyard Land Parcel is approximately 73.13 hectares, its use is subject to the prior approval of the Ningxia People's Government. However, at the time when our Group began to cultivate grapes for wine-making purpose on the Ningxia Vineyard Land Parcel, approval from the Ningxia People's Government was not obtained.</p>	<p>At the time when our Group began to cultivate grapes for wine-making purpose on the Ningxia Vineyard Land Parcel in 2013, we had solely relied on the communication with the local government authorities and the execution of the Contracted Management Agreement. We were not aware of, and had not been advised by the local government authorities, that an approval from the Ningxia People's Government, being a higher-level government authority, was required prior to the use of the Ningxia Vineyard Land Parcel. As a result, Ningxia Ganlin, without external professional legal advice at the relevant time, did not have knowledge that an approval from the Ningxia People's Government was necessary for the government to transfer the land use rights.</p>	<p>As advised by our PRC Legal Advisers, under the relevant PRC laws and regulations, in the absence of the approval from the Ningxia People's Government, the Land and Resources Bureau of Qingtongxia City has the right to order Ningxia Ganlin (1) to return the Parcel AB Farmland, and/or (2) to pay a maximum fine of not more than RMB30 per sq.m. in respect of the area of the Parcel AB Farmland. The maximum total sum amounts relating to Parcel AB Farmland amounts to RMB15.3 million.</p>	<p>County-level</p> <p>In respect of the defects to the land use rights and non-compliant land usage of the Ningxia Vineyard Land Parcel (the "Defects"), we have obtained the following regulatory assurances from the relevant county-level authorities:</p> <p>a. the Parcel A Certificate, being a forestry certificate certifying our Group's land use rights over Parcel A from the Qingtongxia City People's Government and the Forestry Bureau of Qingtongxia City (which forms a part of the Qingtongxia City People's Government) (the "Qingtongxia Forestry Bureau"). Our PRC Legal Advisers have confirmed to us that (1) the Qingtongxia City People's Government is a competent authority to issue the Parcel A Certificate, and (2) a forestry certificate bears the legal power to certify the land use right of a forestry land and it is unlikely for our Group to be required to obtain a land use right certificate in respect of Parcel A in addition to the Parcel A Certificate.</p> <p>b. a letter from the Land and Resources Bureau of Qingtongxia City (the "Qingtongxia Land Bureau"), confirming that, amongst others, no penalty will be imposed on our Group's use of the Ningxia Vineyard Land Parcel (the "Land Bureau Letter"). Our PRC Legal Advisers have advised our Directors that the Qingtongxia Land Bureau (being a part of the Qingtongxia City People's Government) is a competent authority to issue the Land Bureau Letter.</p>

No.	Background	Particulars of title defects/non-compliance	Reasons	Legal consequences and maximum potential liabilities	Rectification measures taken and status
	<p>The determination of the land contracted management fees (the "Fees") was based on the Opinions on Further Accelerating the Construction on the Wine Grapes Base (Qingdangfa [2010] No.40) issued on 13 June 2010 by the Municipal Party Committee of Qingtongxia City and the Qingtongxia City People's Government, pursuant to which, (i) no Fees shall be charged for the first five years from 1 April 2011; (ii) RMB100/mu from the 6th to 10th year, payable within 60 days after the execution of Contracted Management Agreement; (iii) RMB150/mu the 11th to 20th year, payable before 31 December 2020; and (iv) RMB200/mu from the 21st to 30th year, payable before 31 December 2030. On 23 May 2013, Ningxia Ganlin had duly paid the Fees in the sum of RMB548,500 for the 6th to 10th year (i.e. from 1 April 2016 to 31 March 2021) to Shaogang Town People's Government.</p>				<p>c. a letter from the Qingtongxia Forestry Bureau, confirming that, amongst others, (1) no penalty will be imposed on our Group's use of the Ningxia Vineyard Land Parcel, and (2) there is no material legal impediment on the issue of the Parcel B Certificate (the "Parcel B Letter"). Our PRC Legal Advisers have advised our Directors that the Qingtongxia Forestry Bureau (being a part of the Qingtongxia City People's Government) is a competent authority to issue the Parcel B Letter.</p> <p>d. a confirmation from the Grassland Administration Unit of Husbandry, Science and Technology Bureau of Qingtongxia City (the "Qingtongxia Husbandry Bureau") that, amongst others (1) our Group can continue to use the Parcel AB Grassland for grapes cultivation, (2) no penalty will be imposed for our Group's use of the Parcel AB Grassland, and (3) it has no objection to the application for the Parcel B Certificate (the "Grassland Confirmation"). Our PRC Legal Advisers have advised our Directors that the Qingtongxia Husbandry Bureau (being a part of the Qingtongxia City People's Government) is the competent authority to administer grassland in Qingtongxia City and to give the Grassland Confirmation.</p> <p>In particular, our PRC Legal Advisers have confirmed to us that pursuant to the PRC Land Administration Law, PRC Forestry Law, PRC Forestry Law and Regulations on the Implementation of the Forestry Law of the PRC, Administrative Measures of Ningxia Hui Autonomous Region on Forestry Land, and Opinions on Carrying out Registration and Certification of Forest Rights in the Whole Region, a forestry certificate bears the legal power of certifying the ownership of forest and the rights to use the land. The forestry right certificate is the only legitimate certificate for forestry land unless the usage for such land is altered, and on the same parcel of forestry land shall not be issued more than one certificate in relation to the land use right.</p>

No.	Background	Particulars of title defects/non-compliance	Reasons	Legal consequences and maximum potential liabilities	Rectification measures taken and status
	Ningxia Vineyard Land Parcel comprises a portion of land with an area of approximately 382,000 sq.m. ("Parcel A") and a portion of land with an area of approximately 349,333.33 sq.m. ("Parcel B"). A portion of each of Parcel A ("Parcel A Farmland") sq.m. and Parcel B ("Parcel B Farmland") sq.m. amounting to an aggregate area of approximately 510,133.33 sq.m. falls under the category of farmland (together, the "Parcel AB Farmland").				<p>Further, according to the Supplementary Opinions, which was promulgated by the Qingtongxia City People's Government and the Municipal Party Committee of Qingtongxia City and the Qingtongxia City People's Government on 29 April 2011 (the "Supplementary Opinions"), a same parcel of land shall not be issued with both a certificate of land use rights and a forestry right certificate. Our PRC Legal Advisers have confirmed to us that the Supplementary Opinions are consistent with the regulations and practices of the Ningxia People's Government.</p> <p>Provincial-level</p> <p>According to our PRC Legal Advisers, there is no other regulatory recourse for us to independently obtain the required approval to use the Ningxia Vineyard Land Parcel from the Ningxia People's Government without going through the county-level government authorities in respect of the Defects. As such, we had been unable to obtain the required approval or any regulatory assurance from the Ningxia People's Government as at the Latest Practicable Date.</p> <p>Disposal of the Ningxia Vineyard Land Parcel</p> <p>With a view to give additional assurance to the potential investors of our Shares as to our Directors' continual commitment to operate our activities in a fully compliant manner, we have disposed of the Ningxia Vineyard Land Parcel to Ms. Chan, a Controlling Shareholder (the "Disposal"). Pursuant to a share purchase agreement dated 1 June 2018 entered into between Ms. Chan and our Company, Ms. Chan acquired the entire issued share capital of Interfusion (which indirectly wholly-owns Ningxia Ganlin through Corporate Asia and thus the Ningxia Vineyard Land Parcel) at a consideration of RMB1. Such consideration was arrived at with reference to (1) the consolidate net liabilities of Interfusion as at 31 March 2018 of approximately RMB5.7 million, and (2) the fair value of Ningxia Ganlin as at 31 March 2017 of RMB0 as determined by an independent valuer (which can be attributed to the net liabilities position mentioned above). The Disposal was legally and properly completed on 1 June 2018, and Ms. Chan will cause Ningxia Ganlin to repay an aggregate amount of approximately RMB9.0 million due to us before the Listing. Ms Chan has confirmed that she has no intention to use the Ningxia Vineyard Land Parcel for grape-cultivation or wine-making activities, whether in association with us or not.</p>

No.	Background	Particulars of title defects/non-compliance	Reasons	Legal consequences and maximum potential liabilities	Rectification measures taken and status
2.	<p>Pursuant to the Contracted Management Agreement, Ningxia Ganlin shall, amongst others, (i) use the land to cultivate grapes for wine-making, and (ii) if Ningxia Ganlin uses the Ningxia Vineyard Land Parcel for non-agricultural use, establishments for animal husbandry or any uses other than those stipulated under the Contracted Management Agreement, Ningxia Ganlin shall apply to the Shaogang Town People's Government.</p> <p>During the Track Record Period, Ningxia Ganlin had used and cultivated wine grapes on the Parcel AB Grassland. Amongst the Ningxia Vineyard Land Parcel, apart from the Parcel AB Farmland, the remaining portion of the Ningxia Vineyard Land Parcel amounting to an approximate area of 221,200 sq.m. falls under the land usage category of grassland (the "Parcel AB Grassland") in which cultivation activities are prohibited.</p>	<p>During the Track Record Period, Ningxia Ganlin had used and cultivated wine grapes on the Parcel AB Grassland which is non-compliant with the land usage of Parcel AB Grassland.</p>	<p>At the time when we began to use Ningxia Vineyard Land Parcel in 2013, we had solely relied on the communication with the local government authorities and the execution of the Contracted Management Agreement, pursuant to which Ningxia Ganlin shall, amongst other things, use the land to cultivate grapes for wine-making. Without receiving external professional legal advice on the necessary approval for the cultivation activities, we were not aware of, and had not been advised of, the relevant competent authority governing the land usage of grassland and that a portion of the Ningxia Vineyard Land Parcel is categorised as grassland and cultivation activities would be prohibited.</p>	<p>Pursuant to the Grassland Law of the PRC (中華人民共和國草原法), anyone who uses and cultivates on grassland without approval may be ordered to (i) return the non-compliant grassland, (ii) cease all non-compliant acts, (iii) restore the grassland vegetation within a prescribed time limit, (iv) surrender all gains derived therefrom, (v) pay a maximum fine of five times the amount of the non-compliant gains, and (vi) have its unlawful property of value confiscated. The maximum penalty relating to Parcel AB Grassland amounts to approximately RMB8.8 million, being five times of the gains obtained from the cultivation since the Parcel AB Grassland is first used until 2016 grape harvesting season.</p>	<p>Our PRC Legal Advisers have confirmed to us that upon completion of the Disposal, we are no longer exposed to any legal liability relation to the Defects because Ningxin Ganlin, being the only party responsible for the legal liabilities in respect of the Defects, will become a separate legal entity from our Group upon completion of the Disposal.</p> <p>Our Directors are of the view that the Disposal will not result in any significant disruption to our business activities. See "— Raw Materials — Grapes" for their basis.</p> <p>Same as above</p>

No.	Background	Particulars of title defects/non-compliance	Reasons	Legal consequences and maximum potential liabilities	Rectification actions taken and status
3a.	<p>Pursuant to the assignment agreement (the "Assignment Agreement") for the land located on Binghe Road West, Zhongzhuang Village, Daba Town, Qingtongxia City (the "Ningxia Winery Land Parcel"), the development projects on such land shall begin by 15 June 2013 and be completed by 31 December 2014.</p>	<p>The construction of Ningxia Winery did not commence until April 2015 and as at the Latest Practicable Date, had not been completed.</p> <p>Pursuant to the PRC Urban Real Estate Administration Law (中華人民共和國城市房地產管理法) ("UREAL") and the Measures for Disposal on Idle Land (閒置土地處置辦法) ("MDIL"), if the owner of the land use rights does not begin the development within one year from the commencement date as stipulated in the Contract for Paid Use of State-owned Construction Land, the land shall be treated as idle land.</p> <p>In addition, it constitutes to a breach of the Assignment Agreement.</p>	<p>This is due to the management's inadvertent oversight of the contractual terms and that our Group was not aware of the legal requirements of AFACIP and MAFACIP.</p>	<p>Under the provisions governing idle land, the relevant authority may order Ningxia Grace Vineyard to pay 20% of the consideration (being RMB8.74 million) of the assignment as the penalty for idling the land (the "Administrative Penalty"). Hence, the maximum Administrative Penalty amounts to approximately RMB1.7 million.</p> <p>In addition, pursuant to the Assignment Agreement, the relevant authority (being the assignor of the land) has the right to request Ningxia Grace Vineyard to be pay a sum of contractual damages amounted to 0.1% of the contract consideration for each day of delay in the commencement and/or completion of the construction. The maximum contractual liability amounts to approximately RMB25.0 million on the assumption that the first and second phase construction of Ningxia Winery would be completed with all necessary approvals obtained by 31 December 2020.</p>	<p>A confirmation letter was issued by the Land and Resources Bureau of Qingtongxia City on 24 August 2017 confirming, amongst other things, that (i) the construction of Ningxia Winery began from April 2015 and had not been completed, (ii) it will not impose any Administrative Penalty nor enforce the contractual breach under the Assignment Agreement, and (iii) the development on and the continual use of such land is agreed. Our PRC Legal Advisers have advised that the Land and Resources Bureau of Qingtongxia City is a competent authority to issue the confirmation letter in this context for our non-compliance incidents under UREAL, MDIL and pursuant to the contractual provisions.</p> <p>Our PRC Legal Advisers have advised us that, on the basis that Ningxia Grace Vineyard has obtained the above confirmation letter from the respective competent authorities, and that under the laws relating to the Administrative Penalty in the PRC, such Administrative Penalty shall no longer be imposed where an illegal act is not discovered within two years of its commission, except otherwise prescribed by law, (counting from the date of commencement of construction of our Ningxia Winery), the imposition any punishment in respect of the administrative penalty for non-compliance under the UREAL and MDIL is time-barred.</p>

No.	Background	Particulars of title defects/non-compliance	Reasons	Legal consequences and maximum potential liabilities	Rectification actions taken and status
3b.	Ningxia Grace Vineyard began the construction of Ningxia Winery without the effective approval from the development and reform governing authority, since the approval obtained from National Development and Reform Commission of the Ningxia Winery on 30 July 2012 expired.	It constitutes to non-compliance under the Regulations on the Approval and Filing Administration of Corporate Investment Projects (企業投資項目核准和備案管理條例) ("AFACIP") and Measures for Approval and Filing Administration of Corporate Investment Projects (企業投資項目核准和備案管理辦法) ("MAFACIP").		The maximum penalty under the AFACIP and MAFACIP, is amounted to RMB50,000.	<p>Another confirmation letter was issued by National Development and Reform Commission of the Ningxia Winery (the "Ningxia Winery NDRC") in relation to the non-compliance relating to the non-compliance under AFACIP and MAFACIP, confirming, <i>inter alia</i>, that they will not enforce the penalty under AFACIP and MAFACIP. Our PRC Legal Advisers have confirmed that the Ningxia Winery NDRC, as the authority having issued the approval for our Ningxia Winery project, is the competent authority to issue such confirmation letter in accordance with the Administrative Measures for the Confirmation and Recordation of Foreign-Funded Projects (外商投資項目核准和備案管理辦法), Regulation on the Administration of the Confirmation and Recordation of Enterprise Investment Projects (企業投資項目核准和備案管理條例), the Administrative Measures for Approval and Record-filing of Enterprise Invested Projects (企業投資項目核准和備案管理辦法) and the Administrative Measures for Approval and Record-filing of Enterprise Invested Projects of Ningxia Hui Autonomous Region (寧夏回族自治區企業投資項目核准和備案管理辦法).</p> <p>As at the Latest Practicable Date, the first phase construction of our Ningxia Winery had been completed and is expected to be fully operational after the 2018 grape cultivation season with necessary approval and/or certificate required under PRC laws obtained. As such, on the basis that relevant confirmation letters received have been issued by competent authorities, our Directors are of the view that such non-compliance is unlikely to have material adverse financial impacts on our business operations of our Ningxia Winery and financial performance of our Group, and in particular the operation and the projected capacity of our Ningxia Winery.</p>

Measures adopted by our Group to prevent re-occurrence of non-compliance incidents and ensure continuing compliance

Going forward, our Group will engage PRC legal advisers for its business operations and property matters to (i) ensure that the relevant party possessed necessary authority, ability and approvals to enter into contracts and other with our Group, and (ii) assist our Group with conducting due diligence on property-related matters and fulfill procedural requirements as a public listed company.

In addition, our Controlling Shareholders have entered into the Deed of Indemnity in favour of our Group to indemnify us in full, among other things, in respect of any losses and liabilities arising from the aforesaid non-compliance incidents including the relocation costs and any monetary penalty ordered by the relevant authorities. Accordingly, no provision has been made in relation to the aforesaid incidents in our consolidated financial statements during the Track Record Period.

Save as disclosed in “— Properties” herein and in “— Compliance with PRC laws and regulations — Legal compliance and internal control” below, we have obtained all the required land use rights and building ownership certificates for our properties.

Leased Properties

As at the Latest Practicable Date, we leased 18 parcel of lands with an aggregate land area of 480,488.53 sq.m., all of which are collectively-owned land for our grape cultivation, seven properties with an aggregate floor area of approximately 847 sq.m. in the PRC and one property with an aggregate floor area of 743 sq.m. in Hong Kong.

Lease of collectively-owned land

As at the Latest Practicable Date, we leased seven parcels of collectively-owned land as our farmland for grapes in Shanxi.

In respect of collectively-owned land leased by our Group used for agricultural purposes, according to the relevant PRC laws and regulations, as advised by our PRC Legal Advisers, members (i.e. the farmer-households) of a collective economic organisation in rural areas have the right to contract (承包) the rural land awarded by their collective economic organisation. The contractors (承包人) acquiring the contracted management right of rural land may by themselves or entrust the contract-letting party (發包人) or intermediary organisation to further circulate the

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contracted management right of rural land to other entities and individuals. The table below shows the details of our lease of the collectively-owned land and property.

Location	Lessor	Actual usage	Approximate area (sq.m.)	Terms of Lease	Expiry
Shanxi					
Dongbu Village, Rencun Town, Taigu County (太谷縣任村鄉東卜村)	Villagers' Committee of Dongbu Village, Rencun Town, Taigu County, Shanxi Province (山西省太谷縣任村鄉東卜村村民委員會)	Grape cultivation	62,286.03	11 years	31 December 2024
Dongbu Village, Rencun Town, Taigu County (太谷縣任村鄉東卜村)	Villagers' Committee of Dongbu Village, Rencun Town, Taigu County, Shanxi Province (山西省太谷縣任村鄉東卜村村民委員會)	Grape cultivation	14,513.20	11 years	31 December 2024
Hao Village, Rencun Town, Taigu County (太谷縣任村鄉郝村)	Taigu Ziyun Grape Professional Co-op (太谷紫韻葡萄專業合作社)	Grape cultivation	2,433.31	11 years	31 December 2024
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Villagers' Committee of Dongjia Village, Rencun Town, Taigu County, Shanxi Province (山西省太谷縣任村鄉東賈村委員會)	Grape cultivation	5,033.28	11 years	31 December 2024
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Taigu Ziyun Grape Professional Co-op (太谷紫韻葡萄專業合作社)	Grape cultivation	159,398.41	11 years	31 December 2024
Hao Village, Rencun Town, Taigu County (太谷縣任村鄉郝村)	Taigu Ziyun Grape Professional Co-op (太谷紫韻葡萄專業合作社)	Grape cultivation	163,698.36	11 years	31 December 2024
Neijia Village, Rencun Town, Taigu County, Shanxi Province (太谷縣任村鄉內賈村)	Taigu Ziyun Grape Professional Co-op (太谷紫韻葡萄專業合作社)	Grape cultivation	61,146.06	11 years	31 December 2024
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Kang Yunhu (康雲虎)	Grape cultivation	1,679.98	9 years	31 December 2024
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Sun Qiubing (孫秋兵)	Grape cultivation	1,206.65	9 years	31 December 2024

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Location	Lessor	Actual usage	Approximate area (sq.m.)	Terms of Lease	Expiry
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Wang Yuanbin (王顯斌)	Grape cultivation	613.33	9 years	31 December 2024
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Zhao Gouhu (趙夠虎)	Grape cultivation	1,266.65	9 years	31 December 2024
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Zhao Liming (趙利明)	Grape cultivation	533.33	9 years	31 December 2024
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)	Zhao Xiugen (趙秀根)	Grape cultivation	2,066.65	9 years	31 December 2024
Hao Village, Rencun Town, Taigu County (太谷縣任村鄉郝村)	Han Zhenxing (韓振興)	Grape cultivation	1,166.66	9 years	31 December 2024
Hao Village, Rencun Town, Taigu County (太谷縣任村鄉郝村)	Xu Lisheng (徐利生)	Grape cultivation	846.66	9 years	31 December 2024
Dongjia Village, Taigu County (East Side of East Warehouse of Grace Vineyard) (太谷縣東賈村 (怡園酒莊東區庫房東側))(Note)	Cheng Runjun (成潤軍)	Grape cultivation	1,699.98	13 years 8 months	31 December 2024
Dongjia Village, Rencun Town, Taigu County (太谷縣任村鄉東賈村)(Note)	Li Sanhuo (李三貨)	Grape cultivation	100.00	11 years	31 December 2024
Hao Village, Rencun Town, Taigu County (太谷縣任村鄉郝村)(Note)	Li Yongli (李永利)	Grape cultivation	799.99	9 years	31 December 2024
Total			<u>480,488.53</u>		

Note: As at the Latest Practicable Date, the lessor in each of these leased land could not provide the lessor's certificate of rights. Given the size of these leased land interests, our Directors are of the view that there is no material impact to our operation if each of these land cannot be leased to us.

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As advised by our PRC Legal Advisers, save for certain leases where the lessors were not able to provide the certificate of rights to us as specified in the note to the table above, each of the leases of the collectively-owned land for agricultural purposes, which was leased by the entities or individuals as lessors that lawfully had such right to lease the land and had filed the lease agreements with the competent rural land contracting authorities, was legal, valid and binding on the parties under the relevant PRC laws and regulations and the usage of such land parcels complies with the relevant PRC laws and regulations in all material aspects.

Lease of properties

The table below shows a summary of the properties leased by our Group in the PRC and in Hong Kong as at the Latest Practicable Date:

Location	Lessor	Actual usage	Approximate area (sq.m.)	Term of lease	Expiration date
<i>The PRC</i>					
Unit 418, 4/F, Huaxia Industrial Centre, 43 Tiyu Road, Siming District, Xiamen City (廈門市思明區體育路43號華夏工業中心配套樓4層418單元) . .	Xiamen Tongxie Business Service Company (廈門同協商務服務有限公司)	Office	248	5 years	15 July 2021
Room 606, 143 Yuxiu Lane, Siming District, Xiamen City (廈門市思明區育秀里143號606室)	Ke Wenliang (柯溫良)	Dormitory	83	2 years	27 July 2018
Unit 6C, Huaxia Industrial Centre, 43 Tiyu Road, Siming District, Xiamen City (廈門市思明區體育路華夏工業中心6C單元之六).	Xiamen Zhengcheng Properties Limited (廈門正承置業有限公司)	Office and warehouse	130	4 years	15 July 2021
Dadui West Room, Dongbu Village, Rencun Town, Taigu County (太谷縣任村鄉東卜村大隊西房) ⁽¹⁾⁽²⁾	Villagers' Committee of Dongbu Village, Rencun Town, Taigu County, Shanxi Province (山西省太谷縣任村鄉東卜村委會)	Office	20	10 years	1 November 2023

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Location	Lessor	Actual usage	Approximate area (sq.m.)	Term of lease	Expiration date
Room 502, Tower 2, Universal Centre, 175 Xiangyang South Road, Shanghai (上海市襄陽南路175號環中商廈2幢502室)	Shanggong Shenbei (Group) Company Limited (上工申貝(集團)股份有限公司)	Office	85	1 year	31 December 2018
Flat 2, 14th Floor, Zone C, Zhongzhuang New Village (中莊新村C區14號樓2室) ⁽¹⁾ . . .	Chen Lihua (陳利華)	Office	124 ⁽³⁾	No fixed term	N/A
Sub-total			690		
Hong Kong					
Unit 1-3, 11/F, Westlands Centre No. 20 Westlands Road, Hong Kong	Dragonfield Management Limited ⁽³⁾	Office	743	From 1 July 2017 to 26 September 2019	26 September 2019
Sub-total			743		
Total			1,433		

Notes:

- (1) As at the Latest Practicable Date, the lessor in each of these properties land could not provide the legal title document. Given that these leased properties are used as an office but not a wine-making base, our Directors are of the view that there is no material impact to our operation if each of these properties cannot be leased to us.
- (2) As at the Latest Practicable Date, there was no valid lease in writing executed in respect of this leased property. Our Directors are of the view that there is no material impact to our operation if each of these properties cannot be leased to our Group.
- (3) See “Connected Transactions — Fully Exempt Continuing Connected Transactions — 1. Sub-lease agreement” for further information.

See “Appendix III — Property Valuation” for the full-text valuation report on our properties owned and leased in Shanxi.

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INTELLECTUAL PROPERTY

Our intellectual property forms an integral basis for our strong brand recognition and is important to our Group's business. We rely on our "Grace Vineyard (怡園酒莊)" brand and we have already registered the trademarks in relation to our brand in the PRC and Hong Kong. As of the Latest Practicable Date, we had registered a number of trademarks in relation to our "Grace Vineyard (怡園酒莊)" in the PRC and Hong Kong and also applied for registration of a trademark in the PRC. Further details of our intellectual property are set out in "Appendix V — Statutory and General Information — C. Further information about our business — 2. Our material intellectual property rights". During the Track Record Period and as at the Latest Practicable Date, to the best of our knowledge, we were not subject to any material intellectual property claims which could have a material adverse effect on our business or operations.

EMPLOYEES

As at the Latest Practicable Date, we had 118 full-time employees, most of whom are based in the PRC. The table below shows the breakdown of our full-time employees by division and function as at the Latest Practicable Date:

Function	Number of employees	Approximate percentage of total employees
Grape cultivation and grape quality control	4	3.4%
Wine-making technical staff	21	17.8%
Quality control of wine products	5	4.2%
Logistics, delivery and transportation	22	18.6%
Directors, management, accounting and finance	20	16.9%
Human resources and general administration	37	31.4%
Sales, marketing and distributor management	9	7.6%
Total	<u>118</u>	<u>100%</u>

For FY2015, FY2016 and FY2017, we incurred total employee benefit expense of approximately RMB7.2 million, RMB7.4 million and RMB10.2 million, respectively. Compensation for our employees typically consists of base salary, performance-based salary and bonus. Our employees may also be granted other allowances based on their positions. For different level of employees, different and specific performance evaluation is used. Employees' incentives and bonuses are calculated based on the evaluation results of their individual performance.

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In addition, we also employ casual workers through a local workforce organisation during harvesting season when additional seasonal farmers and other wine-making manual workers are required. During the harvesting seasons in the Track Record Period, we had generally employed more than 100 casual workers and their employment was governed by a master employment contract. We require new casual workers to undergo orientation trainings to ensure that they understand our grape products cultivation and operational standards and some background industry knowledge. Our Directors have confirmed that during the Track Record Period, our payments to the local workforce organisation for our casual workers were insignificant.

Pursuant to relevant applicable PRC laws and regulations, we are required to participate in various employee benefit plans, such as pension funds, medical insurance, work-related injury insurance, unemployment insurance, maternity insurance and housing provident funds for our employees (except for casual workers). Our PRC Legal Advisers have confirmed to us that based on the confirmations issued by relevant competent authorities, we have complied with all statutory social insurance and housing fund obligations applicable to us under the PRC laws in all material aspects.

We maintain good working relationships with our employees. We believe that our management policies, working environment, staff development opportunities and benefits have contributed to building good employee relations and retention of our employees. As at the Latest Practicable Date, we had not experienced any strikes or any labour disputes with our employees and casual workers which have had a material effect on our business.

HEALTH, WORK SAFETY AND ENVIRONMENTAL MATTERS

Our operations in the PRC are subject to environmental laws and regulations of the PRC, which include the environmental protection laws as well as laws and regulations in relation to work safety in the PRC. We are also subject to monitoring by local environmental and work safety authorities of the PRC. See “Laws and Regulations” for more details on the laws and regulations applicable to our operation. Our Group may be subject to fines, suspension of business or cessation of operations if there is any significant failure to comply with present or future laws and regulations.

Health and Work Safety

We have implemented measures to address potential risks relating to work safety and health, such as conducting training and circulating operation manuals of production process to enhance our employee’s awareness of safety and health issues at work, and inspecting the safety conditions of our factories from time to time.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material or prolonged disruption of our operations due to equipment failure and we did not experience any severe accidents during our wine-making process which caused material adverse effect on our Group’s financial condition and results of operations.

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Environmental matters

Our business is subject to the PRC national and local environmental laws and regulations. Our wine-making and grape cultivation process mainly produce waste water, solid wastes, noise and gases. Our Directors consider that our wine-making and grape cultivation process do not cause any material damage to the environment and that we have complied with the guidelines imposed by our industry relating to environmental protection.

To minimise the impact of emissions on the environment, we have implemented a set of environmental protection measures. We have installed a sewage treatment plant to treat waste water. We have procedures in place to treat and dispose of our waste in accordance with national and local environmental laws and regulations. To ensure compliance with applicable regulations, we have assigned a number of staff from different departments responsible for supervising and monitoring compliance with statutory regulations and our internal standards relating to environmental protection.

We incur ongoing costs to comply with applicable environmental laws and regulations. During the Track Record Period, our annual cost of compliance with such laws and regulations was insignificant.

Our PRC Legal Advisers have confirmed to us that based on relevant confirmations from relevant competent authorities, our operation were in compliance with the applicable environmental laws and regulations during the Track Record Period.

INSURANCE

We maintain insurance policies in respect of our production facilities with Independent Third Parties. These policies cover losses or damages in respect of machinery and equipment arising from fire. We believe that our insurance policies are adequate and in line with industry norms. We review our insurance policies from time to time and the insurance policies are renewed annually. See “Risk Factors — Risks Relating to our Business — Our insurance coverage may not be adequate to cover all possible losses. In addition, our insurance costs may increase and we may not be able to obtain the same level of insurance coverage in the future” for risk associated with insurance of our Group.

During the Track Record Period and as at the Latest Practicable Date, we had not made and did not make or had not been subject to any material insurance claims and/or product liability claims.

LEGAL, COMPLIANCE AND INTERNAL CONTROL**Compliance with PRC laws and regulations**

Our business is not heavily regulated in the PRC and the principal PRC laws and regulations applicable to us are the land use rights of the properties on which we operate, food safety, work safety, filings of alcohol beverage sold, and environment laws, as well as other generally applicable laws and regulations such as product liabilities, foreign exchange and taxes. During the Track Record Period and up to the Latest Practicable Date, there were no findings notified to us by any regulatory authority in the PRC of any material non-compliance with any law or regulation to which our business is subject.

To carry out our wine-making business in the PRC, we are required to possess a food production license. Shanxi Grace Vineyard has obtained a food production license (valid until 14 December 2022) issued by Food and Drug Administration of Shanxi Province (山西省食品藥品監督管理局) on 15 December 2017 for its wine-making activities and Ningxia Grace Vineyard has obtained a food production license (valid until 28 December 2022) issued by Market Supervision Administration of Qingtongxia City (青銅峽市市場監督管理局) on 29 December 2017 for its prospective wine-making activities.

The agricultural activities of planting grapes do not require any specific license or permit under the relevant PRC laws and regulations.

Save as disclosed in “— Properties”, our PRC Legal Advisers have confirmed to us that we have obtained all necessary licences, permits and approvals for business operations from the relevant authorities in the PRC for our operation.

Litigation

During the Track Record Period and as at the Latest Practicable Date, we were not engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance was known to our Directors to be pending or threatened against us.

Regulatory compliance and internal control

Prior to the Listing Date, our Group has adopted and implemented the following corporate governance and internal control measures to enhance the internal control systems and to ensure compliance of various applicable laws, rules and regulations (including but not limited to the Companies Ordinance and the GEM Listing Rules):

1. Each of our Directors had attended a training session conducted by our Hong Kong legal advisers on directors' responsibilities and duties.
2. All our Directors have undertaken to our Company and the Sole Sponsor that during the first two years following the Listing, they will each attend at least 10 hours of training courses to keep up with the developments in the applicable legal and regulatory requirements which are relevant to their responsibilities and duties as directors of a publicly listed company in Hong Kong.

BUSINESS

3. Mr. Chiu Ming King, has been appointed as the company secretary of our Company. Mr. Chiu is a fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries and has extensive experience in handling the compliance matters of corporate companies. He has undertaken to our Company and the Sole Sponsor that during the first two years following the Listing, he will attend at least 15 hours of training courses to keep up with the developments in the applicable legal and regulatory requirements which are relevant to the responsibilities and duties as a company secretary of a publicly listed company in Hong Kong.
4. An audit committee comprising a non-executive Director and two independent non-executive Directors has been established to review the financial reporting and auditing function, corporate governance and internal control system. In particular, the audit committee will monitor the timing of preparation and filing of the financial statements and tax return of our Group. The audit committee has also adopted its terms of reference which set out clearly its duties and obligations for ensuring compliances with the relevant regulatory requirements.
5. Our Group has engaged H.M. Chan & Co in association with Taylor Wessing as its legal advisers as to Hong Kong law commencing from the Listing Date to advise on the matters regarding compliance with the GEM Listing Rules and other relevant laws and regulations in Hong Kong.
6. To avoid the recurrence of the incidents as set out in “— Properties — Title defects and non-compliances incidents relating to our property interests” above, our Group will engage legal advisers as to PRC law commencing from the Listing Date to advise on relevant laws and regulations in the PRC before the Listing.
7. Our Company has appointed Southwest Securities (HK) Capital Limited as its compliance adviser to advise our Company on compliance matters in accordance with Rule 6A.19 of the GEM Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately upon completion of the Share Offer (but without taking into account any Shares which may be allotted and issued pursuant to the exercise of any option that may be granted under the Share Option Scheme), Macmillan Equity will be interested in approximately 52.5% of our total number of issued Shares. Macmillan Equity is beneficially and wholly owned by Ms. Chan, our executive Director, Chairlady of the Board and Chief Executive Officer. Macmillan Equity will continue to control more than 30% of our issued share capital and therefore, Macmillan Equity and Ms. Chan will be regarded as the controlling shareholders of our Company under the GEM Listing Rules.

Each of our Controlling Shareholders, Substantial Shareholders and our Directors, including our independent non-executive Directors, has confirmed that he/she/it does not have and none of his/her/its respective close associates has interests in any business other than our business, which competes or are likely to compete, either directly or indirectly, with our business and would require disclosure under Rule 11.04 of the GEM Listing Rules.

OTHER RELATED BUSINESS OF THE CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Ms. Chan, one of our Controlling Shareholders, is indirectly interested in 50% shareholding in Intervine Capital Cienega Valley LLC (“**Intervine**”). Intervine is not a member of our Group and is a company incorporated in the United States, which operates a vineyard located in California, the United States under the brand name of “Eden Rift”, specialising in the production of wine made of pinot noir and chardonnay grapes (the “**US Business**”). The remaining 50% shareholding in Intervine is held by an individual who is an Independent Third Party.

Ms. Chan is not a manager of Intervine and is not involved in the day-to-day management, and business operations of the company during the Track Record Period. To the best of the knowledge of the Directors, during the Track Record Period, Intervine was at the production stage and had not generated any revenue from the sales of wine products. It is expected that Intervine would have a targeted annual production volume of approximately 72,000 bottles of wine. Intervine had commenced sales in January 2018 and had sold approximately 700 bottles of wine for the month ended 31 January 2018. In addition, to the best of the knowledge of the Directors, Intervine intends to focus on the United States market and going forward has no intention to sell any of its wine products in the PRC either directly or indirectly through a local distributor when its wine products are commercialised. Moreover, as at the Latest Practicable Date, the Group has no intention to export its products to the United States. Given (i) the geographical focus of Intervine is entirely different from that of our Group, (ii) the vineyard operations of Intervine had remained at its early stage and the targeted production scale is much smaller than that of our Group, (iii) majority of the type of wine grapes used by the US Business are different from that of our Group, and (iv) Intervine had not generated any revenue as at the Latest Practicable Date, our Directors consider there is clear delineation between our Group’s business and the US Business.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Ms. Chan, one of our Controlling Shareholders, is indirectly interested in 20% equity interest in Fujian Dexi Wine Company Limited* (福建德熙酒業有限公司) (“**Fujian Dexi**”), with 20% equity interest indirectly held by Ms. Wong, one of our Substantial Shareholders, and the remaining 60% equity interest held by Ms. Chan and Ms. Wong’s associates. Fujian Dexi is a company incorporated in the PRC with limited liability and principally engaged in the trading of whisky, gin and brandy in the PRC (the “**Fujian Business**”). Ms. Chan has not been and is not expected to be involved in the day-to-day management of Fujian Dexi since its establishment in December 2017. To the best knowledge of the Directors, as at the Latest Practicable Date, Fujian Dexi has not commenced operation and does not generate any revenue from the sales of any liquor products during the Track Record Period and up to the Latest Practicable Date. In addition, to the best knowledge of the Directors, Fujian Dexi intends to focus on the trading of liquor products in the PRC and going forward has no intention to manufacture or sell any wine products in the PRC or elsewhere. Given (i) the business focus of Fujian Dexi is entirely different from that of our Group and (ii) Fujian Dexi has not commenced any operation and had not generated any revenue as at the Latest Practicable Date, our Directors consider there is a clear delineation between our Group’s business and the Fujian Business.

Given the clear delineation among our Group’s business, the US Business and the Fujian Business, our Directors also consider that there is no direct or indirect competition between our Group and the US Business or the Fujian Business. In addition, our Group’s interest is further safeguarded by the Deed of Non-competition pursuant to which Ms. Chan, among other things, undertakes to procure that Intervine and Fujian Dexi will not sell any wine products in the PRC, without obtaining prior written consent from our independent non-executive Directors. For details of the Deed of Non-competition, see “— Deed of Non-competition” below.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors are satisfied that our Group can function, operate and carry on our business, and is financially and operationally, independent of our Controlling Shareholders and their close associates based on the following reasons:

Management independence

Our Company has a Board and members of senior management that function independently from our Controlling Shareholders and their close associates. Our Board is comprised of two executive Directors, two non-executive Directors and three independent non-executive Directors. Our senior management consists of four senior personnel. On the basis of the following reasons, our Directors believe that our Directors and members of our senior management are able to manage our business independently of our Controlling Shareholders:

- (i) with three independent non-executive Directors out of a total of seven Directors in our Board, there will be a sufficiently robust and independent voice within our Board to protect the interests of our independent Shareholders;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (ii) each of our Directors is aware of his/her fiduciary duties as a Director, which require that he/she acts for the benefit and in the best interests of our Shareholders and our Company as a whole and does not allow any conflict between his/her duties as a Director and his/her personal interests to affect the performance of his/her duties as a Director; and
- (iii) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their close associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions.

Operational independence

Our Company makes business decisions independently. On the basis of the following reasons, our Directors consider that our Company will continue to be operationally independent of our Controlling Shareholders and their close associates:

- (i) we have established our own organisational structure made up of functional departments, each with specific areas of responsibility;
- (ii) save for the transactions as set out in the section headed “Connected Transactions” and the Disposal as set out in the section headed “Business” in this prospectus, our Group has not shared our operational resources, such as office premises, marketing, sale and general administration resources with our Controlling Shareholders and their close associates; and
- (iii) we are the holder of all relevant licences and qualifications material to the operation of our business.

Financial independence

Our Directors are of the view that our Group will be financially independent of our Controlling Shareholders and any of their close associates upon Listing. During the Track Record Period, we had certain loans, advances and balances due to and from our Controlling Shareholders and their close associates. For details, see notes 27 and 29 to the Accountants’ Report in Appendix I to this prospectus. All loans, advances and balances due to and from our Controlling Shareholders and their close associates (e.g. the shareholder’s loan) are expected to be fully settled upon Listing and all share pledges and guarantees provided by our Controlling Shareholders and their close associates on our Group’s borrowing are expected to be released in full upon Listing. Our Directors believe that our Group is capable of obtaining financing from Independent Third Parties, if necessary, without reliance on our Controlling Shareholders and their close associates after Listing. In addition, we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third-party financing. Our Directors are satisfied that we are capable of conducting our business independently from any of our Controlling Shareholders (including their close associates) after our Company is listed on the Stock Exchange.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

During the Track Record Period, our Controlling Shareholders and certain entities controlled by our Controlling Shareholders and their close associates entered into related party transactions with our Group in the ordinary course of our business and on normal commercial terms and/or arm's length basis. For further details, see "Financial Information — Related Party Transactions" in this prospectus and note 39 to the Accountants' Report in Appendix I to this prospectus. In addition, subsequent to the Track Record Period, we disposed of the Ningxia Vineyard Land Parcel through the transfer of shares of Interfusion (which in turn held the entire equity interest of Ningxia Ganlin through Corpwealth Asia) to Ms. Chan, a Controlling Shareholder, on 1 June 2018. For further details, see "History, Reorganisation and Corporate Structure — Reorganisation — (6) Transfer of shares of Interfusion" and "Business — Raw Materials — Disposal of the Ningxia Vineyard" in this prospectus. Save as disclosed in "Financial Information — Related Party Transactions" and "Connected Transactions" in this prospectus, none of the historical related party transactions with our Controlling Shareholders and their close associates are expected to continue after Listing.

DEED OF NON-COMPETITION

In order to avoid potential conflicts of interests between our Controlling Shareholders and our Company, our Controlling Shareholders have entered into a deed of non-competition in favour of our Group on 1 June 2018 (the "**Deed of Non-competition**"), pursuant to which our Controlling Shareholders unconditionally and irrevocably agrees, undertakes to and covenants with our Company (for itself and for the benefits of each other member of our Group) that they would not, and would procure that their close associates (other than any members of our Group) would not, directly or indirectly, either on their own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or otherwise, and whether for profit, reward or otherwise) any activity or business which competes or is likely to compete, directly or indirectly, with the business operated by our Group as described in this prospectus and any other business from time to time conducted, carried on or contemplated to be carried on by any member of our Group or in which any member of our Group is engaged or has invested or which any member of our Group has otherwise publicly announced its intention to enter into, engage in or invest in (whether as principal or agent and whether undertaken directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement) (the "**Restricted Business**").

Our Controlling Shareholders have further unconditionally and irrevocably agreed, undertaken to and covenanted with our Company to procure that any business investment or other commercial opportunity which directly or indirectly competes, or may lead to competition with the Restricted Business (the "**New Opportunities**") given, identified or offered to it and/or any of their close associates (other than any members of our Group) (the "**Offeror**") is first referred to us in the following manner:

- (i) our Controlling Shareholders are required to, and shall procure their close associates (other than members of our Group) to, refer, or to procure the referral of, the New Opportunities to us, and shall give written notice to us of any New Opportunities containing all information reasonably necessary for us to consider whether (a) such New Opportunities would constitute competition with our core business, and (b) it is in the interest of our Group to pursue such New Opportunities, including but not limited to the nature of the New Opportunities and the details of the investment or acquisition costs (the "**Offer Notice**"); and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (ii) the Offeror will be entitled to pursue the New Opportunities only if (i) the Offeror has received a notice from us declining the New Opportunities and confirming that such New Opportunities would not constitute competition with our core business; or (ii) the Offeror has not received such notice from us within 10 business days from our receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunities pursued by the Offeror, the Offeror will refer the New Opportunities as so revised to us in the manner as set out above. Upon receipt of the Offer Notice, we shall seek opinions and decisions from our independent non-executive Directors who do not have a material interest in the matter as to whether (i) such New Opportunities would constitute competition with our core business, and (ii) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunities.

In order to promote good corporate governance practices and to improve transparency, our Controlling Shareholders undertake with our Company in the Deed of Non-competition the following:

- (i) to provide all information requested by our Company which is necessary for an annual review by our independent non-executive Directors of their compliance with the Deed of Non-competition and the enforcement of the Deed of Non-competition;
- (ii) to procure our Company to disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-competition either through the annual report, or by way of announcements to the public; and
- (iii) to make an annual declaration on compliance with their undertaking under the Deed of Non-competition in the annual reports of our Company as our independent non-executive Directors think fit and/or as required by the relevant requirements under the GEM Listing Rules.

The aforesaid undertakings do not apply with respect to (i) the holding of or interests in the shares of any member of our Group, or (ii) the holding of or interests in shares of any company (other than members of our Group) whose shares are listed on the Stock Exchange or a stock exchange recognised by the Stock Exchange or the SFC provided that (a) the relevant Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated revenue or consolidated assets, as shown in that company's latest audited accounts, or (b) such holding of or interests in shares does not exceed 5% of the outstanding voting shares of the relevant company, provided that none of our Controlling Shareholders, or their close associates (other than members of our Group), whether acting singly or jointly, has any right to appoint a majority of the board of directors of such company and at any time there should exist at least another shareholder of such company (together, where appropriate, with their close associates) whose shareholdings in such company is more than the total number of shares held by our Controlling Shareholders in aggregate and/or their close associates in aggregate in such company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The Deed of Non-competition will take effect upon Listing and will lapse automatically (in respect of the relevant party) if (i) the Offer Shares cease to be listed on the Stock Exchange or any other stock exchange recognised by the Stock Exchange or the SFC, (ii) our Company becomes wholly-owned by our Controlling Shareholders and/or their close associates (whether individually or collectively), or (iii) our Controlling Shareholders cease to be a controlling shareholder (as defined in the GEM Listing Rules) of our Company.

Right of First Refusal

Pursuant to the Deed of Non-competition, Ms. Chan irrevocably and unconditionally covenants and undertakes that, in the event that Ms. Chan intends to dispose of any part or all of her interests in the US Business and the Fujian Business, she shall first offer to our Group the right to acquire such part or all of her interests in the US Business and the Fujian Business on terms and conditions that are no less favourable than those offered to any independent third parties (the “**Right of First Refusal**”).

The exercise of the Right of First Refusal by our Group is subject to the prior approval of our independent non-executive Directors and the independent shareholders of the Group (if required), the GEM Listing Rules and all applicable laws and regulations.

In addition, pursuant to the Deed of Non-competition, Ms. Chan, among other things, undertakes to procure that Intervine and Fujian Dexi will not sell or engage any distributor to sell any wine products in the PRC, without obtaining prior written consent from the independent non-executive Directors.

CORPORATE GOVERNANCE MEASURES

Our Company will further adopt the following measures to manage the conflict of interests arising from the possible competing business of our Controlling Shareholders and to safeguard the interests of our independent Shareholders:

- (i) in preparation for the Listing, our Company has amended our Articles to comply with the GEM Listing Rules. In particular, our Articles provide that, except for certain exceptions permitted under the GEM Listing Rules or the Stock Exchange, a Director shall not vote on any Board resolution approving any contract in relation to which he/she has a material interest, nor shall such Director be counted in the quorum present at that meeting. Furthermore, a Director who holds directorship and/or senior management positions in our Controlling Shareholders or any of their close associates (other than our Company or any member of our Group) shall not vote on any Board resolution regarding any transactions proposed to be entered into between any member of our Group and our Controlling Shareholders or any of their close associates (other than our Company or any member of our Group), nor shall such Director be counted in the quorum present at such meeting;
- (ii) we have appointed Southwest Securities (HK) Capital Limited as our compliance adviser, which will provide advice and guidance to us with respect to compliance with the applicable laws and the GEM Listing Rules, including but not limited to various requirements relating to Directors’ duties and internal controls;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iii) our independent non-executive Directors will review, at least on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders;
- (iv) our Controlling Shareholders have undertaken to provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (v) we will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition either through an annual report, or by way of announcement to the public;
- (vi) our Controlling Shareholders will make an annual declaration of compliance with the Deed of Non-competition in the annual reports of our Company;
- (vii) the management structure of our Group includes our Audit Committee, our Remuneration Committee and our Nomination Committee, the written rules of each of which will require them to be alert to prospective conflict of interests and to formulate their proposals accordingly;
- (viii) pursuant to the Corporate Governance Code set out in Appendix 15 of the GEM Listing Rules, our Directors, including our independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's costs;
- (ix) our Controlling Shareholders undertake to keep us informed and shall procure their close associates to keep us informed of New Opportunities and to provide all information reasonably required by our independent non-executive Directors to assist them in their consideration of any New Opportunity;
- (x) our Controlling Shareholders undertake to keep us informed and shall procure their close associates to provide all relevant information reasonably required by our independent non-executive Directors to assist them in their consideration of giving their prior consent in the event that the US Business and the Fujian Business intend to sell any wine products of their respective business in the PRC and/or in relation to the exercise of the Right of First Refusal; and
- (xi) our independent non-executive Directors will also review, on an annual basis, the implementation of the Deed of Non-competition and any decisions in relation to New Opportunities referred to us, and state their basis and reasons in our Company's annual reports.

In the event that our Company decides not to proceed with any particular projects or New Opportunities and that our Controlling Shareholders decides to proceed with such a project or New Opportunity, we will announce such decision by way of an announcement setting out therein the basis for us not taking the project or the New Opportunity.

CONNECTED TRANSACTIONS

We have entered into the following transactions with our connected persons which will continue after Listing, thereby constituting continuing connected transactions for our Company under the GEM Listing Rules.

CONNECTED PERSONS

Dragonfield Management Limited (“**Dragonfield**”) is held as to 50% by Mr. Chan (father of Ms. Chan and spouse of Ms. Wong, being our executive Director and Controlling Shareholder, and our Substantial Shareholder, respectively) and 50% by Flying Gain Holdings Limited (“**Flying Gain**”), an associate of each of Ms. Chan and Ms. Wong. Accordingly, Dragonfield is an associate of our Substantial Shareholder, our Controlling Shareholders and one of our Directors and therefore a connected person of our Company under the GEM Listing Rules.

Ms. Chan, being one of our executive Director and Controlling Shareholders, is a connected person of our Company. Accordingly, Ms. Chan’s associates are connected persons of our Company under the GEM Listing Rules.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Sub-lease agreement

On 30 May 2018, Dragonet, a wholly owned subsidiary of our Company, entered into a commercial premises sub-lease agreement with Dragonfield (the “**Sub-lease Agreement**”) for our continuing use and occupation of the commercial premises located at Unit 1-3, 11/F, Westlands Centre, 20 Westlands Road, Hong Kong (the “**Office Premises**”) for use as offices. The head lease in respect of the Office Premises was entered into by Dragonfield and the landlord (the “**Head Lease Agreement**”), an Independent Third Party, on 23 September 2016 with a term from 27 September 2016 to 26 September 2017, which has been renewed for another two-year term to end on 26 September 2019.

As such, the Sub-lease Agreement will constitute a continuing connected transaction under the GEM Listing Rules for our Company after the Listing.

Pursuant to the terms of the Sub-lease Agreement, the term of the sub-lease is effective from 1 July 2017 to 26 September 2019 and the rental payment shall be HK\$696,000 per annum inclusive of expenses in relation to rates and property management fees, such rent being payable on a monthly basis and shall not be increased during the term. The rental rate of the sub-lease was determined after arm’s length negotiations between Dragonet and Dragonfield with reference to occupancy of the Office Premises by relevant personnel of our Group and the market rental price of office spaces of similar size and location as that required by the Group.

The Sub-lease Agreement may be terminated at the option of our Group at any time prior to the expiry of such agreement by giving 30 days’ notice to Dragonfield. As such, we enjoy the flexibility to relocate to another site or premises at any time should we consider the Office Premises no longer suitable for our use.

CONNECTED TRANSACTIONS

Notwithstanding the foregoing, in the event that Dragonfield terminates the Head Lease Agreement prior to the expiration of the term, Dragonfield shall give our Group no less than 30 days' written notice prior to the date of termination of the Head Lease Agreement. In the event that the Head Lease Agreement is terminated (in which case the Sub-lease Agreement will also be terminated) or the Sub-lease Agreement is terminated by Dragonfield, Dragonfield shall provide our Group alternate premises of at least similar size as the Office Premises, and at terms and conditions not less favourable than those set out in the Sub-lease Agreement for the rest of the term.

As each of the applicable percentage ratios (as defined in the GEM Listing Rules) in respect of the Sub-lease Agreement is less than 5% and the total annual cap is less than HK\$3,000,000, the transaction contemplated therein is exempted from reporting, annual review, announcement and independent shareholders' approval requirement under Rule 20.74(1) of the GEM Listing Rules.

The Sub-lease Agreement is renewable at the option of Dragonet by giving Dragonfield written notice of at least 30 days prior to its expiry. In the event that we renew the Sub-lease Agreement, we will ensure that we comply with the applicable provision under the GEM Listing Rules.

2. Shared administrative services agreement

On 1 July 2017, Dragonet, a wholly owned subsidiary of the Company, entered into a shared administrative services agreement with Dragonfield (the "**Shared Administrative Services Agreement**") pursuant to which Dragonfield shall share its administrative resources, including office utilities, overhead, accounting resources and human resources management services (the "**Shared Administrative Services**") with Dragonet from time to time and will continue to share such resources after Listing. From the date of the Shared Administrative Services Agreement to 31 December 2017, the service fees payable for the Shared Administrative Services amounted to HK\$477,000.

Pursuant to the terms of the Shared Administrative Services Agreement, the sharing of administrative services shall be for an initial term of three years, from 1 July 2017 to 30 June 2020, and shall be automatically renewed for successive periods of three years upon expiry subject to compliance with the relevant requirements of the GEM Listing Rules, provided that it may be terminated at the option of Dragonet at any time by giving 30 days' notice to Dragonfield. The consideration payable by Dragonet shall be on a cost basis to be determined based on the total costs incurred in the provision of the Shared Administrative Services and allocated to our Group by Dragonfield on a fair and equitable basis with reference to the time spent by staff on the provision of the relevant services.

As the arrangements set out in the Shared Administrative Services Agreement constitute the sharing of administrative services on a cost basis, and the cost of such services are identifiable and will be allocated to the parties involved on a fair and equitable basis, pursuant to Rule 20.96 of the GEM Listing Rules, the transactions under the Shared Administrative Services Agreement are exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

3. Sale framework agreement

On 1 June 2018, the Company entered into a sale framework agreement with Ms. Chan, being one of our Controlling Shareholders and executive Director (the “**Framework Agreement**”) pursuant to which Ms. Chan and her associates (the “**Chan Associates**”) may purchase wine products sold by the Group (the “**Wine Products**”) after the Listing. The selling prices of the Wine Products to the Chan Associates shall be determined in accordance with the standard price of the Wine Products sold to other Independent Third Parties subject to the Group’s staff discount policy in effect from time to time.

The historical transaction amounts for the sale of the Wine Products by the Group to the Chan Associates for FY2015, FY2016 and FY2017 were approximately RMB2,592,000, RMB201,000 and RMB339,000, respectively.

It is expected that the maximum amount of value of sale of the Wine Products to the Chan Associates under the Framework Agreement will not be more than HK\$1,000,000 per year. The proposed annual caps are determined based on (i) the expected transaction amounts between the Group and the Chan Associates, (ii) the historical transaction amounts between the Group and the Chan Associates, (iii) the selling price of our Group’s wine products, and (iv) the Group’s staff discount policy.

The term of the Framework Agreement shall commence from the Listing Date to 31 December 2020, and shall be automatically renewed for successive periods of three years upon expiry subject to compliance with the relevant requirements of the GEM Listing Rules, provided that it may be terminated by either party at any time by giving one month’s notice to the other party. These sales are on normal commercial terms and in the ordinary and usual course of business of the Group as the discount offered is consistent with that offered to other members of staff who are not a connected person of our Company.

As each of the applicable ratios (as defined in the GEM Listing Rules) in respect of the Framework Agreement is less than 5% and the annual cap is less than HK\$3,000,000, the transaction contemplated therein is exempted from reporting, annual review, announcement and independent shareholders’ approval requirement under Rule 20.74(1) of the GEM Listing Rules.

Our Directors confirm that the transaction was conducted on normal commercial terms or such terms that are no less favourable to our Group than those available to Independent Third Parties and are fair and reasonable and in the interest of our Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

GENERAL

Directors

The table below presents certain information in respect of the members of our Board:

Name	Age	Current Position/ Title in our Group	Date of Joining our Group	Date of Appointment as a Director	Roles and Responsibilities	Relationship with Directors and Senior management
Executive Directors						
Ms. CHAN Judy (陳芳)	40	Executive Director; Chairlady; Chief Executive Officer	8 June 2002	14 February 2012	Oversees general management and business development, and formulates business strategies and policies for the business management and operations	Sister-in-law of Ms. Hou Tan Tan Danielle
Mr. FAN Chi Chiu (范智超)	32	Executive Director	24 July 2017	24 July 2017	Oversees financial management and strategies, compliance and investor relations	Nil
Non-executive Directors						
Ms. HOU Tan Tan Danielle (侯旦丹)	33	Non-executive Director	24 July 2017	24 July 2017	Advises on strategy, policy, performance, accountability, resources, key appointments and standard of conduct	Sister-in-law of Ms. Chan
Mr. CHOW Christer Ho (周灝)	44	Non-executive Director	24 July 2017	24 July 2017	Advises on strategy, policy, performance, accountability, resources, key appointments and standard of conduct	Nil

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Current Position/ Title in our Group	Date of Joining our Group	Date of Appointment as a Director	Roles and Responsibilities	Relationship with Directors and Senior management
Independent non-executive Directors						
Mr. HO Kent Ching-tak (何正德)	37	Independent non-executive Director	1 June 2018	1 June 2018	Provides independent judgement on strategy, policy, performance, accountability, resources, key appointments and standard of conduct	Nil
Mr. LIM Leung Yau Edwin (林良友)	55	Independent non-executive Director	1 June 2018	1 June 2018	Provides independent judgement on strategy, policy, performance, accountability, resources, key appointments and standard of conduct	Nil
Mr. Alec Peter TRACY	52	Independent non-executive Director	1 June 2018	1 June 2018	Provides independent judgement on strategy, policy, performance, accountability, resources, key appointments and standard of conduct	Nil

Senior Management

The table below presents certain information in respect of members of our senior management:

Name	Age	Current Position/ Title in our Group	Date of Joining our Group	Roles and Responsibilities	Relationship with Directors and Senior management
Mr. WEI Dong Sheng (魏東升) . .	41	General manager	1 February 2012	Oversees daily operation of the Group in Shanxi and Ningxia	Nil
Mr. LEE Yean Yean	36	Production and technical director	1 September 2006	Oversees the management of the cultivation bases, production and logistics departments	Nil

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Current Position/ Title in our Group	Date of Joining our Group	Roles and Responsibilities	Relationship with Directors and Senior management
Mr. WANG Tairan (王泰然) . .	37	Deputy manager for production and quality control	27 December 2007	Oversees production and quality control	Nil
Mr. WANG Hui (王恢) . . .	43	Cultivation base technology supervisor	19 March 2001	Oversees the cultivation technology and the management of our grape cultivation bases	Nil

BOARD OF DIRECTORS

Our Board of Directors is the primary decision-making body of our Company, setting fundamental business strategies and policies for the management and operation of our business and monitoring their implementation.

Our Board currently consists of seven Directors, comprising two executive Directors, two non-executive Directors and three independent non-executive Directors.

Executive Directors

Ms. CHAN Judy (陳芳)

Ms. Chan, aged 40, was appointed as an executive Director on 14 February 2012 and the Chairlady and Chief Executive Officer on 24 July 2017. She first joined our Group in June 2002 as a director of Shanxi Grace Vineyard. She is primarily responsible for overseeing the general management and business development, and formulates the business strategies and policies for the business management and operations of the Group. Ms. Chan is the daughter of Ms. Wong, the Substantial Shareholder of the Company, and is the sister-in-law of Ms. Hou, our non-executive Director.

Ms. Chan has over 16 years of experience in the wine making industry. Prior to joining our Group, from March 2000 to November 2001, Ms. Chan worked as an analyst at Goldman Sachs (Asia) L.L.C., in Hong Kong. Ms. Chan has been an independent non-executive director of Sing Tao News Corporation Limited (SEHK: 1105) (principally engaged in media operations) since June 2013. She has been an independent non-executive director and a member of the remuneration committee of Memories Group Limited (SGX: 1H4) (principally engaged in tourism businesses in Myanmar) since December 2017.

Ms. Chan graduated from the University of Michigan in the United States with a bachelor's degree in psychology, women's studies and organisational studies in December 1999. Ms. Chan was named as one of the "2014 Most Innovative Women in Food and Drink" by Fortune magazine and Food & Wine magazine in September 2014. She was also named as one of the "Future Women in the Mix in Asia: 12 to Watch" by Forbes Asia in March 2013. She was named as one of the 50 most important people in "The Decanter Power List 2013" published by the Decanter in

DIRECTORS AND SENIOR MANAGEMENT

July 2013 and a “Young Global Leader” by the World Economic Forum in March 2013. Ms. Chan was also awarded “Asia Wine Personality of the Year 2012” by The Drink Business magazine and the Institute & Masters of Wine in 2012. She was named as one of “China’s 25 Most Influential Businesswomen” by Fortune China magazine in November 2012 and one of the “50 Most Influential Women in the Wine Industry” by The Drink Business magazine in December 2012. Ms. Chan was also awarded “Entrepreneur of the Year China 2010” under the category of Hong Kong/Macau Region Emerging Entrepreneur of the Year by Ernst & Young in 2010. Ms. Chan has been a member of the Second Session of the Chinese People’s Political Consultative Conference of Jinzhong County (中國人民政治協商會議第二屆晉中市委員會委員), a member of the Chinese People’s Political Consultative Conference of Shanxi Province (中國人民政治協商會議山西省委員會委員) and a member of the 11th Session of the Chinese People’s Political Consultative Conference of Shanxi Province (中國人民政治協商會議第十一屆山西省委員會委員) since May 2005, February 2008 and January 2013, respectively. She was appointed as a member of the Ninth Session of the Shanxi Qiaolian (山西僑聯第九屆委員) on March 2013 and an executive director of the Fifth Session of the Shanxi Overseas Friendship Association (山西海外聯誼會第五屆常務理事) since December 2012. Ms. Chan has also been a director of the Seventh Session of the board of trustees of Huaqiao University (華僑大學第七屆董事會董事) since November 2014 and an honorary chairlady of the First Session of the Huaqiao University Youth Federation (華僑大學青年聯合會第一屆名譽主席) since October 2013.

Mr. FAN Chi Chiu (范智超)

Mr. Fan, aged 32, first joined our Group and was appointed as an executive Director on 24 July 2017. He is primarily responsible for overseeing the financial management and strategies, compliance and investor relations of the Group.

Mr. Fan has over nine years of working experience in the auditing and financial management industry. Mr. Fan has worked at ELL Environmental Holdings Limited (“ELL”) (principally engaged in the provision of waste water services in the PRC) (SEHK: 1395) since April 2015, with his current position as chief financial officer, where he is primarily responsible for overseeing the financial management and the company’s compliance with laws and regulations in Hong Kong. From April 2014 to March 2015, Mr. Fan was a finance director at Vantasia Holdings (H.K.) Limited (principally engaged in financial services business in the PRC) where he was primarily responsible for financial management, business strategic planning and investor relations. From July 2011 to February 2014, he worked as an analyst at Barclays Investment Bank. From October 2007 to June 2011, he worked at PricewaterhouseCoopers, with his last position as a senior associate.

The Directors are of the view that Mr. Fan has been and will continue to be able to allocate sufficient time to discharge his duties and responsibilities as an executive Director of the Company on the basis that (i) Mr. Fan’s main duties and responsibilities as executive Director of the Company are to oversee financial management and strategies, compliance and investor relations and he is not involved in the day-to-day operations of the Company; (ii) there are sufficient resources available to Mr. Fan at the Company, including a finance team, to support him to efficiently carry out his duties; and (iii) Mr. Fan has accumulated extensive experience through his previous positions in the audit field and his current position as the chief financial officer of ELL.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Fan obtained his bachelor's degree in business administration, majoring in professional accountancy, from The Chinese University of Hong Kong in December 2007. Mr. Fan has been a member of the Hong Kong Institute of Certified Public Accountants since January 2011.

Non-executive Directors

Ms. HOU Tan Tan Danielle (侯旦丹)

Ms. Hou, aged 33, was appointed as a non-executive Director on 24 July 2017. She is primarily responsible for advising the Company on issues of strategy, policy, performance, accountability, resources, key appointments and standard of conduct. Ms. Hou is the daughter-in-law of Ms. Wong, the Substantial Shareholder of the Company, and is the sister-in-law of Ms. Chan, our executive Director, Chairlady of the Board and Chief Executive Director.

Ms. Hou has been acting as the deputy art director of King Fook Holding Limited (SEHK: 280) since June 2016. From February 2015 to May 2016, she worked as a specialist trainee/cataloguer in the jewellery department of Sotheby's Hong Kong Limited. From July 2008 to August 2011, Ms. Hou worked as an analyst in the China investment banking department of Citigroup Global Markets Asia Limited.

Ms. Hou obtained her bachelor's degree in business administration from Abilene Christian University in the United States in May 2008.

Mr. CHOW Christer Ho (周灝)

Mr. Chow, aged 44, was appointed as a non-executive Director on 24 July 2017. He is responsible for advising the Company on issues of strategy, policy, performance, accountability, resources, key appointments and standard of conduct.

Mr. Chow has over 15 years of experience in the real estate development and investment industry. Currently, Mr. Chow is a managing director of LaSalle Investment Management, a member of the Jones Lang LaSalle Group (principally engaged in real estate investment management), where he is primarily responsible for advising and managing real estate investment portfolios of institutional investors. From 2007 to March 2012, he worked at Jones Lang LaSalle, with his last position as the head of corporate finance, Greater China, where he was primarily responsible for providing real estate investment advisory and consulting services. From January 2003 to 2007, Mr. Chow worked at Hong Kong Disneyland Management Limited with his last position as development manager, where he was primarily responsible for the master planning, infrastructure and development management of the Hong Kong Disneyland Resort.

Mr. Chow obtained his bachelor's degree in civil engineering and his master's degree in civil engineering from the University of California, Los Angeles (UCLA) in the United States in June 1995 and June 1996, respectively. He then obtained his master's degree in business administration from the Hong Kong University of Science and Technology in August 2002. Mr. Chow also serves on the MBA Alumni Advisory Board of the Hong Kong University of Science and Technology business school since 2011 and has been on the jury board of the MIPIM Asia Awards, an internationally renowned real estate competition, since 2015.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. HO Kent Ching-tak (何正德)

Mr. Ho, aged 37, was appointed as an independent non-executive Director on 1 June 2018. He is responsible for providing independent judgement on strategy, policy, performance, accountability, resources, key appointments and standard of conduct.

Mr. Ho was a non-executive director from May 2010 to February 2014 and has been acting as an executive director of Sing Tao News Corporation Limited (SEHK: 1105) since February 2014 where he is primarily responsible for the development of digital media and related business in Hong Kong, North America, Australia, Europe and the PRC.

Mr. Ho has over seven years of experience in media business development. He is also experienced in wealth management and investments focusing on high-tech industries since 2015. In May 2015, Mr. Ho founded Spectrum 28, a venture capital firm based in Silicon Valley, where he has been a managing partner since June 2015.

Mr. Ho obtained his bachelor's degree in economics and a certificate in the markets and management programme from Duke University in the United States in May 2003. He then obtained a master's degree in business administration from Stanford Graduate School of Business in the United States in June 2009. Mr. Ho has also been a member of the board of directors of the Hong Kong Science and Technology Parks Corporation since July 2017, a member of the Hong Kong Trade Development Council's Innovation and Technology Advisory Committee since April 2017 and was conferred the title of Honorary Trustee of Peking University in December 2016.

Mr. LIM Leung Yau Edwin (林良友)

Mr. Lim, aged 55, was appointed as an independent non-executive Director on 1 June 2018. He is responsible for providing independent judgement on strategy, policy, performance, accountability, resources, key appointments and standard of conduct.

Mr. Lim has over 32 years of experience in the finance and banking industry. Currently, he is a managing director and the market group head at Credit Suisse AG Hong Kong branch since July 2016. From June 2011 to July 2016, Mr. Lim worked at J.P. Morgan Private Bank, with his last position as a managing director and the head of private wealth management, Northeast Asia, where he was primarily responsible for leading and supervising his team and delivering investment, wealth and capital advisory services to high net worth clients in the North East Asia region. From August 2006 to June 2011, he worked at DBS Bank (Hong Kong) Limited, with his last position as head of North Asia, private banking and wealth management, where he was primarily responsible for providing wealth management advisory services to high net worth individuals in the region. Prior to that, from 1986 to 2006, Mr. Lim had worked at various banks including Credit Suisse, Citibank, N.A. and Barclays Bank Plc.

DIRECTORS AND SENIOR MANAGEMENT

In view of Mr. Lim holding a bachelor's degree in business administration majoring in finance and having obtained experience in reviewing and analysing audited financial statements of public companies gained from his positions in various banking institutions, our Directors believe that Mr. Lim has the appropriate financial management expertise for the purpose of Rule 5.05(2) of the GEM Listing Rules.

Mr. Lim obtained his bachelor's degree in business administration, majoring in finance, from The Chinese University of Hong Kong in July 1986. Mr. Lim has been certified as a private wealth professional by the Private Wealth Management Association Limited since March 2016.

Mr. Lim was a director of Tredueotto Limited, a company incorporated in Hong Kong and dissolved by striking off (but not by member's voluntary winding-up) on 14 October 2011 pursuant to section 291 of the Predecessor Companies Ordinance. Mr. Lim confirmed that such company had never commenced business operation since incorporation and was solvent at the time of dissolution.

Mr. Alec Peter TRACY

Mr. Tracy, aged 52, was appointed as an independent non-executive Director on 1 June 2018. He is responsible for providing independent judgement on strategy, policy, performance, accountability, resources, key appointments and standard of conduct.

Mr. Tracy has over 22 years of experience in the legal industry. Currently, Mr. Tracy is a consultant to Admiralty Harbour Capital Limited (formerly known as TCL Capital (Hong Kong) Limited) (principally engaged in asset management and advising on securities) since March 2018. Mr. Tracy was a counsel at Ascent Capital Advisors Limited (principally engaged in growth capital, middle market buyout and special situation investments) from January 2017 to December 2017, where he was primarily responsible for advising on legal matters and assisting with the making and monitoring of private equity investments. From September 1994 to June 2016, he practiced law with Skadden, Arps, Slate, Meagher & Flom LLP and its affiliated law practices ("**Skadden**"), with his last position as a partner in Skadden's Hong Kong office. At Skadden, he advised companies, investment banks, financial sponsors and governmental entities on cross-border mergers and acquisitions, corporate finance transactions and general corporate matters.

Mr. Tracy obtained his bachelor's degree in East Asian studies from Princeton University in the United States in June 1989. He then obtained a juris doctor degree from New York University in the United States in December 1994. Mr. Tracy was admitted to the New York State bar in August 1995 and as a solicitor of Hong Kong in June 2004.

Save as disclosed above, and to the best of knowledge, information, and belief of our Directors after having made all reasonable enquiries, there is no other information in respect of our Directors that is disclosable pursuant to Rule 17.50(2)(a) to (v) of the GEM Listing Rules and there is no other matter that needs to be brought to the attention of our Shareholders.

SENIOR MANAGEMENT

Our senior management comprises the following personnel:

Mr. WEI Dong Sheng (魏東升)

Mr. Wei, aged 41, first joined our Group in February 2012 as the general manager of Shanxi Grace Vineyard and he has also been the director of Shanxi Grace Vineyard since October 2015. He is primarily responsible for overseeing the daily operation of Shanxi Vineyard.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wei has over 17 years of experience in sales and marketing in the alcohol beverage industry. Since March 2015, he was the legal representative and director of Ningxia Ganlin and was responsible for overseeing the daily operation of Ningxia Vineyard, of which has been transferred to Ms. Chan, one of our Controlling Shareholders, through the Disposal completed on 1 June 2018. Prior to joining our Group, from June 2009 to March 2012, Mr. Wei worked as a business development project manager at Terra Cotta. From August 2006 to May 2009, he worked as the North West China regional sales manager in the sales and marketing department of Sichuan Jiannanye Sales Co., Ltd. (四川劍南液銷售有限公司) (principally engaged in the sale of “Jiannanye” branded baijiu. From June 2004 to July 2006, he worked as the North West regional sales manager at Luzhou Chunjiu Co., Ltd (瀘州春酒業有限公司) (principally engaged in wine distribution). From July 2003 to May 2004, he worked as a salesperson in the sales department of Fujian Hengfa Wine Co., Ltd (福建恆發酒業有限公司) (principally engaged in wine trading). From April 2002 to June 2003, he worked as a salesperson at the Xiamen branch of Fujian Fujitsu Co., Ltd (福建富士通有限責任公司). From September 2000 to March 2002, he worked as a supervisor in the marketing department of Hainan Yedao (Group) Co., Ltd. (SHA: 600238) (海南椰島(集團)股份有限公司) (principally engaged in the production and sales of liquor products).

Mr. Wei obtained a higher diploma in law from the Shaanxi Administrative Cadre Institute of Politics and Law (陝西省政法管理幹部學院) in the PRC in July 2000.

Mr. LEE Yean Yean

Mr. Lee, aged 36, first joined our Group in September 2006 and has been our production and technical director since November 2009. He is primarily responsible for overseeing the management of the cultivation bases, production and logistics departments of our Group. Mr. Lee has over eleven years of experience in the wine making industry.

In September 2006, Mr. Lee first joined Shanxi Grace Vineyard as a winemaker assistant, and he was also a vineyard assistant and cellar hand. Prior to joining the Group, from July 2005 to July 2006, he was a northern region sales executive at Sony (Malaysia) Sdn. Bhd. From July 2004 to June 2005, he served as a northern region sales executive and wine buyer at Harrisons Wine of Harrisons Holdings (Malaysia) BHD, responsible for setting up a branch company in the northern region of Malaysia, sourcing new wine and managing the wine list. From May 2003 to June 2004, he was a sales executive at Denise Wine Shop (Malaysia) Sdn. Bhd.

Mr. Lee obtained a higher diploma in hotel and tourism management and a higher diploma in hotel and catering management from Kolej Damansara Utama in Malaysia in October 2002.

Mr. WANG Tairan (王泰然)

Mr. Wang, aged 37, first joined our Group in December 2007, and has been our deputy manager for production and quality control since February 2011. He is primarily responsible for overseeing the production and quality control of our wine products. Mr. Wang has over ten years of experience in the wine making industry.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang was the manager of the production department of Shanxi Grace Vineyard from April 2009 to January 2011, mainly responsible for overseeing the production department and executing the production plannings. He was the vice manager of the same department from January 2009 to March 2009, mainly responsible for assisting the manager in supervising the production staff and production plants. From December 2007 to December 2008, he served as an assistant to the manager of the same department, mainly responsible for sourcing ancillary materials for production of our wine products.

Prior to joining our Group, from August 2006 to May 2007 and from July 2005 to July 2006, Mr. Wang worked as a volunteer in the Bureau of Health of the Shuanghu County of the Tibet Autonomous Region (西藏自治區雙湖特別區衛生局) and in the Bureau of Husbandry of the Nagqu Prefecture of the Tibet Autonomous Region (西藏自治區那曲縣組織部、畜牧局) as part of the College Students to the West Voluntary Scheme (大學生志願服務西部計劃) where he was primarily responsible for assisting in the office staff on the basic operations of the departments.

Mr. Wang obtained his bachelor's degree in rural regional development from Renmin University of China (中國人民大學) in the PRC in July 2005.

Mr. WANG Hui (王恢)

Mr. Wang, aged 43, first joined our Group in March 2001, and has been our cultivation base technology supervisor since January 2012. He is primarily responsible for overseeing the cultivation technology and the management of our grape cultivation bases and has over 17 years of experience in the wine making industry.

From 2013 to 2014, Mr. Wang was in charge of the acquisition of farmland from individual farmers by Shanxi Ziyuan and the transition of the Group's sourcing of grapes in Shanxi from external procurement to self-cultivation. He was a manager of the cultivation base department at Shanxi Grace Vineyard from April 2007 to December 2011, mainly responsible for overseeing the operation of the cultivation base, including implementing standardised cultivation techniques for farmers and formulating a set of operation specifications for cultivation. From July 2005 to March 2007, he was the deputy manager of the cultivation base department at Shanxi Grace Vineyard, primarily responsible for providing assistance in overseeing the daily operation of the cultivation base. He served as an assistant of the cultivation base department of Shanxi Grace Vineyard from August 2002 to July 2005, mainly responsible for implementing different methods to standardise the cultivation techniques of grape farmers. When he first joined the Group in March 2001, he was an assistant of the cultivation base department at Shanxi Yayi Wine Co. Ltd.* (山西雅怡谷葡萄釀酒有限公司) (former name of Shanxi Grace Vineyard), primarily responsible for basic cultivation and monitoring work.

DIRECTORS AND SENIOR MANAGEMENT

In May 2007, May 2011 and May 2017, he has been elected as a member of the 12th Session, 13th Session and 14th Session of the Chinese People's Political Consultative Conference of Taigu County (中國人民政治協商會議太谷縣委員會委員), respectively.

Mr. Wang obtained his bachelor's degree in agriculture from Jilin Agricultural University (吉林農業大學) in the PRC in July 1999.

COMPANY SECRETARY

Pursuant to Rule 5.14 and Rule 11.07(2) of the GEM Listing Rules, the secretary of our Company must be an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary. The Stock Exchange considers (a) an ordinary member of The Hong Kong Institute of Company Secretaries, (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong), or (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) as acceptable academic or professional qualifications.

We have appointed Mr. Chiu Ming King who satisfies the qualification requirements under Rules 5.14 and 11.07(2) of the GEM Listing Rules, as our company secretary.

Mr. CHIU Ming King (趙明璟)

Mr. Chiu, aged 41, was appointed as our company secretary on 24 July 2017. He has worked at Vistra Corporate Services (HK) Limited since June 2012, with his current position as executive director of corporate services.

Mr. Chiu has over 13 years of experience in the company secretarial field and has held various positions, including associate director of corporate services, in various corporate secretarial companies.

Mr. Chiu has been (i) the company secretary of Christine International Holdings Limited (SEHK: 1210) since July 2014; (ii) the joint company secretary of Shanghai Haohai Biological Technology Co., Ltd. (SEHK: 6826) since November 2014; (iii) the company secretary of Nan Hai Corporation Limited (formerly known as South Sea Holding Company Limited, Learning Concepts Holdings Limited, Savoy Concepts Limited and Team Concepts Holdings Limited) (SEHK: 680) since June 2015; (iv) the company secretary of Sino-i Technology Limited (formerly known as Sino-i.com Limited, South Sea Development Company Limited and South Sea Textile Manufacturing Company Limited) (SEHK: 250) since June 2015; (v) the company secretary of Hosa International Limited (SEHK: 2200) since August 2015; (vi) the joint company secretary of Kunming Dianchi Water Treatment Co., Ltd. (SEHK: 3768) since March 2016; and (vii) the company secretary of Hailan Holdings Limited (SEHK: 2278) since September 2016.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chiu does not act as our full-time employee but he has been appointed as our company secretary pursuant to our engagement of an external company secretarial services provider, Vistra Corporate Services (HK) Limited. The Directors are of the view that Mr. Chiu is able to allocate sufficient time and has professional resources to perform his role and to discharge his duties and responsibilities as company secretary of the Company on the basis that (i) Mr. Chiu is supported by a team of professional specialists including chartered secretaries at Vistra Corporate Services (HK) Limited who can provide a comprehensive range of services including corporate administration and secretarial services; and (ii) Mr. Chiu possesses the necessary qualification and extensive experience in the company secretarial profession.

Mr. Chiu has been an associate member of the Institute of Chartered Secretaries and Administrators (“**ICSA**”) and the Hong Kong Institute of Chartered Secretaries (“**HKICS**”) since 2003 and became a fellow member of the ICSA and the HKICS since September 2015. He has been a member of the Professional Services Panel and the Membership Committee of HKICS since 2013 and 2014, respectively.

Mr. Chiu obtained his bachelor’s degree of arts from the University of Toronto in Canada in June 1999 and received his master’s degree of arts in professional accounting and information systems from the City University of Hong Kong in November 2003.

COMPLIANCE OFFICER

Compliance Officer

Mr. Fan Chi Chiu (范智超), an executive Director of our Company, is the compliance officer of our Company.

CORPORATE GOVERNANCE

Our Company complies or intends to comply with the Corporate Governance Code set out in Appendix 15 of the GEM Listing Rules with the exception for Code A.2.1, which requires the roles of chairman and chief executive be different individuals.

Under code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Ms. Chan holds both positions in our Company. Ms. Chan has been primarily responsible for overseeing our Group’s general management and business development and for formulating business strategies and policies for our business management and operations since she joined our Group in 2002. Taking into account the continuation of management and the implementation of our business strategies, our Directors (including our independent non-executive Directors) consider it is most suitable for Ms. Chan to hold both the positions of Chief Executive Officer and the Chairlady of the Board and the existing arrangements are beneficial and in the interests of our Company and our Shareholders as a whole.

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Our Group will comply with the Corporate Governance Code and the associated GEM Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

Our Board delegates certain responsibilities to our Audit Committee, Remuneration Committee and Nomination Committee. In accordance with the GEM Listing Rules, our Articles of Association and the relevant laws and regulations in Hong Kong and the Cayman Islands, we have formed the following committees:

Audit Committee

We have established an audit committee in compliance with Rule 5.28 of the GEM Listing Rules on 1 June 2018. Our Audit Committee consists of three members, namely Mr. Lim Leung Yau Edwin (chairman), Mr. Chow Christer Ho and Mr. Ho Kent Ching-tak. The primary duties of our Audit Committee are to assist our Board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management system, overseeing the audit process and performing other duties and responsibilities as assigned by our Board.

Remuneration Committee

We established our remuneration committee in compliance with Rule 5.34 of the GEM Listing Rules on 1 June 2018. Our Remuneration Committee consists of three members, namely Mr. Alec Peter Tracy (chairman), Mr. Lim Leung Yau Edwin and Ms. Hou Tan Tan Danielle. The primary duties of our Remuneration Committee are to evaluate the performance of our Directors and senior management and determine the remuneration package of our Directors and members of our senior management.

Nomination Committee

We established our nomination committee in compliance with the Corporate Governance Code on 1 June 2018. Our Nomination Committee consists of three members, namely Ms. Chan (Chairlady), Mr. Chow Christer Ho and Mr. Ho Kent Ching-tak. The primary duties of our Nomination Committee are to make recommendations to our Board on the appointment of our Directors and members of our senior management.

DIRECTOR'S INTEREST

Except as disclosed in this section, "Definitions", "Relationship with our Controlling Shareholders", "Substantial Shareholders" and "Statutory and General Information" in this prospectus, each of our Directors (i) had no other relationship with any Director, senior management, Substantial Shareholder or Controlling Shareholder of our Company as at the Latest Practicable Date; (ii) did not hold any other directorships in listed public companies in the three years immediately prior to the date of this prospectus; and (iii) each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO as at the Latest Practicable Date. None of the members of our senior management holds any directorships in listed public companies in the three years prior to the date of this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Our Directors and members of our senior management receive compensation in the form of salaries, allowances, bonuses and other benefits-in-kind, including our contribution to the pension scheme. Our Remuneration Committee determines the salaries of our Directors and members of our senior management based on their qualifications, positions and seniority.

The aggregate amount of remuneration (including salaries, allowances, discretionary bonuses, other benefits and contributions to pension schemes) paid to our Directors for each of FY2015, FY2016 and FY2017 were nil, nil and RMB565,000, respectively.

The aggregate amount of remuneration (including salaries, allowances, discretionary bonuses, other benefits and contributions to pension schemes) paid to our five highest paid individuals for each of FY2015, FY2016 and FY2017 were approximately RMB1,202,000, RMB1,238,000 and RMB1,289,000, respectively.

It is estimated that an aggregate amount of remuneration equivalent to approximately HK\$1,580,000 will be paid and granted to our Directors by us for the year ending 31 December 2018 under arrangements in force on the date of this prospectus.

Save as disclosed in the paragraphs above, Appendix I and Appendix V to this prospectus, (i) no remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group; (ii) no compensation was paid to, or receivable by, our Directors or past Directors or the five highest paid individuals during the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group; and (iii) none of our Directors waived any emoluments during the same period.

No Director has been paid in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a Director, or otherwise for service rendered by him in connection with the promotion or formation of us.

COMPLIANCE ADVISER

We have appointed Southwest Securities (HK) Capital Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise us on the following circumstances:

- before the publication of any announcements, circulars or financial reports under any applicable laws, rules, codes and guidelines;
- where a transaction, which might be discloseable or being a notifiable or connected transaction under Chapters 17, 19 and/or 20 of the GEM Listing Rules, is contemplated including share issues and share repurchases;

DIRECTORS AND SENIOR MANAGEMENT

- where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us in respect of unusual price movement and trading volume or other issues under Rule 17.11 of the GEM Listing Rules.

The terms of the appointment shall commence on the Listing Date and end on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date or until the agreement is termination, whichever is earlier, and such appointment shall be subject to extension by mutual agreement.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Share Offer and taking no account of any Shares which may be issued pursuant to the exercise of any option that may be granted under Share Option Scheme, the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company and therefore regarded as substantial shareholders of our Company under the GEM Listing Rules:

Name of shareholder	Capacity/Nature of interest	Shares held immediately following the completion of the Capitalisation Issue and Share Offer	
		Number of Shares held ¹	Approximate percentage
Macmillan Equity	Beneficial interest	420,000,000	52.5%
Ms. Chan ²	Interest in controlled corporation	420,000,000	52.5%
Palgrave Enterprises	Beneficial interest	180,000,000	22.5%
Ms. Wong ³	Interest in controlled corporation	180,000,000	22.5%
Mr. Chan ⁴	Interest of spouse	180,000,000	22.5%

Notes:

- (1) All interests stated are long positions.
- (2) Macmillan Equity is wholly-owned by Ms. Chan, and therefore Ms. Chan is deemed to be interested in the 420,000,000 Shares held by Macmillan Equity pursuant to the SFO.
- (3) Palgrave Enterprises is wholly-owned by Ms. Wong, and therefore Ms. Wong is deemed to be interested in the 180,000,000 Shares held by Palgrave Enterprises pursuant to the SFO.
- (4) Mr. Chan, the spouse of Ms. Wong, is deemed to be interested in the 180,000,000 Shares held by Ms. Wong, through her controlled corporation, Palgrave Enterprises, pursuant to the SFO.

Save as disclosed in this prospectus, our Directors are not aware of any persons who will, immediately following completion of the Share Offer (but without taking into account Shares to be issued pursuant to the exercise of any option that may be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances in the general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

Authorised and issued share capital

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid prior to and immediately following the completion of the Share Offer (taking no account any Share which may be issued pursuant to the exercise of any option that may be granted under the Share Option Scheme):

HK\$

Authorised share capital:

8,000,000,000	Shares as at the date of this prospectus and immediately after completion of the Share Offer and Capitalisation Issue	8,000,000
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Issued and to be issued, fully paid or credited as fully paid:

1,000	Shares in issue as at the date of this prospectus	1
599,999,000	Shares to be issued pursuant to the Capitalisation Issue	599,999
<u>200,000,000</u>	Shares to be issued pursuant to the Share Offer	<u>200,000</u>
<u>800,000,000</u>	Total	<u>800,000</u>

Assumptions

This table assumes the Share Offer has become unconditional (taking no account any Share which may be issued pursuant to the exercise of any option that may be granted under the Share Option Scheme) and the issue of Shares pursuant thereto is made as described herein. It does not take into account of any Shares which may be allotted and issued or repurchased by our Company under the Issuing Mandate and Repurchase Mandate granted to our Board as referred to below or otherwise.

Ranking

The Offer Shares shall rank pari passu with all existing Shares in issue on the date of the allotment and issue of such Shares, and in particular will be entitled to all dividends or other distributions declared, made or paid thereafter.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Our Board has been granted with the Issuing Mandate to allot, issue and deal in an aggregate number of Shares that is no more than the sum of:

- (a) 20% of the total number of Shares issued by our Company immediately upon completion of the Share Offer and the Capitalisation Issue (but prior to the exercise of any options that may be granted under the Share Option Scheme); and
- (b) the aggregate number of Shares repurchased by our Company, if any, under the Repurchase Mandate referred to below.

The aggregate number of Shares which our Directors are authorised to allot and issue under the Issuing Mandate will not be reduced by the allotment and issue of Shares pursuant to (i) a rights issue; or (ii) any specific authority granted by our Shareholders in general meeting(s).

The Issuing Mandate will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting unless by ordinary resolution at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company is required by the applicable law or our Articles to hold our next annual general meeting; or
- (iii) when varied, revoked or renewed by a resolution of our Shareholders in a general meeting.

For further details of the Issuing Mandate, see "Appendix V — Statutory and General Information — A. Further information about our Company — 5. Resolutions in writing of our Shareholders passed on 1 June 2018" in this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Board has been granted with the Repurchase Mandate to exercise all the powers of our Company to repurchase an aggregate number of Shares that is no more than 10% of the total number of Shares issued by our Company immediately upon completion of the Share Offer and the Capitalisation Issue (but prior to the exercise of any options that may be granted under the Share Option Scheme).

SHARE CAPITAL

The Repurchase Mandate only relates to repurchases made on the Stock Exchange, or any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), subject to and in accordance with our Articles, all applicable laws and regulations, and the requirements of the GEM Listing Rules and any other stock exchange on which our securities may be listed, as amended from time to time. Further information required by the Stock Exchange to be included in this Prospectus regarding the repurchase of Shares is set out in “Appendix V — Statutory and General Information — B. Repurchase of our Shares” in this prospectus.

The Repurchase Mandate will expire at the earliest of:

- (a) the conclusion of our Company's next annual general meeting unless by ordinary resolution at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (b) the expiration of the period within which our Company is required by the applicable law or our Articles to hold our next annual general meeting; or
- (c) when varied, revoked or renewed by a resolution of our Shareholders in a general meeting.

SHARE OPTION SCHEME

On 1 June 2018, we conditionally adopted the Share Option Scheme. For summaries of the principal terms of the Share Option Scheme, see the section “Appendix V — Statutory and General Information — F. Share Option Scheme” in this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our audited consolidated financial information as at and for FY2015, FY2016 and FY2017, including the notes thereto, as set out in “Appendix I — Accountants’ Report” to this prospectus. The consolidated financial information has been prepared in accordance with HKFRS. You should read the whole of the Accountants’ Report included as Appendix I to this prospectus and not rely merely on the information contained in this section.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those anticipated in the forward-looking statements. Factors that might cause future results to differ significantly from those anticipated in the forward-looking statements include those discussed in the section headed “Risk Factors” in this prospectus.

OVERVIEW

Branded as “Grace Vineyard (怡園酒莊)”, we are an award-winning, established wine maker based in Shanxi committed to making quality wine that caters to a wide range of customer tastes and pricing preferences. During the Track Record Period, substantially all of our wine products were sold in the PRC and our biggest sales location was our home base in Shanxi, where we derived approximately 61.8% of our revenue on weighted average and are the largest wine maker with a market share of approximately 14.9% in terms of retail sales revenue in 2016, according to the F&S Report.

Our “Grace Vineyard (怡園酒莊)” wine product portfolio, which principally comprises red wine, can broadly be categorised according to quality and price tags into (1) the *higher-end* wine portfolio, a series of mid to high-end wine products with a retail price ranged from RMB199 to RMB598 per 750 ml bottle which targets at executive clientele and corporate customers with higher spending power and a focus on quality in their wine selection, and (2) the *entry-level* wine portfolio, which has a more affordable retail price of RMB125 per 750ml bottle or below and caters to the more price-conscious mass market. Our wine product mix varied between our *higher-end* wine portfolio and *entry-level* wine portfolio during the Track Record Period, which we adjust in response to customer preferences, PRC government policies on alcoholic beverages consumption and spending, as well as the overall sentiment of the PRC wine market. To suit our customers’ diversified tastes and preferences, we also from time to time (1) make white and sparkling wine as well as seasonal series and special blends of red wine, and (2) import an insignificant volume of overseas-made wine.

During the Track Record Period, we generated revenue from sales of wine. Our revenue decreased by RMB15.0 million or 21.9% from RMB68.4 million in FY2015 to RMB53.4 million in FY2016. Our profit for the year decreased by RMB7.1 million or 38.6% from RMB18.4 million in FY2015 to RMB11.3 million in FY2016. Our revenue then increased by RMB17.0 million or 31.8% from RMB53.4 million in FY2016 to RMB70.4 million in FY2017, while profit for the year decreased from RMB11.3 million in FY2016 to RMB1.1 million in FY2017 mainly due to the Listing expenses incurred.

FINANCIAL INFORMATION

Excluding the Listing expenses of RMB11.1 million incurred for FY2017, our profit for the year amounted to RMB12.2 million, represented an increase of RMB0.9 million compared to RMB11.3 million in FY2016 mainly as a result of increase in sales.

BASIS OF PREPARATION

The financial information has been prepared by our Directors based on accounting policies which conform with HKFRS issued by the Hong Kong Institute of Certified Public Accountants, on the basis of preparation as set out in note 2 in section II of the Accountants' Report contained in Appendix I to this prospectus, and no adjustments have been made in preparing the financial information.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

Growth in the PRC wine industry

Our financial results have been, and are expected to continue to be, significantly affected by the growth and development of the PRC wine industry. Consumer spending preferences in the PRC and market sentiment towards wine products will affect the growth and development of the PRC wine industry and are one of the key drivers of our revenue. We believe that wine products will become increasingly popular in the PRC as consumer demand will continue to grow with the increase in disposable income of PRC residents, which will result in higher sales volume and revenue of our wine products.

Distribution channels and their gross profit margins

We sell our products through three principal channels, (i) distributors; (ii) direct sales; and (iii) online sales mainly through Xiamen Taofu. During the Track Record Period, 71.9%, 97.7% and 89.7% of our revenue was generated from our distributors which rendered gross profit margin of 58.5%, 60.6% and 54.6% for the respective periods. See "Business — Sales and Distribution" for details. The difference in gross profit margins generated by different distribution channels is mainly driven by the difference in selling price. We sell our wine products to (i) our distributors with agreed distribution price; (ii) our direct sales customers with prices on a case-by-case basis affected by the sales volume; and (iii) our online sales customers with retail price. Since our revenue from different distribution channels may generate different gross profit margins, our profitability is susceptible to the composition of our sales through different distribution channels.

FINANCIAL INFORMATION

Product mix and profit margins

Changes in the product mix of our wine products sold to our customers will affect our financial position and results of operations. We continuously monitor changes in the composition of our wine products and their respective contribution to our revenue and gross profit. Our wines are broadly classified into (i) *higher-end* wine portfolio; and (ii) *entry-level* wine portfolio. Our wine among the *higher-end* wine portfolio are generally of higher average selling price compared to that of *entry-level* wine portfolio, which leads to a relatively higher gross profit margins from the *higher-end* wine portfolio. During the Track Record Period, our gross profits from different portfolios ranged from 25.1% to 81.8%. Due to different mix of products, our overall gross profit margin were 57.8%, 51.8% and 48.4% in FY2015, FY2016 and FY2017, respectively. We will continue to monitor and optimise our product mix in response to the changes in market conditions and consumer preferences to maximise our operating results.

Quality, availability and cost of grapes

The principal raw materials used in the production of our wine products are grapes. Our ability to secure consistent and sufficient supply of quality grapes is vital to the success of our business, and will affect our financial condition and results of operations. As we grew on average 87.8% of the grapes in terms of cost of sales used in our wine production during the Track Record Period, we have not experienced and we do not expect to encounter after Listing any shortage or delay in the supply of grapes as well as any material fluctuation of the raw material prices of the grapes during the Track Record Period. During the Track Record Period, we grew and harvested a majority of grapes we use to make wine in our Shanxi Vineyard and Ningxia Vineyard, some of which are leased from collectively-owned land from the local villagers' committee and collective economic organisations in Shanxi. See "Business — Properties — Lease of properties — Lease of collectively-owned land" below for further details. For FY2015 and FY2016, our self-cultivated grapes accounted for on average 87.8% in terms of cost of sales (being 100% and 83.3% of the total cost of sales, respectively, during the Track Record Period) of the grapes we used to make wine. During the Track Record Period, our self-cultivated grapes were grown in our Shanxi Vineyard and Ningxia Vineyard. Following the closure of the Ningxia Vineyard and the disposal of the Ningxia Vineyard Land Parcel on 1 June 2018, our Shanxi Vineyard is our single source of self-cultivated grapes. There are plenty of supplies of good quality grapes in Ningxia that are easy for us to procure. The quality of grapes may affect the demand of our wine products, and thus, sales of our products and our results of operation.

Production volume and unit cost of sales

Our cost of sales mainly comprised (i) variable costs such as cost of raw materials, cultivation costs, consumption tax and surcharge; and (ii) fixed costs such as staff cost and production overhead. Our major fixed costs of sales accounted for 46.4%, 47.5% and 46.3% of our total cost of sales in FY2015, FY2016 and FY2017, respectively. Our fixed costs, such as depreciation, staff costs and utility expenses, are absorbed by the total production volume during the period and capitalised as cost of inventories in our consolidated statements of financial position as "inventories". The capitalised cost will be released to the consolidated statements of profit or loss as "cost of sales" in the period which the wines are sold. Consequently, our per unit cost of sales, and hence our gross profit and gross profit margin, may vary due to the production volume of each period.

FINANCIAL INFORMATION

Cost of materials used and staff cost

Cost of materials used and staff cost are the major components of our costs and have a direct impact on our profitability. In FY2015, FY2016 and FY2017, cost of materials used accounted for 27.2%, 27.4% and 25.0% of our cost of sales, respectively. During the Track Record Period, our cost of materials used fluctuated with the cultivation costs and respective production volume abovementioned. In addition, during the Track Record Period, our total staff costs (including our Directors' and senior management's remunerations) were RMB7.2 million, RMB7.4 million and RMB10.2 million in FY2015, FY2016 and FY2017, respectively. The fluctuation in cost of materials used and staff costs will continue to materially impact our operating results.

During FY2015 and FY2016, Ms. Chan, being the sole Director, did not receive any remuneration because we were a private group of business wholly-owned by her and her family member. Ms. Chan considered it unnecessary and redundant to receive a Director's fees in respect of her own private business venture, for which she is entitled to its full economic benefits. In FY2017, Ms. Chan received total remuneration of RMB0.4 million as a director. After the Listing, considering her additional duties and responsibilities under the GEM Listing Rules, the Companies Ordinance and Securities and Futures Ordinance and in consideration of the fact that our Group's results of operations will also provide economic benefits to the potential investors, Ms. Chan (and the other Directors concur) that it is appropriate to receive an additional Director's fee at a level commensurate with other companies listed on the GEM of the Stock Exchange.

Potential investors should note that, together with the newly appointed executive Director, non-executive Directors and independent non-executive Directors, our Group is expected to incur approximately HK\$1.7 million per annum as Directors' remuneration, which will be accounted for in our consolidated statements of profit or loss and which we did not fully incur any during the Track Record Period.

Our senior management is remunerated with reference to their education qualifications and work experiences, length of service with our Group, experiences within the PRC wine industry, as well as the remuneration policies of our industry peers. We do not anticipate any material change to our senior management's remuneration policy after the Listing.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of our cost of materials used and staff cost on our profit before tax during the Track Record Period.

	Increase/decrease in the cost of material used ^(Note)		
	+/-105%	+/-70%	+/-35%
	RMB'000	RMB'000	RMB'000
Increase/decrease in profit before tax			
FY2015	-/+8,241	-/+5,494	-/+2,747
FY2016	-/+7,388	-/+4,925	-/+2,463
FY2017	-/+9,528	-/+6,352	-/+3,176

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	Increase/decrease in the direct staff costs ^(Note)		
	+/-23%	+/-15%	+/-8%
	RMB'000	RMB'000	RMB'000
Increase/decrease in profit before tax			
FY2015	-/+753	-/+491	-/+349
FY2016	-/+795	-/+519	-/+277
FY2017	-/+1,005	-/+655	-/+349

Note: Hypothetical fluctuations in cost of materials used and direct staff costs, respectively, were made with reference to historical fluctuation of our fluctuations in unit cost of materials used and unit staff cost and all other factors are assumed to be unchanged.

Prospective investors should note that the above analysis on the historical financials is based on assumptions and is for reference only and should not be viewed as actual effect.

Changes in fair value of biological assets

Biological assets, being immature and harvested grapes, were initially measured at their fair value less costs to sell. Our immature grapes and harvested grapes were valued at cost approach and market approach, respectively, based on their respective nature. The aggregate gain or loss arising from the initial recognition of our Group's biological assets and from the change in the fair value of our Group's biological assets, less costs to sell, was recognised in the consolidated statements of profit or loss as "cost of sales" representing only the unrealised gain or loss on our Group's biological assets during the Track Record Period. Upon sales of wine, the previously recorded unrealised fair value changes will be released to the consolidated statements of profit or loss as "cost of sales". Any such profit or loss did not generate actual cash inflow or outflow.

Fair value of biological assets will be affected by level of growth, output, movements in prices and costs. During the Track Record Period, our loss/(gain) arising from changes in fair value of agricultural produce at the date of harvest were gain of RMB3.0 million, loss of RMB0.2 million and gain of RMB0.9 million for FY2015, FY2016 and FY2017, respectively. Our results of operation will continue to be affected by the fair value changes arising from agricultural produce at the date of harvest.

See "— Description of Selected Items of Consolidated Statements of Financial Position — Biological assets" for details.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our Group's financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires management judgements based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgements and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. For our accounting estimates, we had not noted material difference of our estimates from the actual results during the Track Record Period. In addition, we did not make any material change in the assumptions underlying such estimates during the Track Record Period. We do not expect the methodology and assumptions regarding such estimates to change in the foreseeable future. Our significant accounting policies, estimates and judgements, which are important for an understanding of our financial condition and results of operations, are set out below. See notes 4 and 5 of the Accountants' Report set out in Appendix I to this prospectus for details.

Summary of Significant Accounting Policies

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from rendering of services, when the services have been rendered; and
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Biological assets

Biological assets comprise grapes before harvest in leased farms and are classified as current assets due to the short development period, prior to harvest.

Biological assets are stated at fair value less costs to sell from initial measurement up to the point of harvest, except where fair value cannot be measured reliably due to unavailability of quoted market prices and no reliable alternative estimates exist to determine fair value, in which case the assets are held at growing cost incurred less impairment losses.

Once the fair value becomes reliably measurable, the biological assets are measured at fair value less costs to sell and changes in fair value are recognised in the consolidated statement of profit or loss for the period in which it arises.

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Biological assets that meet the definition of bearer plants (i.e., grapevines) are within the scope of HKAS 16 *Property, Plant and Equipment*. Bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. After initial recognition, bearer plants are measured at accumulated cost less any impairment before maturity. Subsequently when the bearer plants are mature, they are measured at cost, less any subsequent accumulated depreciation and impairment, with changes recognised in profit or loss.

The grapevines are presented and accounted for as bearer plants. However, the fresh fruit bunches growing on the grapevines is accounted for as biological assets until the point of harvest. Harvested grapes are transferred to inventories at fair value less costs to sell when harvested. Fair value at the point of harvest is based on the selling prices for similar fruits prevailing in the market as at or close to the harvest dates.

Inventories

Inventories are stated at the lower of cost or the deemed cost for agriculture produce harvested from biological assets and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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Summary of Significant Accounting Judgements and Estimates

Fair value measurements and valuation processes of biological assets

The biological assets of our Group are measured at fair value less costs to sell for financial reporting purposes. The board of directors of our Company has engaged qualified external valuers to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of biological assets, our Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, our Group engages third party qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management reports the external valuers' findings to the board of directors of the Company regularly to explain the cause of fluctuations in the fair value of the assets and liabilities.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment is less than the original estimate useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful lives.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back of inventories in the period in which such estimate has been changed.

Impairment of trade and other receivables

Our Group maintains an allowance for the estimated loss arising from the inability of its debtors to make the required payments. Our Group makes its estimates based on the ageing of its trade receivable and other receivable balances, debtors' creditworthiness, and historical write-off experience. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, our Group would be required to revise the basis of making the allowance and its future results would be affected.

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RESULTS OF OPERATIONS

The following table shows our consolidated statements of profit or loss for the Track Record Period, which is set out in the Accountants' Report in Appendix I to this prospectus.

	FY2015	FY2016	FY2017
	RMB'000	RMB'000	RMB'000
Revenue	68,436	53,367	70,384
Cost of sales	(28,871)	(25,703)	(36,294)
Gross profit	39,565	27,664	34,090
Other income and gains, net	2,708	957	2,038
Selling and distribution expenses	(1,348)	(1,260)	(3,456)
Administrative expenses	(10,049)	(9,719)	(23,227)
Other expenses and losses	(3,040)	(78)	(214)
Finance costs, net	(1,228)	(623)	(572)
Profit before taxation	26,608	16,941	8,659
Income tax expenses	(8,250)	(5,656)	(7,545)
Profit for the year and profit attributable to owners of the Company	18,358	11,285	1,114

DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

We generate our revenue from production and distribution of wine products. During the Track Record Period, our revenue amounted to RMB68.4 million, RMB53.4 million and RMB70.4 million in FY2015, FY2016 and FY2017, respectively.

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The following table shows the breakdown of our revenue and quantity sold by products for the periods indicated:

	FY2015				FY2016				FY2017			
	Revenue		Sales volume	ASP	Revenue		Sales volume	ASP	Revenue		Sales volume	ASP
	RMB'000	%	Bottle '000	RMB/ Bottle	RMB'000	%	Bottle '000	RMB/ Bottle	RMB'000	%	Bottle '000	RMB/ Bottle
Entry-level wine portfolio	22,098	32.3	827	26.7	23,074	43.2	852	27.1	24,687	35.1	863	28.6
Higher-end wine portfolio	44,881	65.6	403	111.5	29,559	55.4	231	128.0	44,256	62.9	311	142.3
Others	1,457	2.1	37	39.7	734	1.4	8	88.6	1,441	2.0	28	50.7
	<u>68,436</u>	<u>100.0</u>	<u>1,267</u>	<u>54.0</u>	<u>53,367</u>	<u>100.0</u>	<u>1,091</u>	<u>48.9</u>	<u>70,384</u>	<u>100.0</u>	<u>1,202</u>	<u>58.5</u>

In FY2015, our revenue was significantly higher than other periods of the Track Record Period as we had certain non-recurring sales events, mainly in relation to our *higher-end* wine portfolio, as a direct sales. See “Business — Sales and Distribution” for details. Consequently, our sales from *higher-end* wine portfolio amounted to RMB44.9 million in FY2015 and experienced a decrease in revenue generated from it by 34.1% in FY2016, as these sales events by their own nature did not recur to a comparable scale during FY2016.

The average selling price of our wine products were RMB54.0, RMB48.9 and RMB58.5 per bottle for FY2015, FY2016 and FY2017, respectively. The fluctuations in the average selling prices of our wine products during the Track Record Period were mainly due to a change in the mix of wine products sold.

We sell our products through three principal channels, (i) distributors, (ii) direct sales and (iii) online sales mainly through Xiamen Taofu.

The following table shows the revenue through different distribution channels for the periods indicated:

	FY2015				FY2016				FY2017			
	Revenue		Sales volume	ASP	Revenue		Sales volume	ASP	Revenue		Sales volume	ASP
	RMB'000	%	Bottle '000	RMB/ Bottle	RMB'000	%	Bottle '000	RMB/ Bottle	RMB'000	%	Bottle '000	RMB/ Bottle
Distributors	49,190	71.9	1,077	45.7	52,144	97.7	1,080	48.3	63,133	89.7	1,135	55.6
Direct sales to end-users	19,246	28.1	190	101.5	1,223	2.3	11	109.5	4,082	5.8	52	78.7
Online sales	—	—	—	—	—	—	—	—	3,169	4.5	15	210.0
	<u>68,436</u>	<u>100.0</u>	<u>1,267</u>	<u>54.0</u>	<u>53,367</u>	<u>100.0</u>	<u>1,091</u>	<u>48.9</u>	<u>70,384</u>	<u>100.0</u>	<u>1,202</u>	<u>58.5</u>

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Most of our Group's sales were derived from our distributors located in different regions in the PRC. During the Track Record Period, our largest distributor, which is located in Shanxi, accounted for 48.6%, 70.6% and 66.4% of our total revenue in FY2015, FY2016 and FY2017, respectively, whilst the total revenue derived from our distributors accounted for 71.9%, 97.7% and 89.7%, for the respective periods. The relatively lower proportion of contribution from our distributors in FY2015 was mainly due to certain non-recurring sales events which were our direct sales as mentioned above. Except for FY2015, the revenue contributed by our distributors in terms of total revenue during the Track Record Period remained relatively stable. Our sales to online customers in FY2017 was mainly as a result of our acquisition of Xiamen Taofu in February 2017, which is principally engaged in online sales of our wine.

During the Track Record Period, we generated substantially all of our revenue from customers and operations based in the PRC.

Cost of sales

Our cost of sales mainly represented cost of materials used, depreciation, staff costs in relation to production of our wine products, consumption tax and surcharges, utilities expenses, fair value changes on biological assets and others. Our cost of sales amounted to RMB28.9 million, RMB25.7 million and RMB36.3 million for FY2015, FY2016 and FY2017, respectively.

The table below sets forth the breakdown of our costs of sales by nature for the periods indicated:

	FY2015	FY2016	FY2017
	RMB'000	RMB'000	RMB'000
Cost of materials used	7,849	7,036	9,074
Cultivation cost	2,068	771	2,950
Depreciation	9,117	7,734	10,337
Staff costs	3,276	3,457	4,368
Utility expenses	1,012	1,025	2,101
Others ^(Note)	704	734	1,613
	24,026	20,757	30,443
Consumption tax and surcharge	6,298	5,117	6,497
Fair value (gain)/loss on biological assets	(1,453)	289	(835)
Fair value (loss)/gain released upon the sales of wines	—	(460)	189
	28,871	25,703	36,294

Note: Others mainly comprised repairs and maintenance, transportation expenses and quality control expenses.

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Our major cost of sales comprises (i) cost of materials used mainly represents cost of grapes and other materials, including cost of purchased grapes and base wine; (ii) cultivation cost which represents cost in relation to plantation of grapes; and (iii) depreciation of bearer plants and machinery directly attributable to the production of wine to the extent that was absorbed by the units sold, which in aggregate accounted for 65.9%, 60.5% and 61.6% of our total cost of sales for FY2015, FY2016 and FY2017, respectively, which was generally in line with the fluctuation of sales.

The fluctuation in our cost of materials used and cultivation costs were mainly attributable to (i) the sales volume and (ii) the mix of wine products sold and the respective sources of grapes of the wine products being sold (i.e. from self-cultivated grapes or externally-purchased grapes) during the relevant financial years. As such, our cultivation costs in cost of sales decreased from RMB2.1 million for FY2015 to RMB0.8 million for FY2016 mainly due to the decrease in sales volume and the fact that more of the wine products sold in FY2016 were made of externally purchased grapes, while our cultivation costs in cost of sales increased to RMB3.0 million for FY2017 mainly due to increase in sales volume and the fact that more of the wine products sold in FY2017 were made of self-cultivated grapes. Our cost of materials and cultivation costs in aggregate accounted for approximately 34.3%, 30.4% and 33.1% of our total costs of sales for FY2015, FY2016 and FY2017, respectively, which were relatively stable during the Track Record Period.

See “— Changes in fair value of biological assets” below for details of the changes in fair value on biological assets during the Track Record Period.

Gross profit and gross profit margin

Our gross profit amounted to RMB39.6 million, RMB27.7 million and RMB34.1 million for FY2015, FY2016 and FY2017, respectively, representing a gross profit margin of 57.8%, 51.8% and 48.4%. The decrease in the overall gross profit margins was mainly attributable to our revenue generated by different wine portfolio and through different distribution channels which generally had a different mix of gross profit margins.

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The table below shows the breakdown of our gross profit and gross profit margin by categories of products for the periods indicated:

	FY2015		FY2016		FY2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
<i>Entry-level</i> wine portfolio	6,897	31.2	8,314	36.0	6,185	25.1
<i>Higher-end</i> wine portfolio	36,713	81.8	23,762	80.4	33,089	74.8
Others	800	54.8	534	72.6	667	46.3
	<u>44,410</u>	64.9	<u>32,610</u>	61.1	<u>39,941</u>	56.7
Consumption tax and surcharge	(6,298)		(5,117)		(6,497)	
Fair value gain/(loss) on biological assets	1,453		(289)		835	
Fair value loss/(gain) released upon the sales of wines	<u>—</u>		<u>460</u>		<u>(189)</u>	
	<u>39,565</u>	57.8	<u>27,664</u>	51.8	<u>34,090</u>	48.4

Our gross profit margin for *higher-end* wine portfolio are generally higher due to higher average selling price. Our gross profit margins generated from different wine portfolio generally decreased in FY2017 mainly due to the increase in cost of sales per unit (which in turn can be attributed to the relatively lower production volume in the corresponding year of production of the wine sold during FY2017), and hence the higher allocated fixed cost per unit.

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The table below shows the breakdown of our gross profit and gross profit margin by distribution channels for the periods indicated:

	FY2015		FY2016		FY2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Distributors	28,780	58.5	31,620	60.6	34,450	54.6
Direct sales to end-users.....	15,630	81.2	990	80.9	2,820	69.1
Online sales.....	—	—	—	—	2,671	84.3
	<u>44,410</u>	64.9	<u>32,610</u>	61.1	<u>39,941</u>	56.7
Consumption tax and surcharge	(6,298)		(5,117)		(6,497)	
Fair value gain/(loss) on biological assets	1,453		(289)		835	
Fair value loss/(gain) released upon the sales of wines	<u>—</u>		<u>460</u>		<u>(189)</u>	
	<u>39,565</u>	57.8	<u>27,664</u>	51.8	<u>34,090</u>	48.4

During the Track Record Period, our gross profit margins among each of the distribution channels remained relatively stable. Our gross profit margins from sales to distributors were generally lower mainly as a result of lower average selling price, being the distribution price, compared to those of other distribution channels, whilst our gross profit margins from direct sales customers fluctuated as a result of (i) difference in product mix; and (ii) difference in selling price we offered to individual customers. The decrease in our gross profit margin of our direct sales to end-users for FY2017 as compared to FY2016 was primarily due to (i) the sales of approximately 20,000 bottles of “New Year Wine (慶春酒)” in FY2017 which was of a lower average selling price as compared to other wine products for direct sales during the Track Record Period, and (ii) corresponding increase in the per bottle unit cost of our wine products.

Other income and gains, net

Other income and gains, net mainly represented government grants, bank interest income and other interest income. We received various government grants in respect of our subsidiaries for investing in local communities. Those government grants were mainly agricultural related, loan related and tax related. There were no unfulfilled conditions or contingencies relating to these grants that are included in the statement of profit or loss. Government grants received for which related expenditure have not yet been undertaken are included in deferred income in the statement of financial position. We received interest income from a loan to an Independent Third Party in FY2015. See “— Description of Selected Items of Consolidated Statements of Financial Position — Prepayments, deposits and other receivables” for details. Included in others was the net income from sales of our self-cultivated grapes in excess and foreign exchange gain during the Track Record Period. Our other income amounted to RMB2.7 million, RMB1.0 million and RMB2.0 million for FY2015, FY2016 and FY2017, respectively.

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Selling and distribution expenses

Our selling and distribution expenses mainly comprises packaging and delivery expenses, staff costs and promotion and exhibition expenses.

The following table shows a breakdown of our selling and distribution expenses for the periods indicated:

	FY2015	FY2016	FY2017
	RMB'000	RMB'000	RMB'000
Packaging and delivery expenses	438	360	659
Staff costs	101	106	544
Promotion and exhibition	597	625	1,869
Others	212	169	384
	<u>1,348</u>	<u>1,260</u>	<u>3,456</u>

Our selling and distribution expenses amounted to RMB1.3 million, RMB1.3 million and RMB3.5 million, for FY2015, FY2016 and FY2017, respectively. Our selling and distribution expenses increased in FY2017 due to (i) increase in promotion and exhibition expenses mainly for our brand building events in relation to our 20th anniversary; and (ii) increase in staff cost as we acquired our former related party, through 100% interest in Wide Source, the immediate holding company of Xiamen Taofu which principally engaged in online sales of wine products of our Group.

Administrative expenses

Our administrative expenses mainly comprise Listing expenses, staff costs, depreciation and amortisation, net exchange loss and other office expenses.

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The following table shows a breakdown of our administrative expenses for the periods indicated:

	FY2015	FY2016	FY2017
	RMB'000	RMB'000	RMB'000
Listing expenses	—	—	11,069
Professional fees	92	76	97
Staff costs	3,844	3,791	5,308
Depreciation and amortisation	3,025	2,910	2,802
Exchange loss, net	706	305	150
Office rental and office related expenses	810	707	2,082
Entertainment expenses	269	274	351
Repairs & maintenance expenses	224	741	307
Transportation and travelling expenses	210	239	331
Others	869	676	730
	<u>10,049</u>	<u>9,719</u>	<u>23,227</u>

Our administrative expenses amounted to RMB10.0 million, RMB9.7 million and RMB23.2 million, for FY2015, FY2016 and FY2017, respectively. Our administrative expenses increased in FY2017 mainly as a result of Listing expenses of RMB11.1 million.

Other expenses and losses

Other expenses and losses mainly represented compensation payment to farmers, impairment of trade receivables and others. Prior to FY2015, we started to lease the collectively-owned land housing our Shanxi Vineyard from the local villagers' committee and collective economic organisations. A one-off compensation of RMB3.0 million was paid to the farmers who previously worked on this land to facilitate their transitional arrangements. Our other expenses and losses amounted to RMB3.0 million, RMB78,000 and RMB0.2 million for FY2015, FY2016 and FY2017, respectively.

Finance costs, net

Our net finance costs represents interest expenses on bank loans net of related government grants received in the same period. We received government grants in respect of interest expense for the support of local agricultural business in FY2016 and FY2017. The government grant received was deducted against interest expenses when the conditions of the government grant was fulfilled. Our gross amount of interest on bank loans were RMB1.2 million, RMB1.2 million and RMB1.1 million, for FY2015, FY2016 and FY2017 respectively, whereas our government grants were nil, RMB0.5 million and RMB0.5 million for the respective period.

Income tax expense

We were subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group were domiciled and operate.

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Under the Law of the PRC on Enterprises Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries was 25%.

According to relevant EIT Law and Implementation Regulation of the EIT Law, certain subsidiaries in agriculture operation of the Group in the PRC were exempted from Enterprise Income Tax (“**EIT**”) on profits derived from agricultural activities for FY2015, FY2016 and FY2017, subject to annual review by the local PRC tax authority of the Company’s subsidiaries and any future changes in the relevant tax exemption policies or regulations.

We were subject to Hong Kong profits tax at the rate of 16.5% on the estimated assessable profit for the Track Record Period. During the Track Record Period, no Hong Kong profits tax was provided as no assessable profit was generated.

We were not subject to any income tax in the Cayman Islands and the BVI pursuant to the rules and regulations in those jurisdictions.

For the Track Record Period, our income tax expense were RMB8.3 million, RMB5.7 million and RMB7.5 million for FY2015, FY2016 and FY2017, respectively, and our effective tax rates for the same periods were 31.0%, 33.4% and 87.1%, respectively. Our effective tax rates for FY2015 and FY2016 were higher than the applicable tax rate mainly as a result of, (1) the effect of withholding tax on the distributable profits of our PRC subsidiaries; and (2) the impact of expenses not deductible for tax which was mainly attributable to (i) products given as free gifts for promotion purpose and (ii) certain depreciation which were not deductible under the relevant PRC tax regulations. Our effective tax rate for FY2017 was higher than other periods as well as the applicable tax rate mainly as a result of Listing expenses incurred in FY2017 which was not deductible for tax purposes.

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our income tax obligations and have not had any unresolved income tax issues or disputes with the relevant tax authorities.

Acquisition of subsidiaries

On 22 February 2017, we acquired 100% interest in Wide Source, the immediate holding company of Xiamen Taofu which is principally engaged in the online sales of wine products of our Group, from Ms. Chan for a consideration of HK\$100. The acquisition was made as part of our Group’s strategy to vertically streamline our business with Xiamen Taofu’s online sales capability. See note 33 to the Accountants’ Report in Appendix I for details of the financial impact from the acquisition Wide Source and Xiamen Taofu to our Group.

DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Exchange differences on translation of financial information

Our exchange differences on translation of financial information arise from the translation of assets and liabilities (mainly including amounts due to and from related parties (which included Ms. Chan, a Controlling Shareholder, her family members and entities controlled by them) of our Group) of certain subsidiaries (being investment holding entities) from their functional currencies of HK\$ to presentation currency of our Group of RMB at the exchange rates ruling at the end of each of the Track Record Period and their statements of profit or loss were translated

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into RMB at the weighted average exchange rates for the respective years, notwithstanding that our operations are principally in the PRC.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

FY2017 compared to FY2016

Revenue

Our revenue increased by RMB17.0 million or 31.8% from RMB53.4 million for FY2016 to RMB70.4 million for FY2017 as a result of (i) increase in total quantity sold; and (ii) increase in average selling price.

Our quantity sold increased by 111,000 bottles or 10.2% from 1,091,000 bottles in FY2016 to 1,202,000 bottles in FY2017 mainly as a result of (i) popularisation of wine among consumers in the PRC; and (ii) sales to a new distributor who established business relationship with us in late 2016. Our increase in sales was also attributable to the increase in sales volume of *higher-end* wine portfolio of approximately 80,000 bottles.

Our average selling price increased by RMB9.6 per bottle or 19.6% from RMB48.9 per bottle in FY2016 to RMB58.5 per bottle in FY2017 mainly as a result of different product mix sold. In FY2017, our sales of *higher-end* wine portfolio wine, which has a generally higher selling price, accounted for 62.9% of our total revenue in FY2017, compared to 55.4% in FY2016. In addition, among the *higher-end* wine portfolio, our sales of “Chairman’s Reserve”, which has a higher selling price, increased in FY2017 compared to that in FY2016. Consequently, our average selling price increased in FY2017 compared to that of FY2016.

Cost of sales

Our cost of sales increased by RMB10.6 million or 41.2% from RMB25.7 million for FY2016 to RMB36.3 million for FY2017 which was due to increase in our sales volume and the slight increase in unit cost of wine sold in FY2017 mainly as a result of increase in cost of wine which were produced in previous years.

Gross profit and gross profit margin

Our overall gross profit increased by RMB6.4 million or 23.1% from RMB27.7 million for FY2016 to RMB34.1 million for FY2017 which was generally in line with the increase in revenue for the same period. Our overall gross profit margin slightly decreased from 51.8% for FY2016 to 48.4% for FY2017, mainly due to increase in unit cost of wine sold as mentioned above. The effect of decrease in gross profit margin was partially offset by the increase in sales from our *higher-end* wine portfolio which is generally of higher gross profit margin.

Other income and gains, net

Other net income and gains increased by RMB1.0 million or 100.0% from RMB1.0 million for FY2016 to RMB2.0 million for FY2017, which was mainly due to increase in government grants of RMB0.7 million and increase in bank interest income of RMB0.2 million as a result of entering into certain short-term fixed bank deposits which borne higher interest rates in FY2017.

Selling and distribution expenses

Selling and distribution expenses increased by RMB2.2 million or 169.2% from RMB1.3 million for FY2016 to RMB3.5 million for FY2017, which was mainly attributable to (i) promotion

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and exhibition expenses of RMB1.2 million mainly for our brand building events in relation to our 20th anniversary; and (ii) increase in staff costs following our acquisition of Xiamen Taofu, our former related party, in FY2017.

Administrative expenses

Administrative expenses increased by RMB13.5 million or 139.2% from RMB9.7 million for FY2016 to RMB23.2 million for FY2017, which was mainly attributable to increase in non-recurring Listing expenses in FY2017 of RMB11.1 million.

Other expenses and losses

Other expenses and losses increased by RMB0.1 million from RMB78,000 in FY2016 to RMB0.2 million FY2017.

Finance costs, net

Our gross amount of interest on bank loans for FY2016 and FY2017 were relatively stable, amounting to RMB1.2 million and RMB1.1 million, respectively, which were offset by government grants of RMB0.5 million for each of the year, resulting in net finance costs of RMB0.6 million for both FY2016 and FY2017, respectively.

Income tax expense

Our income tax expense increased by RMB1.8 million or 31.6% from RMB5.7 million for FY2016 to RMB7.5 million for FY2017 due to decrease in profit before tax for the year as a result of the effect of Listing expenses of RMB11.1 million, which was not deductible for tax purposes. As a result, our effective tax rate increased from 33.4% for FY2016 to 87.1% for FY2017.

Profit for the year

As a result of the foregoing, our profit for the year decreased by RMB10.2 million or 90.3% from RMB11.3 million for FY2016 to RMB1.1 million for FY2017; whilst our net profit margin decreased from 21.1% in FY2016 to 1.6% in FY2017 mainly due to the Listing expenses of RMB11.1 million incurred in FY2017. Excluding the Listing expenses in FY2017, our net profit increased to RMB12.2 million in FY2017 mainly due to increase in sales for the year. Our net profit margin excluding the Listing expenses decreased to 17.3% in FY2017 compared to 21.1% in FY2016 as a result of the increased effective tax rate due to the tax non-deductable listing expenses in FY2017.

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FY2016 compared to FY2015

Revenue

Our revenue decreased by RMB15.0 million or 21.9% from RMB68.4 million for FY2015 to RMB53.4 million for FY2016 mainly due to decrease in both quantity sold and average selling price in FY2016 as a result of decrease in sales of *higher-end* wine portfolio.

Our quantity sold decreased by 176,000 bottles or 13.9% from 1,267,000 bottles in FY2015 to 1,091,000 bottles in FY2016 mainly as a result of a decrease in sales of *higher-end* wine portfolio of RMB15.3 million, which was primarily led by the absence of certain non-recurring sales events of RMB17.6 million which occurred in FY2015 through direct sales. These sales events by their own nature did not recur to a comparable scale during FY2016. See “Business — Sales and Distribution” for details. The decrease was partially offset by increase in sales from *entry-level* wine portfolio of RMB1.0 million.

Our average selling price decreased by RMB5.1 per bottle or 9.4% from RMB54.0 per bottle in FY2015 to RMB48.9 per bottle in FY2016 mainly as a result of different product mix sold and that certain of the abovementioned sales events were made at higher selling prices. In FY2016, our sales of *higher-end* wine portfolio wine, which has a generally higher selling price, accounted for 55.4% of our total revenue in FY2016, represented a decrease from 65.6% in FY2015. Consequently, our average selling price decreased in FY2016 compared to that of FY2015.

Cost of sales

Our cost of sales decreased by RMB3.2 million or 11.1% from RMB28.9 million for FY2015 to RMB25.7 million for FY2016, as a result of the decrease in sales volume.

Gross profit and gross profit margin

Our overall gross profit decreased by RMB11.9 million or 30.1% from RMB39.6 million for FY2015 to RMB27.7 million for FY2016 due to decrease in revenue for the same period. Our overall gross profit margin decreased from 57.8% for FY2015 to 51.8% for FY2016, mainly due to occurrence of certain non-recurring sales events of *higher-end* wine portfolio products through direct sales which was of higher average selling price in FY2015.

Other income and gains, net

Other net income and gains decreased by RMB1.7 million or 63.0% from RMB2.7 million for FY2015 to RMB1.0 million for FY2016. The decrease was mainly due to decrease in government grants received by us of RMB1.1 million which was non-recurring and decrease in other interest income of RMB0.6 million settlement of interest-bearing loan to a third party in FY2016.

Selling and distribution expenses

Selling and distribution expenses remained relatively stable and amounted to RMB1.3 million for both FY2015 and FY2016.

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Administrative expenses

Administrative expenses remained relatively stable at RMB10.0 million and RMB9.7 million for FY2015 and FY2016, respectively.

Other expenses and losses

Other expenses and losses decreased by RMB3.0 million or 97.4% from RMB3.0 million for FY2015 to RMB78,000 for FY2016, which was mainly attributable to a one-off compensation of RMB3.0 million to the farmers for their transitional arrangement in relation to the purchase of grapes in FY2015 as discussed above.

Finance costs, net

Our gross interest on bank loans for FY2015 and FY2016 were relatively stable, amounted to RMB1.2 million and RMB1.2 million, respectively, and were offset by government grants of the same periods resulting in net finance costs of RMB1.2 million and RMB0.6 million for FY2015 and FY2016, respectively.

Income tax expense

Our income tax expense decreased by RMB2.6 million or 31.3% from RMB8.3 million for FY2015 to RMB5.7 million for FY2016. The decrease was mainly due to decrease in profit before tax. Our effective tax rates remained stable at 31.0% and 33.4% for FY2015 and FY2016, respectively, which were higher than the applicable statutory tax rates, mainly due to provision of withholding tax on distributable profits of our subsidiaries in the PRC.

Profit for the year

As a result of the foregoing, our profit for the year decreased by RMB7.1 million or 38.6% from RMB18.4 million for FY2015 to RMB11.3 million for FY2016. Our net profit margin decreased from 26.8% in FY2015 to 21.1% in FY2016 mainly due to a decrease in gross profit margin mentioned above.

LIQUIDITY AND CAPITAL RESOURCES

Our use of cash primarily related to operating activities and capital expenditure. We have historically financed our operations primarily through a combination of cash flow generated from our operation, bank borrowings, advances from our related parties and Shareholder's loans which have been capitalised in September 2017. See "— Description of Selected Items of Consolidated Statements of Financial Position — Related party balances" for details.

In managing our liquidity risk, we monitor and maintain a level of cash and cash equivalents by our management to finance our operations and mitigate the liquidity risk due to short term cashflow fluctuation. Our Group has built an appropriate liquidity risk management framework for the management of its short, medium and long-term funding and liquidity management requirements. We regularly monitor the repayment dates of financial liabilities, including trade payables, other payables and accrued charges to match with financial resources available to us from time to time. Our Group manages liquidity risk by maintaining adequate financial resources, including existing cash and bank balances and operating cash flows.

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We currently expect that there will not be any material change in the sources and uses of cash of our Group, except that we would be financially independent from our related parties or Shareholder and have additional funds from proceeds of the Share Offer for implementing our future plans as detailed in “Future Plans and Use of Proceeds”.

Cash Flow

The following table sets forth a summary of our consolidated cash flows for the periods indicated:

	FY2015	FY2016	FY2017
	RMB'000	RMB'000	RMB'000
Net cash from operating activities	26,162	16,775	45,473
Net cash from/(used in) investing activities	(193)	872	(14,264)
Net cash from/(used in) financing activities	(24,573)	11,092	(48,261)
Net increase/(decrease) in cash and cash equivalents	1,396	28,739	(17,052)
Cash and cash equivalents at beginning of year	21,142	22,567	51,367
Effect of foreign exchange rate changes, net	29	61	(2,163)
Cash and cash equivalents at end of year	<u>22,567</u>	<u>51,367</u>	<u>32,152</u>

We generated net cash inflow of RMB1.4 million and RMB28.7 million and net cash outflow of RMB17.1 million for FY2015, FY2016 and FY2017, respectively.

Operating activities

Net cash generated from operating activities comprises profit before taxation adjusted for non-cash items, such as depreciation, amortisation and losses/(gains) arising from changes in fair value of agricultural produce at the date of harvest, and adjusted for the change in working capital. During our Track Record Period, our cash inflow from operating activities was principally from receipt of proceeds for our products. Our cash used in operating activities was principally for purchases of raw materials and related costs used for production.

In FY2017, our net cash generated from operating activities of RMB45.5 million was a combined result of operating cash inflow before changes in working capital of RMB17.3 million, income tax paid of RMB6.2 million and change in working capital of RMB34.0 million. Change in working capital primarily reflected decrease in trade receivables of RMB29.5 million mainly due to repayment of the prolonged trade receivables from Fuzhou Liyuan, decrease in inventories of RMB7.5 million mainly due to increase in sales which was partially offset by addition of biological assets from cultivation of RMB2.7 million, increase in prepayments, deposits and other receivables of RMB4.7 million mainly in relation to the Listing and decrease in trade payables of RMB2.2 million.

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In FY2016, our net cash generated from operating activities of RMB16.8 million was a combined result of operating cash inflow before changes in working capital of RMB28.8 million, income tax paid of RMB5.7 million and change in working capital of RMB6.5 million. Change in working capital primarily reflected the addition of biological assets from cultivation of RMB2.4 million, increase in inventories of RMB1.7 million for the expected future demand for our wine products, decrease in other payables and accruals of RMB1.8 million mainly due to less amount of value-added tax payables which was mainly attributable to decrease in revenue near the end of FY2016 compared to that of FY2015 and was partially offset by decrease in prepayments, deposits and other receivables of RMB1.4 million.

In FY2015, our net cash generated from operating activities of RMB26.2 million was a combined result of operating cash inflow before changes in working capital of RMB34.7 million, which was in line with our operations, change in working capital of RMB3.6 million and income tax paid of RMB5.0 million. Change in working capital primarily reflected increase in trade receivables of RMB6.3 million which was due to certain non-recurring sales events, decrease in trade payables of RMB5.6 million, addition of biological assets from cultivation of RMB2.4 million, which was partially offset by decrease in inventories of RMB9.8 million for higher sales volume driven by the abovementioned sales events.

Investing activities

In FY2017, our net cash used in investing activities of RMB14.3 million primarily reflected prepayment and purchase of property, plant and equipment of RMB13.1 million mainly for construction of our Ningxia Winery and withholding tax paid of RMB2.5 million in relation to dividend income received by our Company from Shanxi Grace Vineyard which was partially offset by cash inflow of RMB1.0 million from our acquisition of Xiamen Taofu and proceeds from disposal of property, plant and equipment of RMB1.0 million.

In FY2016, our net cash generated from investing activities of RMB0.9 million primarily reflected repayment of a loan to a third party of RMB11.0 million and proceeds from disposal of property, plant and equipment of RMB0.8 million, which was partially offset by the purchase of plant and machinery, furniture and fixtures of RMB1.2 million, addition of construction in progress of RMB3.8 million, advance to related parties of RMB5.4 million and tax paid of RMB0.5 million in relation to dividend income received by our Company from Shanxi Grace Vineyard.

In FY2015, our net cash generated used in investing activities of RMB0.2 million primarily reflected loan to a third party of RMB11.0 million, purchase of plant and machinery, furniture and fixtures of RMB1.4 million, addition of construction in progress of RMB7.6 million, advances to related parties of RMB2.2 million which was partially offset by net repayment of a loan together with interest received from a third party of RMB21.6 million and proceeds from disposal of property, plant and equipment of RMB0.5 million.

Financing activities

In FY2017, our net cash used in financing activities of RMB48.3 million primarily reflected payment of dividends of RMB20.7 million, interest paid of RMB1.1 million and repayment of bank borrowings of RMB26.0 million.

In FY2016, our net cash from financing activities of RMB11.1 million primarily reflected proceeds from new bank borrowings of RMB27.0 million, which was partially offset by repayment of advances from related parties of RMB13.7 million, interest paid of RMB1.2 million and repayment of bank borrowings of RMB1.0 million.

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In FY2015, our net cash used in financing activities of RMB24.6 million primarily reflected repayment of bank borrowings of RMB22.0 million, repayment of advances from related parties of RMB1.3 million and interest paid of RMB1.2 million.

Net Current Assets

We recorded net current assets of RMB20.4 million, RMB57.5 million, RMB114.6 million and RMB110.0 million as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively. The table below sets forth our current assets and current liabilities as of the dates indicated:

	As at 31 December			As at
	2015	2016	2017	30 April
	RMB'000	RMB'000	RMB'000	2018
				RMB'000
				(unaudited)
Current Assets				
Inventories	75,455	79,788	77,525	68,155
Biological assets	—	—	—	724
Trade receivables	39,539	41,969	12,797	12,332
Prepayments, deposits and other receivables	14,610	2,251	7,150	9,443
Due from related parties	21,086	28,475	—	26
Cash and bank balances	22,567	51,367	32,152	37,501
Total current assets	173,257	203,850	129,624	128,181
Current Liabilities				
Trade payables	799	287	860	1,797
Other payables and accruals ..	5,324	3,558	12,403	15,435
Due to related parties	119,058	112,924	401	710
Interest-bearing bank borrowings	—	1,000	—	—
Tax payables	2,578	1,633	1,407	264
Shareholder's loan	25,142	26,991	—	—
Total current liabilities	152,901	146,393	15,071	18,206
Net Current Assets	20,356	57,457	114,553	109,975

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Our net current assets increased from RMB20.4 million as at 31 December 2015 to RMB57.5 million as at 31 December 2016. The increase was primarily due to the increase in cash and bank balances mainly as a result of profit generated from our operation and proceeds from new bank borrowings.

Our net current assets further increased to RMB114.6 million as at 31 December 2017. The increase was primarily due to decrease in amounts due to related parties and shareholder's loan as a result of capitalisation of such loans.

Our net current assets then remained relatively stable at RMB110.0 million as at 30 April 2018.

Working Capital

Our Directors confirm that, taking into consideration the financial resources presently available to us, including anticipated cash flow from our operating activities, available bank borrowings, existing cash and cash equivalents, capitalisation of related party balances and the estimated net proceeds from the Share Offer, we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

DESCRIPTION OF SELECTED ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Inventories

Our inventories principally comprise of (i) raw materials, being mainly bottles, corks, enzymes, additives, labels, lids and paper boxes; (ii) work in process, being base wine in tanks or wine in barrels or bottled wine before attaching our labels; and (iii) finished goods, being wine products ready to be sold. The balance of our inventories amounted to RMB75.5 million, RMB79.8 million and RMB77.5 million as at 31 December 2015, 2016 and 2017, respectively. The following table sets forth the breakdown of our inventories for the dates indicated:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Raw materials.....	2,891	2,222	2,959
Work in progress	70,193	72,971	67,073
Finished goods.....	2,371	4,595	7,493
	<u>75,455</u>	<u>79,788</u>	<u>77,525</u>

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We regularly review our inventory levels for slow moving inventory, obsolescence or declines in market value. Allowance is made against when the net realisable value, which is based primarily of the latest market price estimated by the management, of inventories falls below the cost or any of the inventories is identified obsolete. During the Track Record Period, we had minimal amounts of ancillary ingredients being written down which amounted to RMB58,000, RMB130,000 and RMB11,000, for FY2015, FY2016 and FY2017, respectively. The following table sets forth the turnover days of our inventories for the periods indicated.

	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>
Inventory turnover days ^(Note)	<u>978</u>	<u>1,102</u>	<u>791</u>

Note: Inventory turnover days is calculated using the average balance of inventory divided by the cost of sales for the relevant period and multiplied by 365 days in the relevant year. Average balance of inventory is calculated as the sum of the beginning and the ending balance for the relevant period, divided by two.

Our inventory turnover days were 978 days, 1,102 days and 791 days for FY2015, FY2016 and FY2017, respectively. Our turnover days were generally long as the production process of our wine products generally requires seven to 18 months and we maintain a sufficient level of inventories for our future expected sales as wine products are considered more long-lasting and not easily expired.

As at 30 April 2018, RMB28.7 million or 37.1% of our total inventories as at 31 December 2017 had been used or sold of which, RMB5.0 million or 67.0% of the finished goods as at 31 December 2017 had been sold.

Biological assets

Our biological assets comprise immature grapes before harvest in leased farms and are classified as current assets due to the short development period, prior to harvest, and harvested grapes prior to transfer to inventories. All grapes are harvested annually from late August to early October of each year, after which all harvested grapes are destemmed and crush for wine production and are transferred to inventories. After the harvest, annual pruning is done during the dormant season to remove the previous year's fruiting canes or spurs to maintain the potential quality of grapes produced. By 31 December of each year, the vines are pruned and buried in soil for winter dormancy period. Starting from late March to early April, the vineyards

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are ploughed in order to cultivate the vine from the stage of dormant. As such, no biological asset (i.e. grapes) existed as at 31 December 2015, 2016 and 2017. Movements of biological assets, representing grapes growing on bearer plants, are summarised as follows:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At the beginning of the year	—	—	—
Increase due to cultivation	2,700	2,720	3,075
Gains/(losses) arising from changes in fair value of agricultural produce at the date of harvest	3,013	(249)	884
Transfer of harvested grapes to inventories	(5,713)	(2,471)	(3,959)
At the end of the year	—	—	—

Gains/(losses) arising from changes in fair value of agricultural produce at the date of harvest were recorded in the cost of sales and capitalised in the cost of inventories, and were subsequently released to cost of sales, other income or selling and distribution expenses upon sales of wine, sales of grapes or give away of wine, respectively. The following table sets forth the details of total amount of gains/losses arising from changes in fair value of agricultural produce at the date of harvest being reflected in various items in the consolidated income statement in the same financial years:

	FY2015	FY2016	FY2017
	RMB'000	RMB'000	RMB'000
Fair value gains released upon sales of grapes (recorded as other income) ...	1,560	40	49
Fair value gains/(losses) on biological assets (recorded as decrease/(increase) in cost of sales) ..	1,453	(289)	835
Gains/(losses) arising from changes in fair value of agricultural produce at the date of harvest	3,013	(249)	884

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The following table sets forth the details of total fair value gain/losses arising from changes in fair value of agricultural produced at the date of harvest in the prior financial years being subsequently released and reflected in various items in the consolidated income statement in relevant financial years during the Track Record Period upon sales or give away of wine:

	FY2015	FY2016	FY2017
	RMB'000	RMB'000	RMB'000
Fair value losses/(gains) released upon sales of wine (recorded as decrease/(increase) in cost of sales) . .	—	460	(189)
Fair value (gains)/losses released upon give away of wine for promotion purpose (recorded as (increase)/decrease in selling and distribution expenses)	(15)	—	2
Total amount of fair value (gains)/losses released upon sales/give away of wine	(15)	460	(187)

During the Track Record Period, our Group harvested 832 tonnes, 368 tonnes, and 437 tonnes of grapes for FY2015, FY2016 and FY2017, respectively. Our Directors measured the fair value less costs to sell of grapes at harvest based on market prices as at or close to the harvest dates. We harvested significantly less grapes in FY2016 and FY2017 compared to FY2015 primarily due to (i) the reduction in our targeted production volume in relation to the desired quality improvement in Ningxia Vineyard, and (ii) the natural fluctuations in production volume in Shanxi Vineyard due to climate and other growing conditions.

Our PRC Legal Advisers have confirmed that the agricultural activities of planting grapes do not require any specific license or permit under the relevant PRC laws and regulations.

Valuation of biological assets

The fair value measurement of the grapes is categorised as Level 3 fair value measurement within the three-level fair value hierarchy as defined in HKFRS 13, *Fair Value Measurement*. Significant unobservable inputs are mainly the various costs for replacing the grapes and the market price of grapes.

Qualifications, experience and independence of the valuer

Our Group has engaged Avista, an independent valuer, to determine the fair value of the grape vines less costs to sell as at the end of each of the Track Record Period and as at the harvest dates of grapes. The team from Avista, with the assistance of a PRC external biological expert, Mr. Wu Liang-ru, is led by Mr. Pang Chung Pong. Mr. Pang Chung Pong, Managing Director of Avista, is a charterholder of the Chartered Financial Analyst Institute (CFA), a certified practicing accountant in Australia (CPA (Australia)) and a certified public accountant

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under the Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Pang possesses over 15 years of experience in valuation of tangible and intangible assets in Hong Kong and the PRC. Mr. Pang runs the operation of Avista, with appraisal experiences for projects including initial public offering, business valuation and feasibility studies. Mr. Wu Liang-ru, obtained a bachelor of agricultural science in the PRC and has ten years of experience in the valuation of biological assets. Mr. Wu's specialty includes plantation valuation for companies in the PRC. As confirmed by Avista, it is independent from our Group as at the date of this prospectus.

Based on (i) the market reputation of Avista, (ii) the background, qualification and experience of Avista and its key engagement team members, including their PRC external biological expert, and (iii) their independence, our Directors and the Sole Sponsor is satisfied that Avista is independent from our Group and is competent in conducting the valuation on our Group's biological assets.

Valuation Method

As advised by Avista, in the valuation of asset, regardless of its diversity, location, or technological complexity, there are generally three basic approaches to value, being cost approach, market approach and income approach.

The cost approach estimates value by determining the current cost of replacing an asset with one of equivalent economic utility. An indication of value is developed by estimating the cost of reproduction or replacement new for the property, less an allowance for loss in value due to depreciation or obsolescence. This approach is most appropriate when applied to specific assets, such as land improvements, buildings, machinery and equipment, and certain intangible assets. Basically, cost approach is adopted under the circumstances that both market approach and income approach are not applicable.

The market approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established used market may be appraised by this approach.

In the income approach, value is dependent on the present value of future economic benefits such as cost savings, periodic income, or sale proceeds. Indications of value are developed by discounting future net cash flows available for distribution to their present value at a rate that reflects both the current return requirements of the market and the risks inherent in the specific investment.

According to the valuation by Avista, cost approach was adopted for the valuation of biological assets (i.e. the immature grapes on bearer plants) as at the end of respective years during the Track Record Period and market approach was adopted for the agricultural produce (i.e. the harvest grapes) as at the harvest dates. The same valuation approaches were adopted by Avista throughout the Track Record Period for immature grapes and harvested grapes.

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Immature grapes:

In the valuation of immature grapes as at the end of respective years during the Track Record Period, due to the characteristics of the immature grapes as at the end of respective years/periods during the Track Record Period, Avista is unable to identify comparable market prices of immature grapes from public information. Avista has confirmed with the external biological expert that it is uncommon to have transactions for any immature grapes. Thus, market approach is considered inappropriate for this valuation exercise. In addition, future cash flows of the immature grapes are unpredictable as the immature grapes still require material biological transformation, in which the production volume and the quality of grapes for harvest are relatively uncertain as at the end of respective years/periods during the Track Record Period. Thus Avista considers that income approach is not applicable for this valuation exercise.

According to Hong Kong Accounting Standard 41, *Agriculture*, cost may sometimes approximate fair value, particularly when, among others, little biological transformation has taken place since initial cost incurrence. Based on the information provided by our management and the characteristics of the immature grapes as at the end of respective years during the Track Record Period, Avista has adopted the cost approach, in particular the replacement cost approach, for this valuation exercise.

Harvested grapes:

In the valuation of harvested grapes as at the harvest dates during the Track Record Period, as the harvested grapes are ready to be sold at the dates of harvest, while there should be observable market prices paid for similar assets, with further adjustments made to the indicated market prices to reflect condition and utility of the harvested grapes relative to the market comparable, Avista considered that market approach is the most appropriate valuation approach for this valuation exercise.

Income approach is considered inapplicable as there is a ready market for harvested grapes and thus no discounting should be considered to derive the respective present values of the harvested grapes. Cost approach is considered inapplicable for the harvested grapes since the historical costs ignore the economic benefits of selling the grapes to external parties.

As such, Avista has solely adopted the market approach in determining its opinion of the fair values of the harvested grapes as at the harvest dates during the Track Record Period.

The Sole Sponsor held various discussions with Avista in relation to the valuation procedures, valuation methods and information required to prepare their valuation report. The Sole Sponsor further compared the valuation methods adopted with those in the similar companies and market practice.

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Key assumptions and inputs

Immature grapes:

The key inputs for determining the fair value of immature grapes include the costs incurred by our Group for the immature grapes up to the respective year end dates during the Track Record Period. Such costs mainly include, among others, staff cost for maintenance of vines and grapes, amortised land cost of the vineyards, equipment operating costs for the vineyards (such as pruning and fertilising), irrigation costs and fertilisers costs.

Harvested grapes:

The key assumptions and inputs for determining the fair value of harvested grapes include the following:

- The market prices of the harvested grapes, which were obtained by Avista by reference to the procurement prices of grapes by our Group, the survey conducted with the farmers and wine suppliers, the statistics published by trustful institutions, the adjustments for annual average price data and corresponding consumer price index movement in the PRC;
- The costs to sell which mainly include the transportation and logistics costs for transferring grapes; and
- The volume of harvested grapes at the relevant harvest dates which was based on historical harvest records.

Based on the on-site inspections conducted by Avista and to the best knowledge of our Directors, there is limited market for wine grapes in Shanxi, while there are active markets for wine grapes in Ningxia. As such, the benchmark market prices for the valuation of harvested grapes were mainly obtained through the market data for wine grapes produced in Ningxia. The fair values of wine grapes in Shanxi is adjusted with appropriate transportation costs to reflect the respective market price less cost to sell in a saleable market.

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Avista has also performed the following work with respect of the valuation of our biological assets:

- Conducted site inspections on the vineyards during the period of 25 April 2017 to 27 April 2017, 9 June 2017 to 14 June 2017, 3 July 2017 to 5 July 2017 and 27 December 2017 to 29 December 2017, and observed that there was no material negative issue indicating that the physical existence, condition and development status of the biological assets would have been negatively affected. In particular, Avista physically observed the existence of the vineyard and the immature grapes on the bearer plants, checked health condition and cultivation status as well as observed the physical appearance of the immature grapes;
- Made reasonable enquiries with our management to confirm that our Company had performed regular stock-take with no material deviations and had no material deficiency on the biological asset management policy and internal control on the inventory system;
- Obtained and reviewed records that our Company has properly kept in relation to the bearer plants and key factors affecting the growth of grapes, such as temperature, which demonstrated the health condition and quality of the biological assets; and
- Conducted market research to ensure the historical procurement prices of grapes provided by us were in line with market transactions.

The valuation conducted by Avista is subject to the caveat that Avista relied substantially on the accuracy, completeness, reliability and reasonableness of the various assumptions and other data provided by us in preparation of the valuation report. While these assumptions as adopted in the valuation process have been in line with the actual results, there is no assurance that there will be no significant deviation in the future. See “Risk Factors — Risk Relating to Our Business — The fair value of our biological assets may fluctuate significantly from period to period, causing our results of operations to be highly volatile” for details. In arriving at the opinion of fair values of biological assets of our Group, Avista also assumes, among others, there will be no major changes in the existing political, legal, fiscal and economic conditions in the country that our Group operates in.

The significant unobservable inputs for the valuation of immature grapes are mainly the various costs for replacing. The higher the cost incurred, the higher the fair value determined. The significant unobservable inputs for the valuation of harvested grapes are mainly the market prices of grapes. The higher the market price, the higher the fair value. For the details of unobservable inputs used to measure our immature grapes and harvested grapes, please refer to note 20 of the Accountants’ Report set out in Appendix I to this prospectus.

Reporting Accountants have performed the procedures in accordance with the HKSA 620 *Using the Work of an Auditor’s Expert*. The Reporting Accountants have made inquiries regarding the source data used and procedures undertaken by Avista in the valuations and obtained an understanding on the assumptions and methods used. Based on the procedures undertaken, the Reporting Accountants are satisfied that the valuation technique chosen and the source data used in the valuation are appropriate and reasonable.

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The Sole Sponsor discussed with Avista in relation to the valuation procedures, valuation basis and assumptions and understands that Avista has conducted the biological asset valuation in accordance with Hong Kong Accounting Standard 41, *Agriculture*, issued by the Hong Kong Accounting Standards Board, and with reference to the International Valuation Standards, issued by the International Valuation Standards Council. The key assumptions and inputs, as detailed above, includes our historical actual operating data. Avista has obtained and discussed with us regarding the historical actual operating data from us, and considered and reviewed whether they are appropriate and reasonable to be used in the valuation. Our Directors confirm that the assumptions adopted are consistent with industry practice and in line with the actual information during the Track Record Period.

The Sole Sponsor has also conducted site inspections together with Avista on our vineyards and observed the physical existence and conditions of the vineyard and the immature grapes on the bearer plants, and there was no material negative issue indicating that the physical existence, condition and development status of the biological assets would have been negatively affected. Despite such due diligence was subject to limitations of the uncertainty on the production volume and quality of grapes for harvest as the immature grapes on the bearer plants still requires biological transformation, given that (i) cost approach is adopted for the valuation of immature grapes as at the respective year/period end dates, (ii) no biological assets existed as at 31 December 2015, 2016 and 2017 due to the growing cycle of grapes and (iii) the valuation of harvested grapes was conducted based on the actual harvested volume and the market prices of grapes at the time of harvest, it is considered that the valuation of biological assets in our financial statements would not be affected by such uncertainty.

The Sole Sponsor has held various discussions with Avista and the Reporting Accountants in relation to the valuation methodology adopted and the inputs used in the valuation by Avista. The Sole Sponsor has also held discussion with Avista to understand their valuation process and reviewed the qualification and relevant valuation experience of Avista and its key engagement team members. The Sole Sponsor has further compared the valuation technique chosen, basis and assumptions of the valuation with those used in other similar companies and market practice. In addition, the Sole Sponsor understands that appropriate procedures in accordance with the relevant standards regarding the valuation of biological assets by Avista have been performed. Given the above, the Sole Sponsor is satisfied that the valuation methodology and major inputs used in the valuation of the biological assets of our Group are appropriate and reasonable.

Sensitivity analysis

For harvested grapes, a 10% increase in the market price or quantity would lead to a 10% increase of the value of the agricultural produce, causing the appraised values to be RMB6.3 million, RMB2.7 million and RMB4.4 million at the point of harvest in 2015, 2016 and 2017, respectively. A 10% decrease in the market price or quantity would lead to a 10% decrease in the value of the harvested grapes, causing the appraised values to be RMB5.1 million, RMB2.2 million and RMB3.6 million at the point of harvest in 2015, 2016 and 2017, respectively.

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Results excluding the unrealised fair value gains/losses on biological assets

During the Track Record Period, the unrealised fair value gains/losses on biological assets did not constitute significant effect on our profit for the year. The following table shows the profit for the year and profit attributable to the owners of our Company excluding the unrealised fair value changes on biological assets, which is a non-HKFRS measure as discussed below, for the periods indicated:

	FY2015	FY2016	FY2017
	RMB'000	RMB'000	RMB'000
Profit for the year and profit attributable to owners of our Company	18,358	11,285	1,114
Adjusted for:			
Unrealised losses/(gains) arising from changes in fair value of agricultural produce at the date of harvest	(3,013)	249	(884)
Profit for the year and profit attributable to owners of our Company excluding unrealised losses/(gains) arising from changes in fair value of agricultural produce at the date of harvest	<u>15,345</u>	<u>11,534</u>	<u>230</u>

Non-HKFRS measures

The term “profit attributable to owners of our Company excluding unrealised fair value gains/losses arising from changes in fair value of agricultural produce at the date of harvest” during the Track Record Period is not defined under the HKFRS. The use of profit attributable to owners of our Company excluding unrealised fair value gains/losses arising from changes in fair value of agricultural produce at the date of harvest has material limitations as an analytical and demonstration tool as it does not include all items that may impact our net loss or income for the Track Record Period.

Stock-take and internal control

According to Hong Kong Accounting Standard 41, *Agriculture*, our harvested grapes and immature grapes growing on the bearer plants are classified as biological assets, while the bearer plants are classified as property, plant and equipment. Given the nature of grapes that it grows on our bearer plants and harvest only once a year from late August to early October each year, our stock-take and internal control on biological assets are integrated with that on the bearer plants.

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Stock-take

We perform a full stock-take of our bearer plants once a year (i.e. on or around 30 June every year) on our vineyards to ensure the physical existence of our bearer plants and conduct periodic inspection of the immature grapes on our vineyards from time to time to monitor the physical condition of our biological assets (i.e. immature grapes on the bearer plants).

The team of a full stock-take of bearer plants include production and cultivation staff, finance staff. The result of each full stock-take of bearer plants is documented on a bearer plant count sheet. The bearer plant count sheet will be submitted to and kept by the finance department. Our cultivation staff will also observe the physical condition of our immature grapes during the periodic inspection, assess the growing progress of our grapes and compare to our cultivation plan. See “Business — Quality Control and Assurance” for further details of our periodic monitoring of immaturred grapes. Any material variance between the results of the stock-take and periodic inspection of immature grapes against our accounting records of bearer plants and our cultivation plan shall be reported to the management. The results of the stock-take and periodic inspection of immature grapes will be recorded after the approval of the management.

Internal Control

We have maintained a comprehensive policy for bearer plants and biological assets management. Our bearer plants and biological assets management policy covers, among other things, purchase and inspection of raw materials, monitoring the cultivation process, accounting records, record keeping and stock-take.

For self-cultivated grape, the biological assets physically exist only during the grape growing seasons, mainly in April to October every year. During this period, we regularly monitor the growing condition of the grapes and forecast the grape production volume of the year. Based on the estimation on production volume of grapes for the year, our finance department will calculate the value of biological assets expected to exist upon harvest.

In the period when the grapes are substantially matured and close to harvest time, generally in September, we arrange production staffs and security staffs to monitor and safeguard the grapes on a daily basis to ensure the physical existence of it.

Upon harvest, grapes are transferred to our wineries for storage immediately and are processed in the tanks in the shortest amount of time possible in order to mitigate the risk of deterioration or theft. The finance department makes record of the total number of tonnes of grapes harvested.

For externally-sourced grapes that we purchase from other suppliers, we physically count the number of tonnes of grapes upon receipt and inspect the condition of it. Same as self-cultivated grapes, we proceed on the production process immediately to avoid the risk of storage of grapes.

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Trade receivables

The following table sets forth the components of our trade receivables as of the dates indicated:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
From Independent Third Parties	15,875	37,073	12,752
From related companies	23,664	4,896	45
	<u>39,539</u>	<u>41,969</u>	<u>12,797</u>

Our trade receivables primarily relate to receivables from sales of our products to our customers, including independent third parties and related companies. Our trade receivables remained relatively stable at RMB39.5 million and RMB42.0 million as at 31 December 2015 and 2016, respectively. Fuzhou Liyuan, which was our related company as at 31 December 2015, became an Independent Third Party following the disposal from Ms. Chan to an Independent Third Party and no longer considered a related party in December 2016. The outstanding balance of Fuzhou Liyuan as at 31 December 2016 was reclassified to trade receivables from third parties. The trade receivables then decreased to RMB12.8 million as at 31 December 2017 mainly due to repayment of the prolonged trade receivable balances from Fuzhou Liyuan after it has become an Independent Third Party.

During the Track Record Period, we conducted our sales mainly by credit sales. Before accepting any new customer, our Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits of our customers are reviewed regularly. We generally granted a period of up to three months from the month end of date of invoice for our major customers. We seek to apply strict control over the outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by our senior management. We typically do not require any collateral as security.

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The following table sets forth the ageing analysis of our trade receivables that are not considered to be impaired, as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	18,892	15,815	12,720
Less than 90 days past due	427	694	77
Over 90 days past due	20,220	25,460	—
	<u>39,539</u>	<u>41,969</u>	<u>12,797</u>

Our policy for impairment on trade receivables due from third parties is based on an evaluation of collectability and ageing analysis of the receivables that requires the use of judgement and estimates of our management. Provisions would apply to the receivables when there are events or changes in circumstances which indicate that the balances may not be collectible. We closely review the trade receivables balances and any overdue balances on an ongoing basis, and assessments are made by our management on the collectability of overdue balances. After fully considering the nature of trade receivables and their collectability on a case-by-case basis, we would make provisions for the impairment of certain overdue trade receivables in order to ensure the quality of our assets. We have recognised impairment of trade receivables of nil, RMB17,000 and nil for FY2015, FY2016 and FY2017, respectively, which was individually impaired trade receivable due from a debtor. Save as disclosed above, we did not experience any material payment defaults from our customers during the Track Record Period. Receivables that were past due but not impaired relate to a number of independent customers that have a good relationship with our Group including the prolonged receivable balances of Fuzhou Liyuan. During FY2017, all past due receivables from Fuzhou Liyuan has been settled. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The table below sets forth our turnover days of trade receivables as at the dates indicated:

	FY2015	FY2016	FY2017
Turnover days of trade receivables ^(Note) .	<u>194</u>	<u>279</u>	<u>142</u>

Note: Turnover days of trade receivables is calculated using the average balance of trade receivables divided by total sale for the relevant period and multiplied by 365 days in the relevant period. Average balance of trade receivables is calculated as the sum of the beginning and the ending balance for the relevant period, divided by two.

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Our trade receivable turnover days increased from 194 days in FY2015 to 279 days in FY2016 and 142 days in FY2017 during the Track Record Period as we historically allowed a longer buffer time of settlement exceeding the granted credit period to Fuzhou Liyuan, our former related party, due to the assurance drawing from Ms. Chan's equity ownership. The trade receivable turnover days decreased to 142 days in FY2017 as a result of repayment of prolonged trade receivable balances from Fuzhou Liyuan which became an Independent Third Party in December 2016. Our turnover days in FY2017 still exceed the general credit period offered as a result of the opening balance brought forward from FY2016 despite the settlement from Fuzhou Liyuan.

As at 30 April 2018, RMB12.7 million or 99.5% of our trade receivables outstanding as at 31 December 2017 were settled.

Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables mainly comprise loan to a third party, prepaid land lease payment, prepayments for purchasing inventories and other receivables. The following sets forth a breakdown on our other receivables as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Deposits and other receivables.....	426	427	1,810
Prepaid land lease payments	883	898	900
Prepayments	1,751	926	4,440
Loan to a third party	11,550	—	—
	<u>14,610</u>	<u>2,251</u>	<u>7,150</u>

Our prepayments, deposits and other receivables decreased from RMB14.6 million as at 31 December 2015 to RMB2.3 million as at 31 December 2016 mainly due to repayment of a loan to a third party of RMB11.6 million. In or around 2015, Ms. Chan identified investment opportunities in venturing into the “made-in-PRC” whisky business with a Shanghai-based third party debtor engaged in, amongst others, wine trading business (the “**Shanghai Partner**”). The owner of the Shanghai Partner has around 10 years of business relationship with Ms. Chan. It was agreed that Ms. Chan would act as the investor and provide the capital investment and the Shanghai Partner would focus on the day-to-day operation of the whisky distillery, in Wuyishan, Fujian Province. To finance the initial set-up of the joint venture and to proceed to acquire the relevant land, Ms. Chan, through our Group, provided a loan to the Shanghai Partner without security and with 5.0% interests per annum.

However, opposition from the local government had been received with concerns over possible pollutions to be brought about by a potential whisky distillery that may negatively impact the tourism industry in the Wuyishan region. As such, Ms. Chan and the Shanghai Partner were requested to locate the distillery to an industrial area. Ms. Chan and the Shanghai Partner both considered the location commercially unfeasible and would potentially lead to significant

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deterioration to the quality of the whisky products made at the distillery, and had hence withdrawn their investment. Subsequent to the withdrawal, the Shanghai Partner had repaid the loan with accrued interests to our Group during FY2016. As advised by our PRC Legal Advisers, our Group would not be deemed to have violated the General Lending Provision and imposed any administrative penalty by PBOC because (1) the loan was advanced to address the Shanghai Partner's shortage of working capital, and did not constitute any circumstances set forth in Article 52 of the PRC Contract Law or Article 14 of the Provision (as defined below), which according to the Provisions of the Supreme People's court on Certain Issues concerning Application of Law in Trial of Cases involving Private Lending (the "Provisions") shall be upheld by the People's Court in the PRC, and (2) the loan are isolated incidents which does not constitute our regular business activities.

Our prepayments, deposits and other receivables then increased to RMB7.2 million as at 31 December 2017 mainly due to increase in prepayments for listing expenses of RMB2.5 million and increase in deposits and other receivables as a result of increase in VAT recoverable.

Goodwill

Our goodwill amounted to nil, nil and RMB1.4 million as at 31 December 2015, 2016 and 31 December 2017, respectively. Goodwill as at 31 December 2017 was attributable to the acquisition of Xiamen Taofu. Goodwill acquired through such business combination was allocated to the sale of wine cash-generating unit for impairment testing. The recoverable amount of the sale of wine cash-generating unit have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to the cash flow projections as at 31 December 2017 is 24.3% which is determined by reference to the average rates for similar industry and the business risks of the relevant business unit. The growth rate used to extrapolate the cash flows beyond the five-year period is 3%. Assumptions such as budgeted gross margins and discount rate were used in the value in use calculations. See note 18 of the Accountants' Report set out in Appendix I for details.

Trade payables

The following table sets forth the ageing analysis of our trade payables, based on invoice date, as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within 30 days	795	76	575
31 to 90 days	4	211	285
	<u>799</u>	<u>287</u>	<u>860</u>

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Our trade payables primarily consist of balances related to our suppliers for purchases of raw materials with credit terms. Our trade payables decreased from RMB0.8 million as at 31 December 2015 to RMB0.3 million as at 31 December 2016, mainly due to repayment, to our suppliers. The balance then increased to RMB0.9 million mainly as a result of increase in purchase of raw material for our production. Our purchase of raw materials are usually partially paid in advance, and our trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days. The following table sets out our turnover days of trade payables for the periods indicated:

	FY2015	FY2016	FY2017
Turnover days of trade payables ^(Note)	46	8	6

Note: Turnover days of trade payables is calculated using the average balance of trade payables divided by cost of sales for the relevant period and multiplied by 365 days in the relevant period. Average balance of trade payables is calculated as the sum of the beginning and the ending balance for the relevant period, divided by two.

Our trade payable turnover days remained relatively low at 46 days, 8 days and 6 days for the Track Record Period, as some of our suppliers required prepayments for purchases without credit terms (which were only accounted for as our cost of sales but not as our trade payables balances). The relatively higher turnover days in FY2015 was mainly due to the higher trade payables balance as at 31 December 2014 as a result of our purchase of grapes near the year end of the same year.

As at 30 April 2018, RMB0.8 million or 96.4% of our trade payables outstanding as at 31 December 2017 had been settled. Given that (1) the subsequent settlement only reflects for the payment to our suppliers with credit terms and payable balances, and (2) some of our suppliers required prepayments for purchases without credit terms (which were only accounted for as our cost of sales but not as our trade payables balances), our proportion of subsequent settlement is not necessarily in a level commensurate with our low trade payable turnover days.

Other payables and accruals

Our other payables and accruals mainly comprised other taxes payables, salaries payables, accrued social insurance, receipts in advance from our customers and others. The following sets forth a breakdown on our other payables as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Accruals	—	46	2,729
Other payables	5,292	3,444	9,546
Advance from customers	10	46	106
Deferred income	22	22	22
	5,324	3,558	12,403

FINANCIAL INFORMATION

Other payables and accruals decreased from RMB5.3 million as at 31 December 2015 to RMB3.6 million as at 31 December 2016, which was mainly attributable to a decrease in value-added tax payables of RMB1.3 million due to decrease in our sales near year end of FY2016 compared to that of FY2015. Our other payables and accruals then increased to RMB12.4 million as at 31 December 2017 mainly due to the increase in (i) accruals mainly due to listing expenses; and (ii) other payables mainly due to retention money in relation to construction of our Ningxia Winery as at 31 December 2017.

Related Party Balances

Amounts due from/to related parties

Our amounts due from/to related parties represented fund transfer with our related parties. Our amounts due from related parties amounted to RMB21.1 million, RMB28.5 million and nil as at 31 December 2015, 2016 and 2017, respectively, whilst our amounts due to them were RMB119.1 million, RMB112.9 million and RMB0.4 million as at the same periods. The amounts were unsecured, interest-free and repayable on demand.

Shareholder's loan

Our loan from Ms. Chan amounted to RMB25.1 million, RMB27.0 million and nil as at 31 December 2015, 2016 and 2017, respectively. The amounts were unsecured, interest-free and repayable on demand.

Settlement of related party balances

Pursuant to a deed of confirmation dated 8 September 2017, the amount of approximately HK\$124.6 million owed by our Company to Ms. Chan, being the net amount of amounts due from/to related parties assigned to Ms. Chan and Shareholder's loan due to Ms. Chan, is deemed to have been fully repaid by the allotment and issue of 217 Shares to Macmillan Equity on 14 September 2017. See "History, Reorganisation and Corporate Structure — Reorganisation" for details.

CAPITAL EXPENDITURE AND COMMITMENT

Capital expenditure

Our capital expenditures for the Track Record Period were RMB9.5 million, RMB5.1 million and RMB17.0 million, respectively, which primarily related to construction in progress for our Ningxia Winery and purchase of furniture and fixtures for our operations. We have financed our capital expenditure primarily through cash flow generated from operating activities. We expect the capital expenditure for the year ending 31 December 2018 to be RMB11.0 million, mainly for the construction of Ningxia Winery and the purchase of plant and equipment.

FINANCIAL INFORMATION

Operating lease commitments

As at the end of the reporting periods during the Track Record Period, we had commitments for future minimum lease payments in respect of certain of our premises under non-cancellable operating lease arrangements, which fall due as follows:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Farmlands			
Within one year	3	—	—
In the second to fifth years, inclusive	15	3	7
After five years	15	12	8
	<u>33</u>	<u>15</u>	<u>15</u>
Office			
Within one year	225	260	384
In the second to fifth years, inclusive	—	—	230
	<u>225</u>	<u>260</u>	<u>614</u>

We lease farmlands and an office under operating lease arrangements. Leases are negotiated for terms ranging from one to ten years.

Capital commitments

In addition to the operating lease commitments, we had the following capital commitments at the dates indicated:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Construction in progress	<u>9,610</u>	<u>5,310</u>	<u>—</u>

FINANCIAL INFORMATION

INDEBTEDNESS

Bank loans

The following table sets out our total interest-bearing bank borrowings by repayment schedule as at 31 December 2015, 2016 and 2017 and 30 April 2018:

	As at 31 December			As at 30 April 2018
	2015	2016	2017	
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Bank loans repayable:				
Within one year or on demand	—	1,000	—	—
In the second year	—	1,000	—	—
In the third to fifth years, inclusive	—	24,000	—	—
	<u>—</u>	<u>26,000</u>	<u>—</u>	<u>—</u>

As at 31 December 2016, all the loans were denominated in RMB and secured. The interest rates are adjusted annually, based on the one to five year interest rate set by PBOC. The following table sets out our total security of loans as at 31 December 2015, 2016 and 2017 and 30 April 2018:

Our bank loans were secured by:

	As at 31 December			As at 30 April 2018
	2015	2016	2017	
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Property, plant and equipment.	—	34,566	—	—
Prepaid land lease payments..	—	979	—	—
	<u>—</u>	<u>35,545</u>	<u>—</u>	<u>—</u>

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In addition, as at 31 December 2016, our Group's bank loans were secured by personal guarantees of Ms. Chan. Such loans were repaid in FY2017. The loan agreement contains a financial covenant which requires our gearing ratio to be maintained below certain level. Our Directors confirmed that we had not breached any covenants during the Track Record Period up to the Latest Practicable Date.

As at 30 April 2018, being the latest practicable date for the purpose of indebtedness statement, we do not have any available banking facilities.

During the Track Record Period, our Directors confirmed that we did not experience any delay or default in repayment of bank borrowings nor experience any difficulty in obtaining banking facilities with terms that are commercially acceptable to us. As at the date of this prospectus, we did not have any plan for material external debt financing.

Contingent liabilities

As at 30 April 2018, being the latest practicable date for the purpose of the indebtedness statement, save as aforesaid and apart from intra-group liabilities, our Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENT

During the Track Record Period and up to the Latest Practicable Date, our Group had not entered into any material off-balance sheet commitments and arrangements.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set forth in the Accountants' Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole. After Listing, we expect to continue conducting certain connected transactions, being (i) sub-lease of premises; (ii) shared administrative services; and (iii) sales of wine products, with our related parties. See "Connected Transactions — Fully Exempt Continuing Connected Transactions" for details.

FINANCIAL INFORMATION

PROPERTY INTEREST AND PROPERTY VALUATION

The statement below shows the reconciliation of aggregate amounts of certain properties as selected in our audited consolidated financial information as at 31 December 2017 as set forth in Appendix I to this prospectus with the valuation of these properties as at 31 March 2018 as set forth in Appendix III to this prospectus.

	RMB'000
Net carrying amount of the properties being valued by the Property Valuer as at 31 December 2017	
Land and buildings and leasehold improvements	37,290
Less: Depreciation during the period from 31 December 2017 to 31 March 2018	(973)
Net book value as at 31 March 2018	36,317
Net valuation surplus	16,674
Valuation of properties owned by our Group as at 31 March 2018 as set out in the property valuation report in Appendix III to this prospectus	
	<u>52,991</u>

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at each of the dates indicated:

	FY2015	FY2016	FY2017
Gross profit margin (%) ⁽¹⁾	57.8	51.8	48.4
Net profit margin (%) ⁽²⁾	26.8	21.1	1.6
Return on equity (%) ⁽³⁾	16.6	9.9	0.5
Return on total assets (%) ⁽⁴⁾	6.7	3.8	0.5
Current ratio ⁽⁵⁾	1.1	1.4	8.6
Quick ratio ⁽⁶⁾	0.6	0.8	3.5
Gearing ratio (%) ⁽⁷⁾	N/A	22.7	N/A
Net debt to equity ratio ⁽⁸⁾	N/A	Net cash	N/A

Notes:

1. Gross profit margin for each of the Track Record Period was calculated on gross profit divided by revenue for the respective period. Please refer to the paragraphs headed "Review of Historical Results of Operations" in this section for more details on our gross profit margins.
2. Net profit margin for each of the Track Record Period was calculated on net profit for the year divided by revenue for the respective period. Please refer to the paragraphs headed "Review of Historical Results of Operations" in this section for more details on our net profit margins.
3. Return on equity is calculated by dividing profit for the year by total equity of the respective year and multiplying the resulting value by 100%.

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4. Return on assets is calculated by dividing profit for the year by total assets of the respective year and multiplying the resulting value by 100%.
5. Current ratio is calculated as the total current assets divided by the total current liabilities.
6. Quick ratio is calculated as total current assets less inventories and divided by total current liabilities.
7. Gearing ratio is calculated as the total interest bearing external borrowings divided by total equity and multiplied by 100%.
8. Net debt to equity ratio is calculated as total interest bearing external borrowings net of cash and cash equivalents, and divided by total equity and multiplied by 100%.

Return on equity

Our return on equity decreased from 16.6% in FY2015 to 9.9% in FY2016 mainly due to a decrease in profit for the year because the non-recurring sales events in FY2015 by their own nature did not recur to a comparable scale in FY2016. Our return on equity then further decreased to 0.5% in FY2017, primarily due to (i) Listing expenses of RMB11.1 million; (ii) the increased tax expenses as a result of Listing expenses incurred which were not tax deductible; and (iii) increase in total equity as a result of loan capitalisation of RMB104.2 million in FY2017.

Return on total assets

Our return on total assets decreased from 6.7% in FY2015 to 3.8% in FY2016 mainly due to a decrease in profit for the year because the non-recurring sales events in FY2015 as discussed above did not recur. Our return on assets then further decreased to 0.5% in FY2017, primarily due to Listing expenses of RMB11.1 million and the increased tax expenses as a result of Listing expenses incurred which were not tax deductible.

Current ratio

Our current ratio increased from 1.1 as at 31 December 2015 to 1.4 as at 31 December 2016 mainly due to increase in cash and cash equivalents as at 31 December 2016 as a result of operations and net increase in new bank borrowings. Our current ratio then increased to 8.6 as at 31 December 2017 mainly due to capitalisation of amounts due to related parties in FY2017.

Quick ratio

Our quick ratio were 0.6, 0.8 and 3.5 as at 31 December 2015, 2016 and 2017, respectively. The increase in quick ratio in 2016 was mainly due to increase in cash and cash equivalents as at 31 December 2016 as a result of operations and net increase in new bank borrowings. Our quick ratio then increased to 3.5 as at 31 December 2017 mainly due to capitalisation of amounts due to related parties in FY2017.

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Gearing ratio

We did not have any interest-bearing bank borrowings as at 31 December 2015 and 2017. Our gearing ratio was 22.7% as at 31 December 2016.

Net debt to equity ratio

We did not have any interest bearing external bank borrowings as at 31 December 2015 and 2017. As at 31 December 2016, we had net cash position.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to market risks from changes in market rates and prices, such as interest rates, foreign currency credit and liquidity.

Details of the risk to which we are exposed are set out in note 42 to the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

DIVIDENDS

The dividends declared and paid by our Company to its then shareholder, during the Track Record Period were nil, nil and RMB20.7 million for FY2015, FY2016 and FY2017, respectively. As at the Latest Practicable Date, such dividend had been fully settled by cash. On 4 June 2018, we declared dividends in the aggregate amount of RMB10.0 million, which will be paid to our then Shareholders before Listing. Save for disclosed above, we have no plan to pay or declare any dividends prior to the Listing. We do not intend to determine any expected dividend payout ratio after Listing and to pay dividend based on actual financial performance after Listing. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

The recommendation of the payment of dividend is subject to the absolute discretion of our Board, and, after Listing, any declaration of final dividend for the year will be subject to the approval of our Shareholders. Our Group does not have any dividend policy. Our Directors may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Companies Law, including the approval of our Shareholders.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

Our Company was incorporated on 14 February 2012 and is an investment holding company. As at 31 December 2017, our Company had distributable reserves approximately RMB96.3 million.

LISTING EXPENSES

Total expenses in relation to the Listing amounted to RMB24.5 million. During the Track Record Period, we incurred Listing expenses of RMB11.1 million for FY2017 which was recognised as administrative expenses in our consolidated statements of profit or loss. Approximately RMB5.0 million is expected to be recognised as administrative expense from the period from 1 January 2018 to the Listing Date and approximately RMB8.4 million is expected to be recognised as deduction in equity.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For our unaudited pro forma adjusted net tangible assets, please refer to the section headed “Appendix II — Unaudited Pro Forma Financial Information” to this prospectus.

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 17.15 to 17.21 of the GEM Listing Rules.

MATERIAL ADVERSE CHANGE

The impact of the Listing expenses on our consolidated statements of profit or loss has posed a material adverse change in the financial or trading position or prospect of our Group since 31 December 2017 (being the date of the latest audited consolidated financial statements were made up). Prospective investors should be aware of the impact of the Listing expenses on the financial performance of our Group for the year ending 31 December 2018.

Save as disclosed above, our Directors have confirmed, after performing all the due diligence work which the Directors consider appropriate, that save as disclosed under section headed “Summary — Recent Development, Outlook and Prospects” in this prospectus, there is no event which could materially affect the information shown in our consolidated financial information included in the Accountants’ Report set forth in Appendix I to this prospectus since 31 December 2017, and as of the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Business Strategies” for a detailed description of our business strategies and future plans.

REASONS FOR THE LISTING

We plan to utilise our status as a listed issuer on the GEM of the Stock Exchange and the net proceeds from the Share Offer principally to continue growing our business. This will be implemented principally with the establishment of our new Ningxia Winery to its full wine-making functions by the end of 2020. Our Ningxia Winery is expected to give us a range of commercial benefits on all aspects of our operations, ranging from our wine-making process (with an additional 75 wine-making tanks to timely process our externally-sourced grapes from adjacent vineyards in Ningxia to avoid decay and contamination and to reduce costs otherwise associated with transporting them to our Shanxi Winery), brand image and wine product awareness (as one of the most prominent wine-making regions in the PRC over the past few years, Ningxia gives us exposure to an abundance of active wine buyers, wholesalers and retailers in the PRC), sales capability (presence in Ningxia gives us the ability to tap into the local sales market), supplies and procurement (Ningxia boosts an active grape cultivation industry which gives us access to different types of externally-sourced grapes to meet our ancillary wine-making needs) and other fringe operational benefits (favorable policies and other forms of intangible supports from the Ningxia regional government which places a significant focus on and investment in the wine industry). As the establishment of our Ningxia Winery is capital intensive in nature requiring substantial amounts of capital, such as construction costs, equipment and facility purchases, labour costs, utilities, initial production costs for making our first batches of inventories and other related sales and marketing expenses, we consider that the net proceeds from the Share Offer will put us into a better operational and financial position to realise the commercial benefits that come with our Ningxia Winery. See “Business — Business Strategies — Enhancement of our Wine-making capacity with our new Ningxia Winery” for a detailed discussion of the expected commercial benefits of our Ningxia Winery.

Our Listing is also expected to coincide with the recovery of the PRC wine market from the implementation of the government’s frugality campaigns. With expanding population, increasing urbanisation, uplift of living standards and growing popularity of wine consumption in the PRC, in addition, wine makers (such as ourselves) are able to offer more affordable, value-for-money wine products and the PRC public are increasing inclined to consume wine in family and social gatherings rather than business occasions. The PRC wine consumption is expected to grow at a CAGR of 6.8% from 2016 to 2021. The additional infrastructures at our Ningxia Winery, which we expect to translate into enhanced wine-making capacity and wider wine product range, will enable us to timely capture the future growth opportunities in the PRC wine market.

Our Directors consider that an important side benefit of the Listing is our reinforced brand awareness and brand image, which would assist us with the sales and marketability of the additional wine products made in our Ningxia Winery. These products, which will be branded as “Ningxia-made” riding on Ningxia’s status as a prominent wine-making region in the PRC, are expected to be sold in addition to our key PRC markets in Shanxi, Fujian, Zhejiang, Henan, Hunan and Guangdong provinces, which we expect to tap into using our strengthened sales and increasing marketing efforts. We expect that our reputation as a listed issuer in Hong Kong will enhance the cost efficiency and effectiveness of our marketing programs in our sales locations in the Greater China Region.

FUTURE PLANS AND USE OF PROCEEDS

The first phase construction of our Ningxia Winery, funded with our internal resources, was completed in December 2017 and we plan to utilise the net proceeds from the Share Offer to finance the remaining construction works and to build up an initial batch of inventories in Ningxia. This will be supplemented with increased sales and marketing expenses, as well as general working capital for our operations to smoothen the integration of our Ningxia Winery into our business model and maximise the commercial benefits out of it. Our management will continue to utilise their industry knowledge and insights to appropriately apply our Listing status and the net proceeds from the Share Offer to ultimately solidify our market position, attain market share growth, improve our financial performance and maintain a sustainable sales pipelines for our “Grace Vineyard (怡園酒莊)” wine products.

We currently estimate the total investment for the Ningxia Winery will amount to approximately RMB69.1 million, of which approximately RMB39.6 million has been incurred for the first phase construction with our internal resources and a further approximately RMB29.5 million will be incurred for the second phase construction with the proceeds from the Share Offer as well as our internal resources. Notwithstanding our cash and cash equivalents of approximately RMB37.5 million as at 30 April 2018, we currently expect to pay (1) RMB10.0 million as dividends, (2) approximately RMB2.3 million as the remaining costs of the phase 1 construction and plants and equipment purchases for our Ningxia Winery to be funded by our internal resources, (3) approximately RMB29.5 million as the phase 2 construction and plants and equipment purchases for our Ningxia Winery, and (4) approximately RMB9.6 million for the initial costs for the phase 1 production of our Ningxia Winery, a combination of these expenses and expenditure would render us into a negative cash position of approximately RMB13.9 million (solely on a pro-forma basis) without the net proceeds of the Share Offer. Our Directors believe that the proceeds of the Share Offer will provide important additional capital for us to fund our construction and initial wine-making of our new Ningxia Winery and our marketing activities while keeping our leverage ratios low and our overall operations profitable.

Our Directors consider that we have adequately utilised our Shanxi Winery during the Track Record Period. For each of FY2015, FY2016 and FY2017, the occupancy rate of our Shanxi Winery, which is calculated based on the percentage of work-in-progress in occupation of our wine-making tanks in August (being our wine-making season), was estimated to be approximately 95.2%, 80.6% and 75.8%, respectively. This decreasing trend was attributed to the fact that our stock level brought forward from the years prior to 2015 was made before the government’s frugality campaigns, which were sufficient to sustain our sales volume during the Track Record Period. We have as such reduced our wine-making volume during the Track Record Period in accordance with our inventory level. In view of our growth in sales volume during the Track Record Period and as the PRC wine market continues to recover, it is our current intention to gradually increase our wine-making volume and optimise our stock and inventory level. Based on our Directors’ estimation, our Shanxi Winery would reach full capacity if we were to, in each financial year, (1) achieve a sales volume of approximately 1.4 million bottles (equivalent to approximately 1,100 tonnes) of wine products, and (2) maintain a one-year safety stock level of approximately 1.4 million bottles (equivalent to approximately 1,100 tonnes) of wine products (equivalent to sales volume mentioned above) across all wine series in response to changes in customer demand, preferences and operational contingencies such as natural disasters. With our proven sales volume of approximately 1.2 million bottles of wine products in FY2017 and our expected growth in sales volume as a result of our strengthened sales and marketing efforts, our reinforced brand awareness and corporate image after the Listing, as well as favourable market backdrops in the PRC with an estimated CAGR growth of

FUTURE PLANS AND USE OF PROCEEDS

7.8% for PRC domestic wine-makers, our Directors believe that it is a realistic estimation that the current production capacity of 2,200 tonnes per year at our Shanxi Winery will saturate in the coming years and the additional capacity at our Ningxia Winery would be essential to grow our business. Our Directors further estimate that the first phase of our Ningxia Winery will reach full capacity if we were to further achieve a growth in our sales volume to approximately 1.7 million bottles (equivalent to approximately 1,295 tonnes) of wine and maintain the same volume of one-year safety stock level, which necessitates the second phase construction of our Ningxia Winery to sustain our long-term development to further grow our sales volume to approximately 1.8 million bottles (equivalent to approximately 1,425 tonnes) of wine and maintain to same volume of one-year safety stock level.

In the long-term future, the Listing is expected to further enhance our corporate governance practice which will give us operational efficiency and stability. The Listing will also give us access to additional capital not only from the Share Offer, but also to the secondary capital markets both in debt and equity platforms so that we would be able to further expand in accordance to the overall dynamics and sentiments of the PRC wine market in the future.

Assuming an Offer Price of HK\$0.35 per Share, being the mid-point of the indicative Offer Price range of HK\$0.30 to HK\$0.40 per Share, the gross proceeds for the Share Offer are estimated to be approximately HK\$70.0 million (equivalent to RMB57.1 million), and the net proceeds from the Share Offer are estimated to be approximately HK\$40.6 million (equivalent to RMB33.1 million), after deducting underwriting fees and estimated expenses paid or payable by our Company in connection thereto.

IMPLEMENTATION PLAN

We will endeavour to achieve the milestones set out below during the period from the Listing Date to 31 December 2020. Their respective scheduled completion times are based on certain bases and assumptions as set out in “— Bases and Assumptions” below. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risks factors set out in “Risk Factors”. As such, there can be no assurance that our plans will materialise in accordance with the expected time frame or that our objective will be accomplished at all.

FUTURE PLANS AND USE OF PROCEEDS

Based on our business objectives, we intend to carry out the following implementation plans:

1. For the period from the Listing Date to 31 December 2018

Business strategies	Implementation activities	Source of funding
To increase our brand awareness	<ul style="list-style-type: none"> We intend to use our internal resources to, or increase marketing and promotion efforts in, among others, (i) the 20th anniversary brochures and events, advertising campaigns; (ii) finalise a multi-faceted sales arrangement with a scalable, “online-to-offline” wine and spirit retailer in the PRC; (iii) strengthen our sales capability through online sales; and (iv) further promote our existing wine product portfolio. 	Our internal resources
To increase wine-making capacity	<ul style="list-style-type: none"> We intend to use approximately 3.0% of the net proceeds, or approximately RMB1.0 million (equivalent to HK\$1.2 million), to construct the second phase of our Ningxia Winery, namely, the construction of the winery, such as administration and application fees for licences and permits and constructing the visitors’ centre and ancillary utilities and facilities. We intend to use approximately 3.0% of the net proceeds, or approximately RMB1.0 million (equivalent to HK\$1.2 million) for the initial production costs of the first phase of our Ningxia Winery, including the purchase of raw materials and utility expenses. 	Proceeds from the Share Offer and our internal resources

FUTURE PLANS AND USE OF PROCEEDS

2. For the period from 1 January 2019 to 30 June 2019

Business strategies	Implementation activities	Source of funding
To increase our brand awareness and sales by collaborating with selected distributors . .	<ul style="list-style-type: none"> We intend to use approximately 2.4% of the net proceeds, or approximately RMB0.8 million (equivalent to HK\$1.0 million), to increase marketing and promotion efforts in, among others, (i) marketing events conducted with media, such as wine pairing dinners; (ii) web and mobile social media blogs and marketing campaigns; (iii) internet marketing campaigns; and (iv) marketing department administrative fees. 	Proceeds from the Share Offer
To increase production capacity	<ul style="list-style-type: none"> We intend to use approximately 28.1% of the net proceeds, or approximately RMB9.3 million (equivalent to HK\$11.4 million), to construct the second phase of our Ningxia Winery, namely, (i) construction of the winery, such as constructing the outdoor area which includes road pavements, street furniture and lighting, installation of the drainage pipe system; and (ii) purchase of plants and equipment, including the cross flow filtre, vacuum drum filtre, filling equipment and forklift. We intend to use approximately 3.0% of the net proceeds, or approximately RMB1.0 million (equivalent to HK\$1.2 million) for the initial production costs of the first phase of our Ningxia Winery, including the purchase of raw materials and utility expenses. 	Proceeds from the Share Offer and our internal resources

FUTURE PLANS AND USE OF PROCEEDS

3. For the period from 1 July 2019 to 31 December 2019

Business strategies	Implementation activities	Source of funding
To increase our brand awareness and sales by collaborating with selected distributors . .	<ul style="list-style-type: none"> We intend to use approximately 2.4% of the net proceeds, or approximately RMB0.8 million (equivalent to HK\$1.0 million), to increase marketing and promotion efforts in, among others, (i) marketing events conducted with media, such as wine pairing dinners; (ii) web and mobile social media blogs and marketing campaigns; (iii) internet marketing campaigns; and (iv) marketing department administrative fees. 	Proceeds from the Share Offer
To increase wine-making capacity	<ul style="list-style-type: none"> We intend to use approximately 19.6% of the net proceeds, or approximately RMB6.5 million (equivalent to HK\$8.0 million), to construct the second phase of our Ningxia Winery, namely, (i) construction of the winery, such as furnishing and decoration of the visitors' centre, construction of the storage with cooling system equipment, and construction of the outdoor area; and (ii) purchase of plants and equipment, including a bottling production line. We intend to use approximately 6.0% of the net proceeds, or approximately RMB2.0 million (equivalent to HK\$2.5 million) for the initial production costs of the first phase of our Ningxia Winery, including the purchase of raw materials and utility expenses. 	Proceeds from the Share Offer and our internal resources

FUTURE PLANS AND USE OF PROCEEDS

4. For the period from 1 January 2020 to 30 June 2020

Business strategies	Implementation activities	Source of funding
To increase our brand awareness and sales by collaborating with selected distributors . .	<ul style="list-style-type: none"> We intend to use approximately 2.4% of the net proceeds, or approximately RMB0.8 million (equivalent to HK\$1.0 million), to increase marketing and promotion efforts in, among others, (i) marketing events conducted with media, such as wine pairing dinners; (ii) web and mobile social media blogs and marketing campaigns; (iii) internet marketing campaigns; and (iv) marketing department administrative fees. 	Proceeds from the Share Offer
To increase wine-making capacity	<ul style="list-style-type: none"> We intend to use approximately 7.6% of the net proceeds, or approximately RMB2.5 million (equivalent to HK\$3.1 million), to construct the second phase of our Ningxia Winery, namely, the construction of the winery, including completing the greenery and landscaping. We intend to use approximately 3.0% of the net proceeds, or approximately RMB1.0 million (equivalent to HK\$1.2 million) for the initial production costs of the first phase of our Ningxia Winery, including the purchase of raw materials and utility expenses. 	Proceeds from the Share Offer and our internal resources

FUTURE PLANS AND USE OF PROCEEDS

5. For the period from 1 July 2020 to 31 December 2020

Business strategies	Implementation activities	Source of funding
To increase our brand awareness and sales by collaborating with selected distributors . . .	<ul style="list-style-type: none"> We intend to use approximately 2.4% of the net proceeds, or approximately RMB0.8 million (equivalent to HK\$1.0 million), to increase marketing and promotion efforts in, among others, (i) marketing events conducted with media, such as wine pairing dinners; (ii) web and mobile social media blogs and marketing campaigns; (iii) internet marketing campaigns; and (iv) marketing department administrative fees. 	Proceeds from the Share Offer
To increase wine-making capacity	<ul style="list-style-type: none"> We intend to use approximately 7.6% of the net proceeds, or approximately RMB2.5 million (equivalent to HK\$3.1 million), to construct the second phase of our Ningxia Winery, namely, the construction of the winery, including completing the greenery and landscaping. We intend to use approximately 5.1% of the net proceeds, or approximately RMB1.7 million (equivalent to HK\$2.1 million) for the initial production costs of the first phase of our Ningxia Winery, including the purchase of raw materials and utility expenses. 	Proceeds from the Share Offer and our internal resources

FUTURE PLANS AND USE OF PROCEEDS

BASES AND ASSUMPTIONS

We have adopted the following principal assumptions in the preparation of the future plans up to 31 December 2020:

General assumptions:

- there will be no material adverse change in the existing political, legal, fiscal, market or economic conditions in the PRC and Hong Kong; and
- there will be no material change in the bases or rates of taxation and duties in the PRC and Hong Kong.

Specific assumptions:

- we will have sufficient financial resources to meet the planned capital and business development requirements during the period to which the business objective relates;
- the Share Offer will be completed in accordance with and as described in “Structure and Conditions of the Share Offer”;
- our Directors and key senior management will continue to be involved in the development of our existing and future development and we will be able to retain our key management personnel;
- we will be able to recruit additional key management personnel and staff when required;
- there will be no change in the funding requirement for each of the business strategies described in this prospectus from the amount as estimated by our Directors;
- we will not be adversely affected by the risk factors as set out in “Risk Factors”; and
- we will be able to continue our operations in substantially the same manner as we have been operating during the Track Record Period and we will also be able to carry out our implementation plans without disruptions.

FUTURE PLANS AND USE OF PROCEEDS

USE OF PROCEEDS

Net proceeds

We estimate the net proceeds of the Share Offer which we will receive, assuming an Offer Price of HK\$0.35 per Share, being the mid-point of the indicative Offer Price range, will be approximately HK\$40.6 million (equivalent to RMB33.1 million), after deduction of underwriting fees and commissions and other estimated expenses in connection with the Share Offer.

If the Offer Price is fixed at HK\$0.40 per Share, being the high-end of the indicative Offer Price range, we will receive (i) net proceeds of approximately HK\$50.0 million (equivalent to RMB40.8 million).

If the Offer Price is fixed at HK\$0.30 per Share, being the low-end of the indicative Offer Price range, the net proceeds we receive will be (i) reduced to approximately HK\$31.2 million (equivalent to RMB25.4 million).

Commission and expenses

The Underwriters will receive an underwriting commission being 6.0% of the aggregate Offer Price of all Shares, out of which they will pay any sub-underwriting commission. The Sole Sponsor will receive a total sponsor fee of HK\$5.5 million (equivalent to RMB4.5 million) in relation to the Listing and will be reimbursed for their expenses. Such commission, advisory and documentation fee and expenses, together with the GEM Listing fees (as prescribed in the GEM Listing Rules), legal and other professional fees, and printing and other expenses relating to the Share Offer and Listing (as negotiated and agreed between each service provider and our Company on an arm's length basis), which are estimated to amount in aggregate to approximately HK\$29.4 million (equivalent to RMB24.5 million) and are to be borne by our Company.

Use of proceeds

Assuming an Offer Price of HK\$0.35 per Share, being the mid-point of the indicative Offer Price range of HK\$0.30 to HK\$0.40 per Share, the gross proceeds for the Share Offer are estimated to be approximately HK\$70.0 million (equivalent to RMB57.1 million), and the net proceeds from the Share Offer are estimated to be approximately HK\$40.6 million (equivalent

FUTURE PLANS AND USE OF PROCEEDS

to RMB33.1 million), after deducting underwriting fees and estimated expenses paid or payable by our Company in connection thereto. Such net proceeds are intended to be used as follows:

	From the Listing Date to	For the six months ending					Approximate percentage of the total net proceeds
	31 December 2018	30 June 2019	31 December 2019	30 June 2020	31 December 2020	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
To construct the second phase of our Ningxia Winery							
Construction of the winery	1,000	4,500	4,500	2,500	2,500	15,000	45.3%
Purchase of plants and equipment	—	4,800	2,000	—	—	6,800	20.5%
Initial production costs of the first phase of our Ningxia Winery							
	1,000	1,000	2,000	1,000	1,700	6,700	20.2%
Sales and marketing expenses							
	—	750	750	750	750	3,000	9.1%
General working capital							
	—	399	399	400	400	1,598	4.9%
TOTAL	2,000	11,449	9,649	4,650	5,350	33,098	100%

To the extent that our net proceeds are more or less than expected, for instance, in the event that the Offer Price is set at the high-end of the indicative Offer Price range or the Offer Price is set at the low-end of the indicative Offer Price range, we will adjust the allocation of the net proceeds for the above purposes on a pro-rata basis to the initial product costs of our Ningxia Winery, sales and marketing expenses and general working capital (but the allocation to the construction of our Ningxia Winery and the purchase of plants and equipment will not be adjusted given that we have a substantially fixed capital investment plans for these purposes).

The possible use of proceeds outlined above may change in light of our evolving business needs and conditions and management requirements. In the event of any material modification to the use of proceeds as described above, we will issue an announcement in accordance with the GEM Listing Rules and disclose in our annual report for the relevant year as required by the Stock Exchange.

To the extent that the net proceeds from the Share Offer are not immediately applied for the above purposes, it is our present intention to deposit such sums into an interest-bearing bank account with licensed financial institutions in Hong Kong.

UNDERWRITING

PUBLIC OFFER UNDERWRITERS

The Public Offer Underwriters are:

Southwest Securities (HK) Brokerage Limited
Emperor Securities Limited
Success Securities Limited

PLACING UNDERWRITERS

The Placing Underwriters are expected to be:

Southwest Securities (HK) Brokerage Limited
Emperor Securities Limited
Success Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

The Public Offer Underwriting Agreement was entered into on 11 June 2018. As described in the Public Offer Underwriting Agreement, we are offering the Public Offer Shares for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Division granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein, and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have agreed severally to subscribe or procure subscribers to subscribe for the Public Offer Shares which are being offered but are not taken up under the Public Offer.

The Public Offer Underwriting Agreement is conditional upon and subject to (among other things) the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms or otherwise, prior to 8:00 a.m. on the Listing Date.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers to subscribe for the Public Offer Shares under the Public Offer Underwriting Agreement will be subject to termination with immediate effect by notice (orally or in writing) from the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), at their sole and absolute discretion, if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters):
 - (i) that any statement contained in any of this prospectus, the Application Forms and the formal notice and/or any notices, announcements, advertisements, or other

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documents issued by or on behalf of our Company in connection with the Share Offer (including any supplement or amendments thereto) (collectively, the “**Relevant Documents**”) was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any material respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or

- (ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute a material omission therefrom; or
- (iii) any material breach of any of the obligations imposed or to be imposed upon any party to the Public Offer Underwriters or the Placing Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or
- (iv) any event, act or omission which gives or is likely to give rise to any liability of any of our Company, the Controlling Shareholders and our executive Directors (collectively, the “**Warrantors**”) pursuant to the Public Offer Underwriting Agreement or under the Placing Underwriting Agreement; or
- (v) any change or development involving a prospective material adverse change in the assets, liabilities, business affairs, management, business prospects, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group; or
- (vi) any material breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the warranties given by the Warrantors under the Public Offer Underwriting Agreement; or
- (vii) the approval by the Listing Division of the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) our Company withdraws any of the Relevant Documents or the Share Offer; or
- (ix) any person (other than the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the offer documents in respect of the Share Offer (the “**Offer Documents**”) or to the issue of any of the Offer Documents; or
- (x) that a petition or an order is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any

UNDERWRITING

resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or

- (xi) an authority or a political body or organisation in any of the PRC, Hong Kong, the Cayman Islands, or any other jurisdictions relevant to any Group Company or the Share Offer (the “**Specific Jurisdictions**”) has commenced any material investigation or other action, or announced an intention to investigate or take other action, against any of the Directors as set out in “Directors and Senior Management”; or
 - (xii) a portion of the orders in the bookbuilding process, which is considered by the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) in its reasonable opinion to be material, at the time the Placing Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled, and the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters), in their sole and reasonable discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Share Offer; or
 - (xiii) any material loss or damage has been sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) in their sole and absolute opinion to be material; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any local, national, regional, international event or circumstance, or series of events or circumstances, in the nature of force majeure (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome or such related or mutated forms)) in or affecting any of the Specific Jurisdictions; or
 - (ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any pre-existing local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets conditions) in any of the Specific Jurisdictions; or

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- (iii) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market or the Shanghai Stock Exchange; or
- (iv) any new laws, or any change or development involving a prospective change in existing laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing laws by any court or other competent authority, in each case, in or affecting any of the Specific Jurisdictions; or
- (v) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material devaluation in the exchange rate of the Hong Kong dollar or RMB against any foreign currency) in or affecting any of the Specific Jurisdictions or affecting an investment in the Shares; or
- (viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in “Risk factors”; or
- (ix) save as disclosed in this prospectus, any litigation or claim of any third party being threatened or instigated against any member of our Group or any of the Warrantors of material importance; or
- (x) any of our Directors as set out in “Directors and Senior Management” being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xi) the chairman or chief executive officer of our Company vacating his or her office; or
- (xii) the commencement by any governmental, regulatory or political or judicial body or organisation of any action against a Director in his or her capacity as such or an announcement by any governmental, regulatory or political or judicial body or organisation that it intends to take any such action; or

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- (xiii) save as disclosed in this prospectus, a contravention by any member of the Group or any Director of the GEM Listing Rules, the Companies Ordinance or any other laws applicable to the Share Offer; or
- (xiv) a prohibition on the Company for whatever reason from allotting, issuing or selling the Offer Shares pursuant to the terms of the Share Offer; or
- (xv) non-compliance of this prospectus or the other Relevant Documents or any aspect of the Share Offer with the GEM Listing Rules or any other Laws applicable to the Share Offer; or
- (xvi) the issue or requirement to issue by the Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Share Offer pursuant to the Companies (WUMP) Ordinance, the GEM Listing Rules or any requirement or request of the Stock Exchange and/or SFC or any applicable laws; or
- (xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity,

which in each case individually or in aggregate in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters):

- (a) has or is or will or may or could be expected to have a material adverse effect on the assets, liabilities, business affairs, management, profits, losses, results of operation, financial, trading or other condition or prospects or risks of our Group taken as a whole; or
- (b) has or will or may have or could be expected to have a material adverse effect on the success, marketability or pricing of the Offer Shares or the level of applications under the Public Offer or the level of interest under the Placing; or
- (c) makes or will make or may make it inadvisable, inexpedient or impracticable for any material part of the Public Offer Underwriting Agreement or the Share Offer to be performed or implemented or proceeded with as envisaged or to market the Share Offer or shall otherwise result in an interruption to or delay thereof; or
- (d) has or will or may have the effect of making any material part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof.

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Undertakings to the Stock Exchange pursuant to the GEM Listing Rules

Undertakings by our Company

Pursuant to Rule 17.29 of the GEM Listing Rules, we have undertaken to the Stock Exchange that, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except pursuant to the Share Offer (including any options which were granted or to be granted under the Share Option Scheme) or under any of the circumstances as prescribed under Rule 17.29 of the GEM Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders has undertaken to each of our Company, the Stock Exchange, the Sole Sponsor, the Joint Bookrunners and the Underwriters that, except pursuant to the Share Offer, it/he/she shall not and shall procure that the relevant registered shareholder(s) shall not:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of (but save pursuant to a pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan), any of those Shares in respect of which it/he/she is shown by this prospectus to be the beneficial owners (the “Parent Shares”); or
- (b) in the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of (but save pursuant to a pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan), any of the Parent Shares, if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Controlling Shareholders would cease to be controlling shareholders (as defined in the GEM Listing Rules).

Pursuant to Rule 13.19 of the GEM Listing Rules, each of the Controlling Shareholders has also undertaken to each of our Company, the Stock Exchange, the Sole Sponsor, the Joint Bookrunners and the Underwriters that, during the First Six-month Period and the Second Six-month Period, it/he/she will:

- (a) when it/he/she pledges or charges any Shares or other securities or interests in any securities of our Company beneficially owned by it/him/her in favour of any authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and

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- (b) when it/he/she receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares or securities or interests in any securities of our Company will be disposed of, immediately inform us of such indications.

Our Company shall inform the Stock Exchange, the Sole Sponsor, the Joint Bookrunners and the Underwriters in writing as soon as it has been informed of any of the matters referred to above (if any) by our Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the GEM Listing Rules as soon as possible.

Undertakings by Palgrave Enterprises and Ms. Wong

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of Palgrave Enterprises and Ms. Wong, who is interested in 30% of the Shares as at the date of this prospectus but will be interested in less than 30% of the Shares upon completion of the Share Offer and the Capitalisation Issue, has jointly and severally undertaken to the Stock Exchange and to our Company that, except pursuant to the Share Offer, it/she will not and will procure that the relevant registered holder(s) will not, in the First Six-month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of their Parent Shares.

Undertakings pursuant to the Public Offer Underwriting Agreement

Undertakings by our Company

Pursuant to the Public Offer Underwriting Agreement, our Company has undertaken to the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Public Offer Underwriters that, and our Controlling Shareholders have agreed to procure that, except for the offer of the Offer Shares pursuant to the Share Offer, during the period commencing on the date of the Public Offer Underwriting Agreement until the expiry of the First Six-month Period, our Company will not, and will procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the GEM Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create any mortgage, charge, pledge, lien or other security interest or any option, restriction, right of first refusal, right of pre-emption or other third party claim, right, interest or preference or any other encumbrance of any kind ("**Encumbrance**") over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any

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securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). Further, in the event that, during the Second Six-month Period, our Company enters into any of the transactions specified in paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertakings by our Controlling Shareholders

Pursuant to the Public Offer Underwriting Agreement, each of our Controlling Shareholders has undertaken to each of our Company, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Public Offer Underwriters that, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the GEM Listing Rules:

- (a) at any time during the First Six-month Period, it/he/she will not:
 - (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, (other than any pledge or charge the Company's issued share capital after the consummation of the Share Offer in favour of an authorised institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan in compliance with Rule 13.18 of the GEM Listing Rules), hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, or any such other securities or

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any interest in any of the foregoing, as applicable) (the “**Relevant Shares**”) or any interest in any company or entity holding, directly or indirectly, any of the Relevant Shares (the “**Holding Entity**”); or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Shares or an interest in any Holding Entity; or
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraph (i), (ii) or (iii) above;

in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

- (b) at any time during the Second Six-month Period, it/he/she will not enter into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it will cease to be a Controlling Shareholder (if applicable) of our Company;
- (c) until the expiry of the Second Six-month Period, in the event that it/he/she enters into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above or offer to or agrees to or announce any intention to effect any such transaction, it/he/she will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company;
- (d) without prejudice to the undertaking given in the above, in the event that our Controlling Shareholders (or any of them) pledge or charge, either directly or indirectly, any of the shares or debt capital or other securities of our Company or any interest therein or pursuant to any consent given by the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters), at any time during the relevant periods specified in the paragraph (a) or paragraph (b) above, the Controlling Shareholders must inform the Company and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
- (e) having pledged or charged any interest in securities under paragraph (d) above, our Controlling Shareholders must inform the Company and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) immediately in the event that our Controlling Shareholders (or any of them) become aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of securities affected.

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Indemnity

Our Company, our Controlling Shareholders and our executive Directors have agreed to indemnify the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach by us, our Controlling Shareholders or our executive Directors of the Public Offer Underwriting Agreement.

The Placing

In connection with the Placing, it is expected that our Company, our Controlling Shareholders and our executive Directors will enter into the Placing Underwriting Agreement with the Sole Sponsor, the Joint Bookrunners and the Placing Underwriters. Under the Placing Underwriting Agreement, the Placing Underwriters would, subject to certain conditions set out therein, severally agree to purchase the Placing Shares or procure purchasers to purchase such Placing Shares.

Under the Placing Underwriting Agreement, our Company, our Controlling Shareholders and our executive Directors will agree to indemnify the Placing Underwriters against certain losses which they may suffer including losses as a result of certain claims or liabilities which might be incurred by the Placing Underwriters.

Underwriting commission and expenses

Under the terms and conditions of the Public Offer Underwriting Agreement, the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) will receive an underwriting commission equal to 6.0% of the aggregate Offer Price payable in respect of all of the Public Offer Shares (excluding any Placing Shares reallocated to the Public Offer and any Public Offer Shares reallocated to the Placing). The respective entitlements of the Public Offer Underwriters to the underwriting commission will be paid as separately agreed between the Joint Bookrunners and the Public Offer Underwriters. For unsubscribed Public Offer Shares reallocated to the Placing, we will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the relevant Placing Underwriters (but not the Public Offer Underwriters). In addition, we may, at our sole discretion, pay the Underwriters an incentive fee based on the marketing performance of the Joint Bookrunners.

Based on an Offer Price of HK\$0.35 per Share (being the mid-point of the indicative Offer Price range), the total listing expenses (based on the mid point of the offer price range stated in this prospectus) are estimated to be approximately HK\$29.4 million (equivalent to RMB24.5 million).

Public Offer Underwriters' interests in our Company

Save for their respective obligations under the Public Offer Underwriting Agreement or as otherwise disclosed in this prospectus, none of the Underwriters is interested legally or beneficially in any shares of any of our members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members in the Share Offer.

UNDERWRITING

Following the completion of the Share Offer, the Public Offer Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Public Offer Underwriting Agreement.

Independence of the Sole Sponsor

Southwest Securities (HK) Capital Limited satisfies the independence criteria applicable to sponsors as set out in Rule 6A.07 of the GEM Listing Rules.

Compliance Adviser's Agreement

Under the compliance adviser's agreement dated 20 September 2017 between Southwest Securities (HK) Capital Limited and our Company (the "**Compliance Adviser's Agreement**"), our Company appoints Southwest Securities (HK) Capital Limited, and Southwest Securities (HK) Capital Limited agrees to act, as the compliance adviser to our Company for the purpose of the GEM Listing Rules for a period from the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date, or until the Compliance Adviser's Agreement is terminated, whichever is earlier.

RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in China.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the "minimum prescribed percentage" of 25% of our issued share capital in the hands of the public (as defined in the GEM Listing Rules).

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

This prospectus is published in connection with the Public Offer which forms part of the Share Offer. Southwest Securities (HK) Capital Limited is the Sole Sponsor for the listing of the Shares on the Stock Exchange. Southwest Securities (HK) Brokerage Limited, Emperor Securities Limited and Success Securities Limited are the Joint Bookrunners and the Joint Lead Managers of the Share Offer.

The Share Offer initially consists of:

- (i) the Public Offer of 20,000,000 Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described in “Public Offer” in this section below; and
- (ii) the Placing of 180,000,000 Offer Shares (subject to reallocation).

Investors may apply for Offer Shares under the Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the Placing, but may not do both. Reasonable steps will be taken to identify and reject applications in the Public Offer from investors who have received Offer Shares in the Placing, and to identify and reject indications of interest in the Placing from investors who have applied for Public Offer Shares in the Public Offer. The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The Placing will involve selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The Placing Underwriters are soliciting from prospective investors’ indications of interest in acquiring the Offer Shares in the Placing. Prospective professional, institutional and other investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “bookbuilding”, is expected to continue up and to cease on or around, the last day of lodging applications under the Public Offer.

The number of Offer Shares to be offered under the Public Offer and Placing respectively may be subject to adjustment.

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is subject to our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) agreeing on the Offer Price. Our Company expects to enter into the Placing Underwriting Agreement relating to the Placing on the Price Determination Date. Details of the underwriting arrangements are summarised in “Underwriting”.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for Offer Shares pursuant to the Share Offer will be conditional on, among others:

- (i) the Listing Division granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Capitalisation Issue and the Share Offer and any Shares which may be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, and such listing and permission not subsequently having been revoked prior to the commencement of dealing in our Shares on the Stock Exchange;
- (ii) the Offer Price having been fixed on or around the Price Determination Date;
- (iii) the execution and delivery of the Placing Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the Public Offer Underwriting Agreement and the Placing Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the respective agreements;

in each case on or before the dates and times specified in the Underwriting Agreements (unless to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The Offer Shares are being offered at the Offer Price which is expected to be fixed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Friday, 15 June 2018 and in any event, not later than Thursday, 21 June 2018.

If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company by Thursday, 21 June 2018, the Share Offer will not proceed and will lapse.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Public Offer to be published on our website (www.gracewine.com.hk) and the Stock Exchange's website (www.hkexnews.hk) on the next business day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in "How to Apply for Public Offer Shares". In the meantime, all application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended from time to time).

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Share certificates for the Offer Shares are expected to be issued on Tuesday, 26 June 2018 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 27 June 2018 provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination as described in “Underwriting — Underwriting Arrangements and Expenses — Public Offer — Public Offer Underwriting Agreement — Grounds for termination” has not been exercised. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

PUBLIC OFFER

Number of Offer Shares initially offered

Our Company is initially offering 20,000,000 as Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Share Offer. Subject to the reallocation of Shares between the Placing and the Public Offer as mentioned below, the number of the Public Offer Shares will represent 2.5% of our Company’s issued share capital immediately after completion of the Share Offer and the Bonus Issue.

Completion of the Public Offer is subject to the conditions as set out in “Structure and Conditions of the Share Offer — Conditions of the Share Offer” in this section above.

Allocation

Allocation of Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Multiple or suspected multiple applications and any application for more than 20,000,000 Public Offer Shares are liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Public Offer and the Placing is subject to reallocation at the discretion of the Joint Bookrunners, subject to the following:

- (a) where the Placing Shares are fully subscribed or oversubscribed:
 - (i) if the Public Offer Shares are undersubscribed, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Joint Bookrunners deem appropriate;
 - (ii) if the number of Offer Shares validly applied for under the Public Offer represents less than 15 times the number of the Offer Shares initially available for

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

subscription under the Public Offer, then up to 20,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 40,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Share Offer;

- (iii) if the number of Offer Shares validly applied for under the Public Offer represents (1) 15 times or more but less than 50 times, (2) 50 times or more but less than 100 times, and (3) 100 times or more of the number of Offer Shares initially available under the Public Offer, the Offer Shares will be reallocated to the Public Offer from the Placing in accordance with the clawback requirements set forth in paragraph 4 of Practice Note 6 of the GEM Listing Rules, so that the total number of Public Offer Shares will be increased to 60,000,000 Offer Shares (in the case of (1)), 80,000,000 Offer Shares (in the case of (2)) and 100,000,000 Offer Shares (in the case of (3)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Share Offer, respectively;
- (b) where the Placing Shares are undersubscribed:
 - (i) if the Public Offer Shares are also undersubscribed, the Share Offer will not proceed unless the Underwriters would subscribe for or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this Prospectus, the Application Forms and the Underwriting Agreements; and
 - (ii) if the Public Offer Shares are fully subscribed or oversubscribed (irrespective of the extent of over-subscription), then up to 20,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 40,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Share Offer.

In the event of reallocation of Offer Shares from the Placing to the Public Offer in the circumstances described in paragraph (a)(ii) or (b)(ii) above, the final Offer Price shall be fixed at the bottom end of the indicative Offer Price Range (i.e. HK\$0.30 per Offer Share) according to Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

Applications

The Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Bookrunners and the Joint Lead Managers so as to allow them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under Public Offer.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the Placing.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Public Offer are required to pay, on application, the maximum price of HK\$0.40 per Offer Share in addition to any brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable on each Offer Share. If the Offer Price, as finally determined in the manner described in "Structure and Conditions of the Share Offer — Price Determination of the Share Offer" in this section below, is less than the maximum price of HK\$0.40 per Share, appropriate refund payments (including the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in "How to Apply for Public Offer Shares".

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

PLACING

Number of Offer Shares offered

The number of Offer Shares to be initially offered for subscription under the Placing will be 180,000,000 Shares, representing 90% of the total number of the Offer Shares initially available under the Share Offer (subject to reallocation). Subject to any reallocation of Offer Shares between the Placing and the Public Offer, the Placing Shares will represent 22.5% of our enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue.

The Placing is subject to the same conditions as stated in "Structure and Conditions of the Share Offer — Conditions of the Share Offer" above in this section.

Allocation

The Placing will include selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the bookbuilding process described in "Structure and Conditions of the Share Offer — Price Determination of the Share Offer" in this section below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing of the

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Joint Bookrunners and the Joint Lead Managers (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Bookrunners and the Joint Lead Managers so as to allow them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

PRICE DETERMINATION OF THE SHARE OFFER

The Offer Price is expected to be fixed on the Price Determination Date, which is expected to be on or around Friday, 15 June 2018, and in any event not later than Thursday, 21 June 2018, by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company.

The Offer Price will be not more than HK\$0.40 per Share and is expected to be not less than HK\$0.30 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer.

Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause to be published on our website (www.gracewine.com.hk) and the Stock Exchange's website (www.hkexnews.hk) notices of the reduction in the indicative Offer Price range. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. In the event that the Offer Price range is reduced below the bottom end of the indicative Offer Price range disclosed in this prospectus, we will (1) issue a supplemental prospectus informing potential investors of, among other things, the changes to the Share Offer, including the change in the Offer price and period of the Hong Kong Public Offering and the impact of such change on the sufficiency of working capital and use of proceeds, and (2) extend the offer period to allow potential investors to have sufficient time to consider and to confirm their applications under an opt-in approach, that is, to positively confirm their applications for the Offer Shares in light of the change in the Offer Price.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Share Offer statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon by our Company with the Joint Bookrunners (for themselves and on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The final Offer Price, the levels of indication of interest in the Share Offer, the results of applications and the basis of allotment of Offer Shares under the Public Offer, are expected to be announced on Tuesday, 26 June 2018 in the manner set out in “How to Apply for Public Offer Shares — 11. Publication of Results” in this prospectus.

DEALINGS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 27 June 2018, it is expected that dealings in the Offer Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 27 June 2018, and will be traded in board lots of 10,000.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for the Public Offer Shares, then you may not apply for or indicate an interest for the Placing Shares.

To apply for the Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the Joint Lead Managers, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY FOR THE PUBLIC OFFER SHARES

You can apply for the Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Bookrunners or the Joint Lead Managers may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR PUBLIC OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Public Offer Shares.

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the GEM Listing Rules) of any of the above;
- a connected person (as defined in the GEM Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. on Tuesday, 12 June 2018 to until 12:00 noon on Friday, 15 June 2018 from:

- (i) any of the following offices of Public Offer Underwriters:

Southwest Securities (HK) Brokerage Limited	40/F, Lee Garden One 33 Hysan Avenue Causeway Bay Hong Kong
Emperor Securities Limited	23-24/F, Emperor Group Centre 288 Hennessy Road Wanchai Hong Kong
Success Securities Limited	Suite 1603-7, 16/F Great Eagle Centre 23 Harbour Road Wanchai Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

(ii) any of the branches of the following receiving banks:

Standard Chartered Bank (Hong Kong) Limited

District	Branch Name	Address
Hong Kong Island.....	Central Branch	G/F, 1/F, 2/F and 27/F, Two Chinachem Central, 26 Des Voeux Road Central, Hong Kong
	Hennessy Road Branch	399 Hennessy Road, Wanchai, Hong Kong
	North Point Centre Branch	Shop G, G/F, North Point Centre, 284 King's Road, North Point, Hong Kong
New Territories	Metroplaza Branch	Shop 473B, Level 4, Metroplaza, 223 Hing Fong Road, Kwai Chung, Hong Kong
	Shatin Plaza Branch	Shop No. 8, Shatin Plaza, 21-27 Shatin Centre Street, Shatin, Hong Kong

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 12 June 2018 until 12:00 noon on Friday, 15 June 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**Horsford Nominees Limited — Grace Wine Public Offer**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Tuesday, 12 June 2018	– 9:00 a.m. to 5:00 p.m.
Wednesday, 13 June 2018	– 9:00 a.m. to 5:00 p.m.
Thursday, 14 June 2018	– 9:00 a.m. to 5:00 p.m.
Friday, 15 June 2018	– 9:00 a.m. to 12:00 noon

HOW TO APPLY FOR PUBLIC OFFER SHARES

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 15 June 2018, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Applications Lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service or by giving **electronic application instructions** to HKSCC, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company, the Joint Bookrunners, the Joint Lead Managers and/or the Sole Sponsor (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- (ii) agree to comply with the Companies (WUMP) Ordinance and the Articles;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Joint Bookrunners, the Sole Sponsor, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving banks, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the

HOW TO APPLY FOR PUBLIC OFFER SHARES

Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company, our Directors, the Joint Bookrunners, the Joint Lead Managers, and the Sole Sponsor will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in “Who can apply for the Public Offer Shares” section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form service

You may submit your application to the **HK eIPO White Form** Service Provider at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 12 June 2018 until 12:00 noon on Friday, 15 June 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 15 June 2018 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

HOW TO APPLY FOR PUBLIC OFFER SHARES

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners, the Joint Lead Managers and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR PUBLIC OFFER SHARES

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, the Directors, the Joint Bookrunners, the Joint Lead Managers and the Sole Sponsor will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

HOW TO APPLY FOR PUBLIC OFFER SHARES

- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving banks, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (WUMP) Ordinance and the Articles; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions**

to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 10,000 Public Offer Shares. Instructions for more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, 12 June 2018	– 9:00 a.m. to 8:30 p.m. ⁽¹⁾
Wednesday, 13 June 2018	– 8:00 a.m. to 8:30 p.m. ⁽¹⁾
Thursday, 14 June 2018	– 8:00 a.m. to 8:30 p.m. ⁽¹⁾
Friday, 15 June 2018	– 8:00 a.m. ⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 12 June 2018 until 12:00 noon on Friday, 15 June 2018 (24 hours daily, except on the last application day).

HOW TO APPLY FOR PUBLIC OFFER SHARES

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 15 June 2018, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bankers, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, the Directors, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

HOW TO APPLY FOR PUBLIC OFFER SHARES

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 15 June 2018.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of our Company;
- control more than half of the voting power of our Company; or
- hold more than half of the issued share capital of our Company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR PUBLIC OFFER SHARES

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 10,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 10,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see “Structure of the Share Offer — Price Determination of the Share Offer”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 15 June 2018. Instead they will open between 9:00 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 15 June 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable” in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Tuesday, 26 June 2018, on our Company’s website at www.gracewine.com.hk and the website of the Stock Exchange at www.hkexnews.hk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at www.gracewine.com.hk and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Tuesday, 26 June 2018;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, 26 June 2018 to 12:00 mid-night on Monday, 2 July 2018;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 26 June 2018 to Friday, 29 June 2018;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 26 June 2018 to Thursday, 28 June 2018 at the designated receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in "Structure of the Share Offer" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Bookrunners, the Joint Lead Managers, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;

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- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Bookrunners believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 100% of the Public Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$0.40 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with “Structure of the Share Offer — Conditions of the Public Offer” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, 26 June 2018.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require

HOW TO APPLY FOR PUBLIC OFFER SHARES

verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Tuesday, 26 June 2018. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 27 June 2018 provided that the Share Offer has become unconditional and the right of termination described in "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 26 June 2018.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, 26 June 2018, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for the collection of refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, 26 June 2018, by ordinary post and at your own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 26 June 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 26 June 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 26 June 2018, or such other date as notified by our Company as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, 26 June 2018 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

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(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 26 June 2018, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in "Publication of Results" above on Tuesday, 26 June 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 26 June 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 26 June 2018. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 26 June 2018.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the Company's Reporting Accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
Grace Wine Holdings Limited

Southwest Securities (HK) Capital Limited

Dear Sirs,

We report on the historical financial information of Grace Wine Holdings Limited (the **"Company"**) and its subsidiaries (together, the **"Group"**) set out on pages I-3 to I-63, which comprises the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for each of the years ended 31 December 2015, 2016 and 2017 (the **"Track Record Period"**), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2015, 2016 and 2017 and a summary of significant accounting policies and other explanatory information (together, the **"Historical Financial Information"**). The Historical Financial Information set out on pages I-3 to I-63 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 12 June 2018 (the **"Prospectus"**) in connection with the initial listing of the shares of the Company on the GEM of The Stock Exchange of Hong Kong Limited (the **"Stock Exchange"**).

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (**"HKICPA"**). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at 31 December 2015, 2016 and 2017 and of the financial performance and cash flows of the Group for the Track Record Period in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE GEM OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to note 13 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Track Record Period.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

12 June 2018

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the “**Underlying Financial Statements**”).

The Historical Financial Information is presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

(a) Consolidated statements of profit or loss

	Notes	Years ended 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
REVENUE	7	68,436	53,367	70,384
Cost of sales		(28,871)	(25,703)	(36,294)
Gross profit		39,565	27,664	34,090
Other income and gains, net	7	2,708	957	2,038
Selling and distribution expenses		(1,348)	(1,260)	(3,456)
Administrative expenses		(10,049)	(9,719)	(23,227)
Other expenses and losses		(3,040)	(78)	(214)
Finance costs, net	8	(1,228)	(623)	(572)
PROFIT BEFORE TAX	9	26,608	16,941	8,659
Income tax expense	12	(8,250)	(5,656)	(7,545)
PROFIT FOR THE YEAR AND PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>18,358</u>	<u>11,285</u>	<u>1,114</u>

(b) Consolidated statements of comprehensive income

	Years ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
PROFIT FOR THE YEAR	<u>18,358</u>	<u>11,285</u>	<u>1,114</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial information	<u>(4,851)</u>	<u>(7,340)</u>	<u>4,965</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>(4,851)</u>	<u>(7,340)</u>	<u>4,965</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE COMPANY	<u>13,507</u>	<u>3,945</u>	<u>6,079</u>

(c) Consolidated statements of financial position

		As at 31 December		
	Notes	2015	2016	2017
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	15	84,788	77,812	83,930
Prepaid land lease payments	16	15,502	14,725	13,836
Goodwill	18	—	—	1,361
Prepayment for acquisition of property, plant and equipment		294	294	68
Deferred tax assets	30	8	—	—
Total non-current assets		100,592	92,831	99,195
CURRENT ASSETS				
Inventories	19	75,455	79,788	77,525
Biological assets	20	—	—	—
Trade receivables	21	39,539	41,969	12,797
Prepayments, deposits and other receivables	22	14,610	2,251	7,150
Due from related parties	23	21,086	28,475	—
Cash and bank balances	24	22,567	51,367	32,152
Total current assets		173,257	203,850	129,624
CURRENT LIABILITIES				
Trade payables	25	799	287	860
Other payables and accruals	26	5,324	3,558	12,403
Due to related parties	27	119,058	112,924	401
Interest-bearing bank borrowings	28	—	1,000	—
Tax payable		2,578	1,633	1,407
Shareholder's loan	29	25,142	26,991	—
Total current liabilities		152,901	146,393	15,071
NET CURRENT ASSETS		20,356	57,457	114,553
TOTAL ASSETS LESS CURRENT LIABILITIES				
		120,948	150,288	213,748

		As at 31 December		
	Notes	2015	2016	2017
		RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES				
Interest-bearing bank borrowings	28	—	25,000	—
Deferred tax liabilities	30	9,984	10,401	9,318
Deferred income		414	392	370
Total non-current liabilities		10,398	35,793	9,688
Net assets		110,550	114,495	204,060
EQUITY				
Equity attributable to owners of the Company				
Issued capital	31	—	—	—
Reserves	32(a)	110,550	114,495	204,060
Total equity		110,550	114,495	204,060

(d) Consolidated statements of changes in equity

	Attributable to owners of the Company						Total
	Issued capital	Share premium	Capital reserve	Statutory reserve funds	Exchange fluctuation reserve	Retained profits	
	RMB'000	RMB'000	RMB'000 (note 32 (a)(i))	RMB'000 (note 32 (a)(ii))	RMB'000 (note 32 (a)(iii))	RMB'000	RMB'000
At 1 January 2015	—	—	93	11,003	(696)	86,643	97,043
Profit for the year	—	—	—	—	—	18,358	18,358
Other comprehensive income for the year:							
Exchange differences on translation of financial information	—	—	—	—	(4,851)	—	(4,851)
Total comprehensive income for the year	—	—	—	—	(4,851)	18,358	13,507
Transfer from retained profits ...	—	—	—	1,097	—	(1,097)	—
At 31 December 2015 and 1 January 2016	—	—*	93*	12,100*	(5,547)*	103,904*	110,550
Profit for the year	—	—	—	—	—	11,285	11,285
Other comprehensive income for the year:							
Exchange differences on translation of financial information	—	—	—	—	(7,340)	—	(7,340)
Total comprehensive income for the year	—	—	—	—	(7,340)	11,285	3,945
Transfer from retained profits ...	—	—	—	681	—	(681)	—

	Attributable to owners of the Company						Total RMB'000
	Issued capital	Share premium	Capital reserve	Statutory reserve funds	Exchange fluctuation reserve	Retained profits	
	RMB'000	RMB'000	RMB'000 (note 32 (a)(i))	RMB'000 (note 32 (a)(ii))	RMB'000 (note 32 (a)(iii))	RMB'000	
At 31 December 2016 and 1 January 2017	—	—*	93*	12,781*	(12,887)*	114,508*	114,495
Profit for the year	—	—	—	—	—	1,114	1,114
Other comprehensive income for the year							
Exchange differences on translation of financial information	—	—	—	—	4,965	—	4,965
Total comprehensive income for the year	—	—	—	—	4,965	1,114	6,079
Transfer from retained profits ... 2017 interim dividends	—	—	—	763	—	(763)	—
(Note 13)	—	—	—	—	—	(20,708)	(20,708)
Loan capitalisation (Note 31)....	—	104,194	—	—	—	—	104,194
At 31 December 2017	—	104,194*	93*	13,544*	(7,922)*	94,151*	204,060

* These reserve accounts comprise the consolidated reserves of RMB110,550,000, RMB114,495,000 and RMB204,060,000 in the consolidated statements of financial position as 31 December 2015, 2016 and 2017, respectively.

(e) Consolidated statements of cash flows

		Years ended 31 December		
	Notes	2015	2016	2017
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		26,608	16,941	8,659
Adjustments for:				
Bank interest income	7	(81)	(150)	(372)
Other interest income	7	(550)	—	—
Finance costs	8	1,228	623	572
Depreciation	9	11,556	10,991	10,125
Amortisation of prepaid land lease payments	9	615	608	553
Gains on disposal of items of property, plant and equipment, net	7	(155)	(201)	(213)
Losses/(gains) arising from changes in fair value of agricultural produce at the date of harvest	9	(3,013)	249	(884)
Government grants income	7	(1,546)	(452)	(1,190)
Write-off of inventories	9	58	130	11
Impairment of trade receivables	9	—	17	—
		34,720	28,756	17,261
Decrease/(increase) in inventories		9,778	(1,669)	7,452
Additions to biological assets		(2,423)	(2,429)	(2,727)
Decrease/(increase) in trade receivables		(6,298)	(2,441)	29,458
Decrease/(increase) in prepayments, deposits and other receivables		939	1,373	(4,659)
Decrease in trade payables		(5,628)	(510)	(2,241)
Increase/(decrease) in other payables and accruals		(1,512)	(1,770)	5,040
Receipt of government grants		1,546	992	1,690
Cash generated from operations		31,122	22,302	51,274
Interest received		81	150	372
PRC income tax paid		(5,041)	(5,677)	(6,173)
Net cash flows from operating activities .		26,162	16,775	45,473

	Notes	Years ended 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(8,967)	(4,962)	(13,113)
Proceeds from disposal of items of property, plant and equipment		499	837	979
Additions to prepayments of land lease payments	16	(85)	(137)	(14)
Prepayment of property, plant and equipment		—	—	(68)
Advances to related parties		(2,190)	(5,366)	(581)
Acquisition of subsidiaries	33	—	—	1,033
Withholding taxes paid on investing activities		—	(500)	(2,500)
Loan to a third party		(11,000)	—	—
Repayment of a loan to a third party		21,000	11,000	—
Interest received related to the loan to a third party		550	—	—
Net cash flows from/(used in) investing activities		(193)	872	(14,264)
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank borrowings		—	27,000	—
Repayment of bank borrowings		(22,000)	(1,000)	(26,000)
Interest paid	8	(1,228)	(1,163)	(1,072)
Dividend paid	13	—	—	(20,708)
Repayment of advances from related parties		(1,345)	(13,745)	(481)
Net cash flows from/(used in) financing activities		(24,573)	11,092	(48,261)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
		1,396	28,739	(17,052)
Cash and cash equivalents at beginning of year		21,142	22,567	51,367
Effect of foreign exchange rate changes, net		29	61	(2,163)
CASH AND CASH EQUIVALENTS AT END OF YEAR		22,567	51,367	32,152
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		22,567	51,367	32,152

(f) Statements of financial position of the Company

		As at 31 December		
	Notes	2015	2016	2017
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Investments in subsidiaries	17	3	3	3
CURRENT ASSETS				
Due from subsidiaries	17	—	—	128,749
Prepayments	22	—	—	3,593
Cash and bank balances	24	—	—	11,676
Total current assets		—	—	144,018
CURRENT LIABILITIES				
Other payables and accruals	26	—	—	2,803
Due to subsidiaries	17	342	384	44,092
Total current liabilities		342	384	46,895
NET CURRENT ASSETS/(LIABILITIES)		(342)	(384)	97,123
Net assets/(liabilities)		<u>(339)</u>	<u>(381)</u>	<u>97,126</u>
EQUITY/(DEFICIENCY IN ASSETS)				
Issued capital	31	—	—	—
Reserves	32(b)	(339)	(381)	97,126
Equity/(Deficiency in assets)		<u>(339)</u>	<u>(381)</u>	<u>97,126</u>

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Group was principally engaged in the production and distribution of wine products during the Track Record Period.

As at the date of this report, the immediate and ultimate holding company of the Company is Macmillan Equity Limited, a company incorporated in British Virgin Islands ("BVI"). The entire issued capital of Macmillan Equity Limited is held by Ms. Judy Chan.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Medford Global Limited (note (a))	BVI 1 February 2012	US\$100	100	—	Investment holding
Grandtel Limited (note (a))	BVI 1 February 2012	US\$100	100	—	Investment holding
Interfusion Limited (note (a))	BVI 1 February 2012	US\$100	100	—	Investment holding
Grand Fiesta Limited (note (a))	BVI 20 August 2012	US\$100	100	—	Investment holding
Mercci Limited (note (a))	BVI 1 October 2013	US\$100	100	—	Investment holding
Clover Star International Limited (note (a))	BVI 4 January 2017	US\$100	100	—	Investment holding
Dragonet Limited (note (b))	Hong Kong 3 September 1997	HK\$100	—	100	Investment holding and distribution of wine products
Excellence Regent Limited (note (c))	Hong Kong 29 January 2010	HK\$100	—	100	Investment holding
Corpwealth Asia Limited (note (b))	Hong Kong 15 January 2010	HK\$100	—	100	Investment holding
Genwood Hong Kong Limited (note (c))	Hong Kong 22 February 2011	HK\$100	—	100	Investment holding

Company name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Wide Source Development Limited (note (c))	Hong Kong 18 May 2012	HK\$100	—	100	Investment holding
Fly Dragon China Limited (note (c))	Hong Kong 16 April 2013	HK\$100	—	100	Investment holding
Shanxi Grace Vineyard Co., Limited** (山西怡園酒莊有限公司) ("Shanxi Grace Vineyard") (note (d))	People's Republic of China (the "PRC")/ Mainland China 7 August 1998	RMB46,800,000	—	100	Production and distribution of wine products
Shanxi Ziyuan Agricultural Development Co., Limited (山西紫源農業開發有限公司)** ("Shanxi Ziyuan") (note (e))	PRC/Mainland China 21 November 2013	HK\$1,300,000	—	100	Planting of vines and sale of wine grapes
Deep Blue Wine Trading (Shanghai) Limited** (創平酒業貿易(上海) 有限公司) (note (f))	PRC/Mainland China 14 July 2010	US\$200,000	—	100	Distribution of wine products
Ningxia Ganlin Agricultural Development Co., Limited** (寧夏甘霖農業開發有限公司) ("Ningxia Ganlin") (note (g))	PRC/Mainland China 15 October 2010	HK\$350,000	—	100	Planting of vines and sale of wine grapes
Ningxia Grace Vineyard Co., Limited (寧夏怡園酒莊有限公司)** ("Ningxia Grace Vineyard") (note (g))	PRC/Mainland China 12 September 2012	US\$5,000,000	—	100	Production of wine products
Xiamen Taofu Trading Co., Limited (廈門萄福貿易有限公司)** ("Xiamen Taofu") (note (h))	PRC/Mainland China 29 September 2012	US\$165,000	—	100	Distribution of wine products

Notes:

- (a) No audited financial statements have been prepared and issued since the respective dates of their incorporation as these companies are either not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation or have not been involved in any significant business transactions.
- (b) The statutory financial statements of these entities for the years ended 31 December 2015, 2016 and 2017 prepared under HKFRSs were audited by FTO CPA Limited.
- (c) The statutory financial statements of these entities for the years ended 31 December 2015, 2016 and 2017 prepared under HKFRSs were audited by Messrs. LKY China.

- (d) The statutory financial statements of this entity for the years ended 31 December 2015, 2016 and 2017 prepared under PRC generally accepted accounting principles ("PRC GAAP") were audited by Shanxi Yu Jin Gong Ji Accounting Firm Co., Ltd.[#] (山西榆晉共濟會計師事務所有限公司).

In 2010, Dragonet Limited acquired the remaining 5.48% equity interest of Shanxi Grace Vineyard (the "Transfer") from a PRC state-owned enterprise (the "Seller") and became a wholly-owned subsidiary of the Group. Despite certain procedures were not conducted as required by the Provisions for the Alteration of Investors' Equities in Foreign-funded Enterprises (外商投資企業投資者股權變更的若干規定), the Rules on the Evaluation and Management of State Assets (國有資產評估管理辦法) and the Detailed Rules for the Implementation on the Administrative Measures for State-Owned Assets Assessment (國有資產評估管理辦法施行細則) during the Transfer, the legal documents of Shanxi Grace Vineyard including the business licence as issued by the Shanxi Administration for Industry and Commerce indicated that Shanxi Grace Vineyard is a wholly-foreign-owned enterprise and wholly-owned by the Company. In addition, a letter of undertaking from the Seller was obtained of which the Seller undertakes that the Transfer will be conducted under the same commercial terms in the unlikely event that the Transfer is cancelled or revoked. As such, the directors of the Company are of the opinion that the Group has 100% equity interest in Shanxi Grace Vineyard upon completion of the Transfer in 2010.

- (e) The statutory financial statements of this entity for the years ended 31 December 2015, 2016 and 2017 prepared under PRC GAAP were audited by Shanxi Yu Jin Gong Ji Accounting Firm Co., Ltd.[#] (山西榆晉共濟會計師事務所有限公司).
- (f) The statutory financial statements of this entity for the years ended 31 December 2015 and 2016 prepared under PRC GAAP were audited by Shanghai Huiqiang Certified Public Accountants[#] (上海匯強會計師事務所). The statutory financial statements of this entity for the year ended 31 December 2017 prepared under PRC GAAP was audited by Shanghai Tripod Certified Public Accountants (上海鼎邦會計師事務所).
- (g) The statutory financial statements of these entities for the years ended 31 December 2015, 2016 and 2017 prepared under PRC GAAP were audited by Ningxia Wuyue United Certified Public Accountants[#] (寧夏五岳聯合會計師事務所).
- (h) The statutory financial statements of this entity for the years ended 31 December 2015, 2016 and 2017 prepared under PRC GAAP were audited by Xiamen Dongyou Certified Public Accountants Co., Ltd.[#] (廈門東友會計師事務所有限公司).

* Registered as wholly-foreign-owned enterprises under the law of the PRC.

[#] The English names of these companies represent the best effort made by management of the Company to directly translate the Chinese names of these companies as they have not registered any official English names.

2. BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2017, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Track Record Period.

The Historical Financial Information has been prepared under the historical cost convention, except for biological assets, which have been measured at fair value less costs to sell.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the years ended 31 December 2015, 2016 and 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same Track Record Period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in this Historical Financial Information.

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> ¹
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i> ¹
HKFRS 9	<i>Financial Instruments</i> ¹
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> ²
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 15	<i>Revenue from Contracts with Customers</i> ¹
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i> ¹
HKFRS 16	<i>Leases</i> ²
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKAS 19	<i>Plan Amendment, Curtailment, or Settlement</i> ²
Amendments to HKAS 28	<i>Investments in Associates and Joint Ventures</i> ²
Amendments to HKAS 40	<i>Transfers of Investment Property</i> ¹
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i> ¹
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> ²
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to HKFRS 1 and HKAS 28 ¹
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to the following standards: — <i>HKFRS 3 Business Combinations</i> ² — <i>HKFRS 11 Joint Arrangements</i> ² — <i>HKAS 12 Income Taxes</i> ² — <i>HKAS 23 Borrowing Costs</i> ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below. Of those standards, HKFRS 9 and HKFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have an impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled

transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of financial assets.

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on possible default events on its other receivables within the next twelve months. Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 might be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under the expected credit loss model would reduce the opening retained profits at 1 January 2018.

Amendments to HKFRS 9, issued in December 2017, allow financial assets with prepayment features that permit or require either the borrower or the lender to pay or receive reasonable compensation for the early termination of the contract to be measured at amortised cost or at fair value through other comprehensive income. The amendments clarify that a financial asset passes the "solely payments of principal and interest on the principal amount outstanding" criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for that early termination. The Group expects to adopt these amendments from 1 January 2019 and to apply the exemption from restating comparative information of prior periods. Any difference between the previous carrying amount and the adjusted carrying amount will be recognised in the opening balance of equity. The amendments do not apply to the Group as the Group does not have any debt instruments with prepayment features along with compensation for early termination. In addition, as clarified in the amendments to the basis for conclusions on HKFRS 9, the gain or loss arising on modification of a financial liability that does not result in derecognition (calculated by discounting the change in contractual cash flows at the original effective rate) is immediately recognised in profit or loss. As there is no specific relief on this clarification, this requirement shall be applied retrospectively. The Group's current accounting policy is consistent with this clarification and therefore the adoption of the amendments is not expected to have any impact on the Group.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application

when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1 January 2018 and plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, they do not anticipate that the application of HKFRS 15 will have a material impact on the timing and measurement of revenue recognised in the future reporting periods.

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019 and will take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As set out in note 37, at 31 December 2017, the total future minimum lease payments under non-cancellable operating leases in respect of office premises and farmlands amounted to approximately RMB614,000 and RMB15,000 respectively. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. The Group has currently assessed that the adoption of HKFRS 16 would not have a significant impact on the Group's consolidated financial statements. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- | | | |
|---------|---|---|
| Level 1 | — | based on quoted prices (unadjusted) in active markets for identical assets or liabilities |
| Level 2 | — | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly |
| Level 3 | — | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable |

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
- or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5% to 20%
Leasehold improvements	5% to 20%
Plant and machinery	9% to 48%
Furniture and fixtures	10% to 50%
Motor vehicles	20% to 33.3%
Vineyard infrastructure	10% to 50%
Bearer plants	Over the shorter of the lease terms and 5%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction and bearer plants before they reach maturity, which are stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction/plantation during the period of construction/plantation. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Biological assets

Biological assets comprise grapes before harvest in leased farms and are classified as current assets due to the short development period, prior to harvest.

Biological assets are stated at fair value less costs to sell from initial measurement up to the point of harvest, except where fair value cannot be measured reliably due to unavailability of quoted market prices and no reliable alternative estimates exist to determine fair value, in which case the assets are held at growing cost incurred less impairment losses.

Once the fair value becomes reliably measurable, the biological assets are measured at fair value less costs to sell and changes in fair value are recognised in the consolidated statement of profit or loss for the period in which it arises.

Biological assets that meet the definition of bearer plants (i.e., grapevines) are within the scope of HKAS 16 *Property, Plant and Equipment*. Bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. After initial recognition, bearer plants are measured at accumulated cost less any impairment before maturity. Subsequently when the bearer plants are mature, they are measured at cost, less any subsequent accumulated depreciation and impairment, with changes recognised in profit or loss.

The grapevines are presented and accounted for as bearer plants, see "property, plant and equipment". However, the fresh fruit bunches growing on the grapevines is accounted for as biological assets until the point of harvest. Harvested grapes are transferred to inventories at fair value less costs to sell when harvested. Fair value at the point of harvest is based on the selling prices for similar fruits prevailing in the market as at or close to the harvest dates.

Costs to sell include the incremental selling costs, including auctioneers' fees, commission paid to brokers and dealers and estimated costs of transport to the market but excludes finance costs and income taxes.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. 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 assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

Financial liabilities***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, amounts due to related companies/parties and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost or the deemed cost for agricultural produce harvested from biological assets and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and bank balances comprise cash on hand and at banks, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the reporting periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the services have been rendered; and
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits***Pension schemes***

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “**MPF Scheme**”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal governments. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension schemes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The Company's functional currency is Hong Kong Dollar ("HK\$"). Because most of the subsidiaries' functional currencies are RMB, the Historical Financial Information is presented in RMB. Each entity in the Group determines its own functional currency and items included in the Historical Financial Information of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of each of the reporting periods. Differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of each of the reporting periods, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of each of the reporting periods and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statements of cash flows, the cash flows of operations with functional currencies other than RMB are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the Historical Financial Information and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Fair value measurements and valuation processes of biological assets

The biological assets of the Group are measured at fair value less costs to sell for financial reporting purposes. The directors of the Company has engaged qualified external valuers to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of biological assets, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. Management reports the external valuers' findings to the board of directors of the Company regularly.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences over the usage of property, plant and equipment and also by reference to the relevant industrial norm. If the actual useful lives of property, plant and equipment are less than the original estimate useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful lives.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back of inventories in the period in which such estimate has been changed.

Impairment of trade and other receivables

The Group maintains an allowance for the estimated loss arising from the inability of its debtors to make the required payments. The Group makes its estimates based on the ageing of its trade receivable and other receivable balances, debtors' creditworthiness, and historical write-off experience. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each of the reporting periods. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Withholding taxes arising from the distributions of dividends

Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

The Group has unremitted earnings that are subject to withholding taxes amounting to approximately RMB152,070,000, RMB153,966,000, and RMB119,897,000 as at 31 December 2015, 2016 and 2017, respectively. Deferred tax liabilities have been recognised for withholding taxes that would be payable on a portion of the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China since in the opinion of the directors, it is probable that these subsidiaries will distribute such earnings in the foreseeable future. Where the final distribution portion of earnings is larger than the amount that initially recorded, the differences will impact on the income tax in the periods in which the distribution is made. As at 31 December 2015, 2016 and 2017, deferred tax on withholding tax amounting to RMB10,093,000, RMB10,470,000, and RMB9,219,000, respectively, has been recognised.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

6. SEGMENT INFORMATION

Operating segments

No operating segment information for the Group is presented as over 90% of the Group's revenue, expenses, assets, liabilities and capital expenditure are attributable to the production and distribution of wine products during the Track Record Period.

Geographical information

No geographical information for the Group is presented as over 90% of the Group's revenue and assets are derived from customers and operations based in the PRC during the Track Record Period.

Information about major customers

Revenue amounting to 10 percent or more of the Group's revenue derived from sales to certain customers during the Track Record Period is set out in the following table:

	Years ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Customer A	33,280	37,669	46,767
Customer B	9,126	8,928	—*
Customer C	7,769	—*	—*
Customer D	7,446	—*	—*
	<u> </u>	<u> </u>	<u> </u>

* Less than 10 percent of the Group's revenue for the corresponding year or period.

7. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	Years ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Revenue			
Sales of goods	68,436	53,367	70,384
Other income			
Bank interest income	81	150	372
Other interest income	550	—	—
Government grants*	1,546	452	1,190
Provision of marketing materials to a related party, net	10	—	—
Tourism and servicing income from related parties, net	33	41	3
Others	333	113	260
	2,553	756	1,825
Gains			
Gains on disposal of items of property, plant and equipment, net	155	201	213
Other income and gains, net	2,708	957	2,038

* The Group received various government grants in respect of its subsidiaries for investing in local communities within Shanxi Province and Ningxia Hui Autonomous Region and also for the Group's contribution to the wine industry in Shanghai. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the consolidated statements of financial position. There were no unfulfilled conditions or contingencies relating to these grants.

8. FINANCE COSTS, NET

	Years ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Interest on bank loans	1,228	1,163	1,072
Less: government grants*	—	(540)	(500)
	1,228	623	572

* The Group received government grants in respect of interest expense for the support of local agricultural businesses for the years ended 31 December 2016 and 2017. The government grants received were deducted against interest expenses when the conditions of the government grants were fulfilled. There were no unfulfilled conditions or contingencies relating to these grants.

9. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Years ended 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Cost of inventories sold		12,693	11,981	13,726
Employee benefit expense (including directors' remuneration (<i>note 10</i>)):				
Wages and salaries		5,588	5,784	8,521
Pension scheme contributions (defined contribution schemes)		1,628	1,566	1,699
		7,216	7,350	10,220
Depreciation	15	11,816	11,302	10,461
Less: government grants released		(2)	(22)	(22)
Less: amount capitalised into inventories		(258)	(289)	(314)
		11,556	10,991	10,125
Amortisation of prepaid land lease payments	16	892	899	901
Less: amount capitalised into biological assets		(277)	(291)	(348)
		615	608	553
Minimum lease payments under operating leases				
— office		230	218	753
— farmlands		—	4	4
		230	222	757
Auditor's remuneration		77	79	80
Listing expenses		—	—	11,069
Write-off of inventories [^]		58	130	11
Impairment of trade receivables [#]		—	17	—
Losses/(gains) arising from changes in fair value of agricultural produce at the date of harvest*	20	(3,013)	249	(884)
Foreign exchange differences, net		706	305	150

* The losses/(gains) arising from changes in fair value of agricultural produce at the date of harvest are included in "Cost of sales" and "Other income and gains, net" in the consolidated statements of profit or loss during the Track Record Period.

The above item is included in "Other expenses and losses" in the consolidated statements of profit or loss during the Track Record Period.

[^] The above item is included in "Cost of sales" in the consolidated statements of profit or loss during the Track Record Period.

10. DIRECTORS' REMUNERATION

Directors' remuneration for the Track Record Period is as follows:

	Years ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Fees	—	—	471
Other emoluments:			
Salaries, allowances and benefits in kind	—	—	86
Discretionary bonus	—	—	—
Performance related bonuses	—	—	—
Pension scheme contributions	—	—	8
	<u>—</u>	<u>—</u>	<u>565</u>

(a) Executive directors

	Fees	Salaries, allowances and benefits in kind	Discretionary bonus	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2015					
Judy Chan	—	—	—	—	—
Wong Shu Ying	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Year ended 31 December 2016					
Judy Chan	—	—	—	—	—
Wong Shu Ying	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Year ended 31 December 2017					
Judy Chan	264	86	—	8	358
Wong Shu Ying	—	—	—	—	—
Fan Chi Chiu	133	—	—	—	133
	<u>397</u>	<u>86</u>	<u>—</u>	<u>8</u>	<u>491</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

Wong Shu Ying resigned as an executive director of the Company on 21 July 2017 and Fan Chi Chiu was appointed as an executive director of the Company on 24 July 2017.

(b) Non-executive directors

	Years ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Fees			
Hou Tan Tan Danielle.	—	—	37
Chow Christer Ho	—	—	37
	<u>—</u>	<u>—</u>	<u>74</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period. Hou Tan Tan Danielle and Chow Christer Ho were appointed as non-executive directors of the Company on 24 July 2017.

(c) Independent non-executive directors

Subsequent to the Track Record Period, Ho Kent Ching-tak, Lim Leung Yau Edwin and Alec Peter Tracy were appointed as independent non-executive directors of the Company on 1 June 2018. No directors' fees or other emoluments were paid to them during the Track Record Period.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees for the years ended 31 December 2015 and 2016 did not include directors while the five highest paid employees for the year ended 31 December 2017 included one director. The details of directors' remuneration are set out in note 10 above. Details of the remuneration of the remaining highest paid employees whom are non-directors during the Track Record Period are as follows:

	Years ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits			
in kind	1,002	1,022	959
Performance related bonuses	46	54	110
Pension scheme contributions	154	162	126
	<u>1,202</u>	<u>1,238</u>	<u>1,195</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees		
	Years ended 31 December		
	2015	2016	2017
Nil to HK\$1,000,000	5	5	4

During the Track Record Period, no remuneration was paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

12. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

No provision for Hong Kong profits tax has been made for the Track Record Period as the Group did not generate any assessable profits arising in Hong Kong during the Track Record Period.

Under the Law of the PRC on Enterprises Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate for the PRC subsidiaries is 25%.

According to relevant EIT Law and Implementation Regulation of the EIT Law, certain subsidiaries in agricultural operation of the Group in the PRC are exempted from Enterprise Income Tax (“EIT”) on profits derived from fruits cultivation for the years ended 31 December 2015, 2016 and 2017, subject to annual review by the local PRC tax authority of the Company's subsidiaries and any future changes in the relevant tax exemption policies or regulations.

	Note	Years ended 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Group:				
Current — Mainland China				
Charge for the year		6,434	5,614	7,995
Underprovision/(overprovision) in prior years		19	(383)	452
Current — Hong Kong				
Charge for the year		—	—	—
Deferred tax	30	1,797	425	(902)
Total tax charge for the year		8,250	5,656	7,545

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the countries (or jurisdictions) in which the Company and the subsidiaries are domiciled to the tax expenses at the effective tax rates is as follows:

	Years ended 31 December					
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	<u>26,608</u>		<u>16,941</u>		<u>8,659</u>	
Tax at the weighted average applicable tax rate	6,585	24.7	4,281	25.3	3,294	38.0
Tax exemption	(290)		517		88	
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	1,547		877		1,124	
Adjustments in respect of current tax of previous periods	19		(383)		452	
Income not subject to tax	(696)		(614)		(1,189)	
Expenses not deductible for tax*	1,056		927		2,331	
Tax loss utilised from previous periods	—		—		(66)	
Tax losses not recognised	<u>29</u>		<u>51</u>		<u>1,511</u>	
Tax charge for the year	<u>8,250</u>	31.0	<u>5,656</u>	33.4	<u>7,545</u>	87.1

* The expenses not deductible for tax during the Track Record Period are mainly attributable to the products given as free gifts for promotion purposes and certain depreciation which were not deductible under the relevant PRC tax regulations. For the year ended 31 December 2017, additional expenses not deductible for tax represented the listing expenses incurred.

The weighted average applicable tax rate was computed at the weighted average of domestic tax rates applicable to profits/losses in the respective jurisdictions. The change in the weighted average applicable tax rate was caused by a change in the profitability of the Group's subsidiaries in the respective jurisdictions.

13. DIVIDENDS

	Years ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
First 2017 interim dividend at RMB9,714 per ordinary share	—	—	6,800
Second 2017 interim dividend at HK\$22,857 per ordinary share (equivalent to RMB19,869 per ordinary share)	—	—	13,908
	<u>—</u>	<u>—</u>	<u>20,708</u>

Subsequent to the Track Record Period, on 4 June 2018, the Company declared and approved a special dividend of RMB10,000,000 to its then shareholders.

14. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Track Record Period.

15. PROPERTY, PLANT AND EQUIPMENT

Notes	Buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Vineyard infrastructure	Bearer plants	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015, net of accumulated depreciation	43,891	4,647	14,222	10,967	241	1,659	7,319	4,597	87,543
Additions	438	—	191	1,105	—	119	—	7,552	9,405
Disposals and write-off	—	—	—	(100)	—	—	(204)	(40)	(344)
Depreciation provided during the year	9 (3,382)	(524)	(2,406)	(4,102)	(173)	(213)	(1,016)	—	(11,816)
Transfers	14	—	—	—	—	—	—	(14)	—
At 31 December 2015 and 1 January 2016, net of accumulated depreciation	40,961	4,123	12,007	7,870	68	1,565	6,099	12,095	84,788
Additions	—	—	373	774	—	—	16	3,799	4,962
Disposals and write-off	—	—	(3)	(633)	—	—	—	—	(636)
Depreciation provided during the year	9 (3,402)	(517)	(2,369)	(3,671)	(50)	(252)	(1,041)	—	(11,302)
At 31 December 2016 and 1 January 2017, net of accumulated depreciation	37,559	3,606	10,008	4,340	18	1,313	5,074	15,894	77,812
Additions	98	—	807	1,187	—	4	—	14,903	16,999
Acquisition of subsidiaries	—	135	19	8	96	—	—	—	258
Disposals and write-off	(514)	—	—	(7)	—	(28)	—	(129)	(678)
Depreciation provided during the year	9 (3,749)	(548)	(2,431)	(2,414)	(46)	(232)	(1,041)	—	(10,461)
Transfers	26,767	—	2,737	—	—	—	—	(29,504)	—
At 31 December 2017, net of accumulated depreciation	60,161	3,193	11,140	3,114	68	1,057	4,033	1,164	83,930
At 31 December 2015:									
Cost	58,953	5,763	34,791	23,931	2,380	2,053	7,947	12,095	147,913
Accumulated depreciation	(17,992)	(1,640)	(22,784)	(16,061)	(2,312)	(488)	(1,848)	—	(63,125)
Net carrying amount	40,961	4,123	12,007	7,870	68	1,565	6,099	12,095	84,788
At 31 December 2016:									
Cost	58,953	5,763	35,137	17,724	2,380	2,053	7,963	15,894	145,867
Accumulated depreciation	(21,394)	(2,157)	(25,129)	(13,384)	(2,362)	(740)	(2,889)	—	(68,055)
Net carrying amount	37,559	3,606	10,008	4,340	18	1,313	5,074	15,894	77,812
At 31 December 2017:									
Cost	85,292	5,898	38,680	16,899	2,450	1,881	7,963	1,164	160,227
Accumulated depreciation	(25,131)	(2,705)	(27,540)	(13,785)	(2,382)	(824)	(3,930)	—	(76,297)
Net carrying amount	60,161	3,193	11,140	3,114	68	1,057	4,033	1,164	83,930

Included in the Group's vineyard infrastructure and bearer plants as at 31 December 2015, 2016 and 2017 in the aggregate net carrying amounts of RMB2,328,000, RMB1,889,000 and RMB1,447,000, respectively, were vineyard infrastructure and bearer plants on a parcel of land of which the Group was in the progress of applying for the land use rights certificates as at the end of each of the reporting periods.

Subsequent to the Track Record Period, the Group entered into an agreement to dispose of the Disposal Group (as defined in note 43) which owns certain vineyard infrastructure and bearer plants with the aggregate net carrying amount of RMB630,000 and RMB2,399,000, respectively, as at 31 December 2017. Further details are given in note 43 to the Historical Financial Information.

During 2015, the Group received a residential flat from the Shanxi government as a result of being a significant taxpayer in the region. The Group is currently in the process of applying for the property certificate as at the end of the Track Record Period. The carrying values for this residential flat as at 31 December 2015, 2016 and 2017 were RMB436,000, RMB414,000 and RMB392,000, respectively.

As at 31 December 2016, certain of the Group's property, plant and equipment with net aggregate carrying amounts of RMB34,566,000 were pledged as security for the Group's banking facilities (notes 28 and 36).

16. PREPAID LAND LEASE PAYMENTS

	Notes	As at 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Carrying amount at the beginning of the year		17,192	16,385	15,623
Additions		85	137	14
Recognised during the year	9	(892)	(899)	(901)
Carrying amount at the end of the year		16,385	15,623	14,736
Current portion included in prepayments, deposits and other receivables	22	(883)	(898)	(900)
Non-current portion		15,502	14,725	13,836

As at 31 December 2015, 2016 and 2017, the prepaid land lease payments with net aggregate carrying amounts of RMB138,000, RMB111,000 and RMB85,000, respectively, were made on prepaid land lease of a parcel of land of which the Group was in the progress of applying the land use rights certificates as at the end of each of the reporting periods.

Subsequent to the Track Record Period, on 1 June 2018, the Group entered into an agreement to dispose of the Disposal Group (as defined in note 43) which owns a parcel of land with the net carrying amount of RMB178,000 as at 31 December 2017. Further details are given in note 43 to the Historical Financial Information.

As at 31 December 2016, prepaid land lease payments with net aggregate carrying amounts of RMB979,000 were pledged as security for the Group's banking facilities (notes 28 and 36).

17. INVESTMENTS IN SUBSIDIARIES

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Investments, at cost	3	3	3

The balances with subsidiaries are unsecured, interest-free and repayable on demand.

18. GOODWILL

	Note	As at 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Cost at the beginning of the year		—	—	—
Cost				
Carrying amount at the beginning of the year		—	—	—
Acquisition of subsidiaries	33	—	—	1,361
Cost at the end of the year		—	—	1,361
At the end of the year				
Cost		—	—	1,361
Net carrying amount		—	—	1,361

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the sale of wine cash-generating unit, which is a reportable segment, for impairment testing.

The recoverable amount of the sale of wine cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections as at 31 December 2017 is 24.3%. The growth rate used to extrapolate the cash flows beyond the five-year period is 3%.

Assumptions were used in the value in use calculation of the sale of wine cash-generating unit for 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increase for expected efficiency improvements, and expected market development.

Discount rate — the discount rate used is before tax and reflects specific risks relating to the relevant unit.

The values assigned to key assumptions are consistent with external information sources.

The recoverable amount of the sale of wine cash-generating unit is estimated to exceed the carrying amount of the cash-generating unit as at 31 December 2017 by RMB5,657,000. A reasonably possible change in the budgeted gross margin by 7.3% would result in the recoverable amount of the cash-generating unit being equal to its carrying amount. In the opinion of the Company's directors, any reasonably possible change in any of the other assumptions would not cause the cash-generating unit's recoverable amount to fall below its carrying amount.

19. INVENTORIES

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Raw materials	2,891	2,222	2,959
Work in progress	70,193	72,971	67,073
Finished goods	2,371	4,595	7,493
	<u>75,455</u>	<u>79,788</u>	<u>77,525</u>

20. BIOLOGICAL ASSETS

Movements of biological assets, representing grapes growing on bearer plants, are summarised as follows:

	Note	As at 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
At the beginning of the year		—	—	—
Increase due to cultivation		2,700	2,720	3,075
Gains/(losses) arising from changes in fair value of agricultural produce at the date of harvest	9	3,013	(249)	884
Transfer of harvested grapes to inventories		(5,713)	(2,471)	(3,959)
At the end of the year		<u>—</u>	<u>—</u>	<u>—</u>

During the Track Record Period, the Group harvested 832 tonnes, 368 tonnes, and 437 tonnes of grapes. The directors measured the fair value less costs to sell of grapes at harvest based on market prices as at or close to the harvest dates.

Cultivation costs incurred are accounted for as additions to the biological assets. All grapes are harvested annually from late August to the end of September of each year. After the harvest, plantation works commence again on the farmland. The directors consider that there was no active market for the grapes before harvest at the end of the reporting periods. The market approach is adopted to value the harvested grapes ("Agricultural Produce") and the cost approach is adopted to value the immature grapes ("Immature Grapes") during the growing period as at the end of respective years. The cost of direct raw materials, direct labour, labour service and cultivation cost incurred, including fertilisers, pesticides, labour costs and rentals of the farmlands, have been considered in the calculation of the fair values for the growing period and these costs approximate to their fair values. During the harvesting period, the market approach

is adopted whereby the fair values of the Agricultural Produce as at the end of respective years are calculated to be the product of market price and estimated quantities of the Agricultural Produce after deducting reasonable costs related to selling.

The fair value measurement of the grapes is categorised as level 3 fair value measurement within the three-level fair value hierarchy as defined in HKFRS 13 *Fair Value Measurement*. Significant unobservable inputs are mainly the replacement cost for Immature Grapes and the market price for harvested grapes.

During the Track Record Period, no transfers occurred between levels in the hierarchy.

The fair value was determined by the independent qualified valuer, Avista Valuation Advisory Limited, with reference to market-determined prices, cultivation areas, species, growing conditions, cost incurred and expected yield of crops. Avista Valuation Advisory Limited is located at 23rd Floor, Siu On Centre, 188 Lockhart Road, Wanchai, Hong Kong.

The fair value of agricultural produce is calculated based on the inputs to the valuation technique used. The following table gives information about how the fair values of these biological assets are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

Biological assets	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value	Range
Immature Grapes	3	Replacement cost approach The key input is: Various costs for replacing	Various costs for replacing	The higher the costs incurred, the higher the fair value	Not applicable
Agricultural Produce	3	Market approach The key input is: Market price per kilogram ("kg") of grapes.	Market price of grapes	The higher the market price, the higher the fair value	2017: RMB9.00 per kg to RMB10.50 per kg; 2016: RMB6.31 per kg to RMB8.50 per kg; 2015: RMB6.48 per kg to RMB8.50 per kg; varies for different types of grapes

Sensitivity analysis

For Agricultural Produce, a 10% increase in the market price or quantity would lead to a 10% increase in the value of the Agricultural Produce, causing the appraised values to be RMB6,284,000 and RMB2,718,000 and RMB4,350,000 at the point of harvest in 2015, 2016 and 2017, respectively. A 10% decrease in the market price or quantity would lead to a 10% decrease in the value of the Agricultural Produce, causing the appraised values to be RMB5,142,000 and RMB2,224,000 and RMB3,559,000 at the point of harvest in 2015, 2016 and 2017, respectively.

21. TRADE RECEIVABLES

	Notes	As at 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Trade receivables from third parties		15,875	37,073	12,752
Due from related companies	(ii)	23,664	4,896	45
Trade receivables	(i)	39,539	41,969	12,797

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period up to three months. The Group seeks to apply strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Notes:

(i) Trade receivables

At the end of each of the reporting periods, an ageing analysis of the trade receivables, based on the invoice date and net of provision, is as follows:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within 60 days	17,762	15,600	12,790
61 to 90 days	1,142	215	7
Over 90 days	20,635	26,154	—
	39,539	41,969	12,797

At the end of each of the reporting periods, an ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	18,892	15,815	12,720
Less than 90 days past due	427	694	77
Over 90 days past due	20,220	25,460	—
	39,539	41,969	12,797

(ii) Due from related parties

	Notes	As at 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Fuzhou Liyuan Trading Company Limited ("Fuzhou Liyuan")	(a)	20,136	—	—
Xiamen Taofu Trading Company Limited ("Xiamen Taofu")	(b)	3,515	4,880	—
Chan Kwan	(c)	3	16	23
Judy Chan		3	—	10
Chan Chun Keung	(d)	7	—	12
		<u>23,664</u>	<u>4,896</u>	<u>45</u>

Notes:

- (a) This company was wholly owned by Judy Chan, the controlling shareholder of the Group. On 2 December 2016, Fuzhou Liyuan was disposed of to an independent third party and was no longer considered a related party. The outstanding balance as at 31 December 2016 and 2017 was classified as trade receivables from third parties.
- (b) This company was wholly owned by Judy Chan, the controlling shareholder of the Group during the years ended 31 December 2015 and 2016, and became an indirect wholly-owned subsidiary of the Company from 22 February 2017.
- (c) Chan Kwan is a brother of Judy Chan.
- (d) Chan Chun Keung is the father of Judy Chan and spouse of Wong Shu Ying.

The balances are unsecured, non-interest-bearing and have repayment terms of 90 days, which are on credit terms similar to those offered to other major customers.

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good relationship with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

(a) Group

	Notes	As at 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Deposits and other receivables		426	427	1,810
Prepaid land lease payments	16	883	898	900
Prepayments		1,751	926	4,440
Loan to a third party	(i)	11,550	—	—
		<u>14,610</u>	<u>2,251</u>	<u>7,150</u>

(i) The loan to a third party was unsecured, interest-bearing at 5.0% and repaid during the year ended 31 December 2016.

(b) Company

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Prepayments	—	—	3,593
	<u>—</u>	<u>—</u>	<u>3,593</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

23. DUE FROM RELATED PARTIES

Particulars of the amounts due from related parties, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance, are as follows:

	Notes	As at 31 December			Maximum outstanding amount during the year ended		
					31 December		
		2015	2016	2017	2015	2016	2017
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Kingcorp International Limited	(a)	113	121	—	121	121	121
Sanlion International Investment Limited	(b)	11,005	11,811	—	11,005	11,811	11,811
Chan Kwan	(c)	3,120	—	—	3,120	3,120	—
Judy Chan	(d)	6,848	16,543	—	7,573	18,412	16,543
		<u>21,086</u>	<u>28,475</u>	<u>—</u>	<u>21,819</u>	<u>33,344</u>	<u>28,474</u>

Notes:

- (a) Judy Chan, the controlling shareholder of the Company, and Wong Shu Ying, directly hold 50% and 50% interests in this company, respectively.
- (b) Chan Chun Keung, Judy Chan, Wong Shu Ying, Chan Kwan and Chan Pak Lam Brian (a brother of Judy Chan), effectively hold 60%, 10%, 10%, 10% and 10% of equity interests in this company, respectively.
- (c) Chan Kwan is a brother of Judy Chan.
- (d) The outstanding balance has been settled by capitalisation on 14 September 2017.

The balances with related parties are non-trading in nature, interest-free, unsecured and repayable on demand.

24. CASH AND BANK BALANCES

As at 31 December 2015, 2016 and 2017, the cash and cash equivalents of the Group denominated in RMB amounted to RMB20,843,000, RMB49,104,000 and RMB20,157,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2017, the cash and cash equivalents of the Company denominated in RMB amounted to RMB65,000.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

25. TRADE PAYABLES

As at the end of each of the reporting periods, an aged analysis of the trade payables, based on the invoice date, is as follows:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within 30 days	795	76	575
31 to 90 days	4	211	285
	<u>799</u>	<u>287</u>	<u>860</u>

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

26. OTHER PAYABLES AND ACCRUALS

(a) Group

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Accruals	—	46	2,729
Other payables	5,292	3,444	9,546
Advance from customers	10	46	106
Deferred income	22	22	22
	<u>5,324</u>	<u>3,558</u>	<u>12,403</u>

(b) Company

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Accruals	—	—	2,729
Other payables	—	—	74
	<u>—</u>	<u>—</u>	<u>2,803</u>

The other payables are non-interest-bearing and have an average term of 30 to 90 days.

27. DUE TO RELATED PARTIES

	Notes	As at 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Dragonfield Management Limited	(a)	42,670	45,819	324
Kingcorp International Limited		12,928	13,878	—
Sanlion International Investment Limited		35,942	34,190	—
Fuzhou Liyuan Trading Company Limited	(b)	3	—	—
Chan Kwan	(c)	30	48	77
Chan Chun Keung		27,485	18,989	—
		<u>119,058</u>	<u>112,924</u>	<u>401</u>

Notes:

- (a) Chan Chun Keung, Judy Chan, Wong Shu Ying, Chan Kwan and Chan Pak Lam Brian (a brother of Judy Chan), effectively hold 60%, 10%, 10%, 10% and 10% of equity interests in this company, respectively.
- (b) Judy Chan previously wholly owned this company. On 2 December 2016, Fuzhou Liyuan was disposed of to an independent third party.

(c) The directors confirm that balance with Chan Kwan will be settled prior to the listing of the Company.

The outstanding balances with related parties are non-trading in nature, unsecured, interest-free and repayable on demand.

28. INTEREST-BEARING BANK BORROWINGS

As at 31 December								
2015			2016			2017		
Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
Current								
Current portion of long term bank loans								
— secured	—	—	PBoC interest rate	2017	1,000	—	—	—
		—			1,000			—
Non-current								
Bank loans — secured								
	—	—	PBoC interest rate	2018–2019	25,000	—	—	—
		—			25,000			—
Total interest-bearing bank borrowings		—			26,000			—

As at 31 December			
2015	2016	2017	
RMB'000	RMB'000	RMB'000	
Analysed into:			
Bank loans repayable:			
Within one year or on demand	—	1,000	—
In the second year	—	1,000	—
In the third to fifth years, inclusive	—	24,000	—
	—	26,000	—

The loans were denominated in RMB. The interest rates are adjusted annually, based on the interest rate set by the People's Bank of China ("PBoC").

The carrying amount of the Group's current and floating rate borrowings approximates to their fair value. The fair value of the non-current portion of interest-bearing bank borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The carrying amounts and fair values of the Group's non-current floating rate borrowings are as follows:

	Carrying amounts			Fair values		
	As at 31 December			As at 31 December		
	2015	2016	2017	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans — secured . . .	—	25,000	—	—	22,264	—

The Group's bank loans are secured by:

	Notes	As at 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Property, plant and equipment	15	—	34,566	—
Prepaid land lease payments	16	—	979	—

In addition, as at 31 December 2016, the Group's bank loans are secured by personal guarantees of Judy Chan. The loan has been fully repaid in 2017.

29. SHAREHOLDER'S LOAN

The balance represented a loan due to Judy Chan, and the loan was unsecured, interest-free and repayable on demand.

The outstanding balance has been settled by capitalisation on 14 September 2017.

30. DEFERRED TAX

The movements in deferred tax assets/(liabilities) during the Track Record Period are as follows:

	Changes in fair value of agricultural produce at the date of harvest	Withholding taxes	Fair value adjustments arising from acquisition of subsidiaries	Deferred income	Loss available for offsetting against future taxable profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	367	(8,546)	—	—	—	(8,179)
Deferred tax credited/ (charged) to the statement of profit or loss during the year (note 12)	(359)	(1,547)	—	109	—	(1,797)
Gross deferred tax assets/(liabilities) at 31 December 2015 and 1 January 2016	8	(10,093)	—	109	—	(9,976)
Deferred tax charged to the statement of profit or loss during the year (note 12) .	(43)	(377)	—	(5)	—	(425)
Gross deferred tax assets/(liabilities) at 31 December 2016 and 1 January 2017	(35)	(10,470)	—	104	—	(10,401)
Acquisition of subsidiaries (note 33)	—	—	(66)	—	247	181
Deferred tax credited/ (charged) to the statement of profit or loss during the year (note 12)	(163)	1,251	66	(5)	(247)	902
At 31 December 2017	(198)	(9,219)	—	99	—	(9,318)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statements of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated statements of financial position .	8	—	—
Net deferred tax liabilities recognised in the consolidated statements of financial position .	(9,984)	(10,401)	(9,318)
	(9,976)	(10,401)	(9,318)

The Group has tax losses arising in Hong Kong of RMB19,155,000, RMB20,849,000 and RMB23,174,000 that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose as at the end of each of the reporting periods, respectively.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC EIT Law, 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% and 10%. Deferred tax liabilities have been provided based on the foreseeable dividend distributions in coming years by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

31. SHARE CAPITAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 14 February 2012 with authorised share capital of HK\$380,000 divided into 380,000,000 shares of HK\$0.001 each.

	As at 31 December								
	2015			2016			2017		
	Number of shares	HK\$'000	RMB'000 equivalent	Number of shares	HK\$'000	RMB'000 equivalent	Number of shares	HK\$'000	RMB'000 equivalent
Authorised:									
Ordinary shares of HK\$0.001 each . . .	380,000,000	380		380,000,000	380		380,000,000	380	
Issued and fully paid:									
Ordinary shares of HK\$0.001 each . . .	700	—	—	700	—	—	1,000	—	—

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Issued capital RMB'000
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	700	—
Loan capitalisation	300	—
At 31 December 2017	1,000	—

Pursuant to the loan capitalisation of HK\$124,649,000 (equivalent to approximately RMB104,194,000), amounts owed to Judy Chan were deemed to have been fully repaid by the allotment and issue of 217 shares to Macmillan Equity Limited, which is wholly owned by Judy Chan, on 14 September 2017 and the share premium account of the Company has been credited for HK\$124,649,000 (equivalent to approximately RMB104,194,000) as a result. On 14 September 2017, 83 shares were allotted and issued to Palgrave Enterprises Limited, which is wholly owned by Wong Shu Ying, at par value. Since then and up to the date of this report, the Company has been held as to 30% and 70% by Palgrave Enterprises Limited and Macmillan Equity Limited, respectively.

32. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein for each of the reporting periods are presented in the consolidated statements of changes in equity.

(i) Capital reserve

Capital reserve represented the excess of capital contribution over the registered capital upon the capital injection of subsidiaries of the Group established in the PRC.

(ii) Statutory reserve funds

In accordance with the Law of the PRC for Enterprise with Foreign Investments and the articles of association of subsidiaries of the Group established in the PRC, appropriations from net profits, after offsetting accumulated losses brought forward from prior years, should be made to the reserve funds before distributions are made to the owners. The percentage of net profits to be appropriated to the reserve funds should not be less than 10% of the net profits. When the balance of the reserve funds reaches 50% of the paid-up capital, no further appropriations are required to be made.

(iii) Exchange fluctuation reserve

Exchange fluctuation reserve comprises all foreign currency exchange differences arising from the translation of the Historical Financial Information.

(b) Company

	Issued capital	Share premium	Exchange fluctuation reserve	Accumulated losses	Total
	RMB'000 (note 31)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	—	—	(7)	(297)	(304)
Loss for the year	—	—	—	(20)	(20)
Other comprehensive income for the year:					
Exchange differences on translation of financial information	—	—	(15)	—	(15)
Total comprehensive income for the year	—	—	(15)	(20)	(35)
At 31 December 2015 and 1 January 2016	—	—	(22)	(317)	(339)
Loss for the year	—	—	—	(15)	(15)
Other comprehensive income for the year:					
Exchange differences on translation of financial information	—	—	(27)	—	(27)
Total comprehensive income for the year	—	—	(27)	(15)	(42)
At 31 December 2016 and 1 January 2017	—	—	(49)	(332)	(381)
Profit for the year	—	—	—	13,163	13,163
Other comprehensive income for the year:					
Exchange differences on translation of financial information	—	—	858	—	858
Total comprehensive income for the year	—	—	858	13,163	14,021
Interim dividend paid (Note 13)	—	—	—	(20,708)	(20,708)
Loan capitalisation (Note 31)	—	104,194	—	—	104,194
At 31 December 2017	—	104,194	809	(7,877)	97,126

33. BUSINESS COMBINATION

On 22 February 2017, the Group acquired a 100% interest in Wide Source Development Limited, the wholly-owned immediate holding company of Xiamen Taofu from Judy Chan. Wide Source Development Limited is an investment holding company and Xiamen Taofu is engaged in the distribution of wine products. The acquisition was made as part of the Group's strategy to consolidate online sales function into the Group. The purchase consideration for the acquisition of HK\$100 (equivalent to RMB80) was in the form of cash paid on the same date.

The fair values of the consolidated identifiable assets and liabilities of Wide Source Development Limited and Xiamen Taofu as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	15	258
Deferred tax assets	30	247
Cash and bank balances		1,033
Trade receivables		293
Prepayments, deposits and other receivables		261
Inventories		958
Trade payables		(2,814)
Other payables and accruals		(468)
Due to a related party	34	(1,063)
Deferred tax liabilities	30	(66)
Total identifiable net assets at fair value		(1,361)
Non-controlling interests		—
Goodwill on acquisition	18	1,361
Satisfied by cash		—

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB293,000 and RMB261,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB293,000 and RMB261,000, respectively, of which no other receivables are expected to be uncollectible.

The Group incurred no material transaction costs for this acquisition.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	RMB'000
Cash consideration	—
Cash and bank balances acquired	1,033
Net inflow of cash and cash equivalents included in cash flows from investing activities .	1,033
Transaction costs of the acquisition included in cash flows from operating activities	—
	<u>1,033</u>

Since the acquisition, Wide Source Development Limited and Xiamen Taofu contributed RMB11,001,000 to the Group's revenue and RMB1,108,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the year ended 31 December 2017 would have been RMB72,108,000 and RMB1,639,000, respectively.

34. NOTE TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

The table below details the cash flows and non-cash changes in the Group's liabilities arising from financing activities. Except as disclosed below, there were no non-cash changes in the Group's liabilities arising from financing activities.

	Interest- bearing bank borrowings	Dividends payable	Due to related parties	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015.....	22,000	—	115,063	137,063
Financing cash flows	(22,000)	—	(1,345)	(23,345)
<i>Non-cash changes</i>				
Effects of changes in foreign exchange rates	—	—	5,340	5,340
At 31 December 2015 and 1 January 2016	—	—	119,058	119,058
Financing cash flows	26,000	—	(13,745)	12,255
<i>Non-cash changes</i>				
Effects of changes in foreign exchange rates	—	—	7,611	7,611

	Interest- bearing bank borrowings	Dividends payable	Due to related parties	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2016 and 1 January 2017	26,000	—	112,924	138,924
Financing cash flows	(26,000)	(20,708)	(481)	(47,189)
<i>Non-cash changes</i>				
Acquisition of a subsidiary	—	—	1,063	1,063
Dividends declared	—	20,708	—	20,708
Loan capitalisation (note 31)	—	—	(104,194)	(104,194)
Effects of changes in foreign exchange rates	—	—	(9,235)	(9,235)
	—	20,708	(112,366)	(91,658)
At 31 December 2017	—	—	77	77

35. CONTINGENT LIABILITIES

At the end of each of the reporting periods, the Group and the Company had no significant contingent liabilities.

36. PLEDGE OF ASSETS

Details of the Group's bank borrowings, which are secured by the assets of the Group, are included in notes 15 and 16 to the Historical Financial Information.

37. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases farmlands and offices under operating lease arrangements. Leases are negotiated for terms ranging from one to ten years.

At the end of each of the reporting periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Farmlands			
Within one year	3	—	—
In the second to fifth years, inclusive	15	3	7
After five years	15	12	8
	<u>33</u>	<u>15</u>	<u>15</u>
Offices			
Within one year	225	260	384
In the second to fifth years, inclusive	—	—	230
	<u>225</u>	<u>260</u>	<u>614</u>

At the end of each of the reporting periods, the Company had no operating lease arrangements.

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37 above, the Group had the following capital commitments at the end of each of the reporting periods:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Construction in progress	9,610	5,310	—
	<u>9,610</u>	<u>5,310</u>	<u>—</u>

At the end of each of the reporting periods, the Company had no significant capital commitments.

39. RELATED PARTY TRANSACTIONS

- (a) In addition to those transactions and balances disclosed elsewhere in the Historical Financial Information, the Group had the following material transactions with related parties during the Track Record Period:

Name of company	Years ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
— Fuzhou Liyuan (<i>note (a)(i)</i>)			
Sales of products	9,126	7,696	—
Tourism and servicing income	16	39	—
— Xiamen Taofu (<i>note (a)(ii)</i>)			
Sales of products	1,941	2,376	218
Provision of marketing materials	10	—	—
— Rugao Hengfa Water Treatment Company Limited (<i>note (a)(iii)</i>)			
Sales of products	—	—	17
Tourism and servicing income	—	—	3
— Rugao Honghao Metal Surface Water Treatment Company Limited (<i>note (a)(iii)</i>)			
Sales of products	—	4	—
Tourism and servicing income	—	2	—
— Chan Kwan			
Sales of products	88	84	161
Tourism and servicing income	17	—	—
— Chan Chun Keung			
Sales of products	2,444	40	79
— Wong Shu Ying			
Sales of products	5	—	—
— Judy Chan			
Sales of products	60	77	99

Notes:

- (a)(i) This company ceased to be a related party of the Group since 2 December 2016. The above included the transaction amounts for the period up to 2 December 2016.
- (a)(ii) This company ceased to be a related party and became a subsidiary of the Group since 22 February 2017. The above information included the transaction amounts for the period up to 22 February 2017. Further details of the business combination are given in note 33 to the Historical Financial Information.

(a)(iii) Rugao Hengfa Water Treatment Company Limited and Rugao Honghao Metal Surface Water Treatment Company Limited are wholly-owned subsidiaries of ELL Environmental Holdings Limited. Chan Kwan has a 35.17% interest in ELL Environmental Holdings Limited. Judy Chan also serves as a director of Rugao Hengfa Water Treatment Company Limited.

(a)(iv) All of the above transactions were conducted at prices mutually agreed between the parties.

In the opinion of the directors, except for transactions with Fuzhou Liyuan (which is no longer a related party) and transactions with Xiamen Taofu (which has become a wholly owned subsidiary of the Group), the above related party transactions will continue after the listing.

The above transactions also constitute connected transactions as defined in Chapter 20 of the GEM Listing Rules.

(b) The Group has sub-leased commercial premises for use as offices from Dragonfield Management Limited during the Track Record Period. No consideration were paid to Dragonfield Management Limited for the years ended 31 December 2015 and 2016, while RMB293,000 was incurred during the year ended 31 December 2017. The expenses in respect of other administrative services provided by Dragonfield Management Limited during the years ended 31 December 2015 and 2016 on behalf of the Group were waived as mutually agreed with Dragonfield Management Limited, while RMB401,000 was incurred during the year ended 31 December 2017.

The Group also received administrative services provided by Shanghai Taihuan Environmental Technology Company Limited[#] ("**Shanghai Taihuan**") (上海泰環環保科技有限公司) from March 2017 to December 2017 at nil consideration as mutually agreed with Shanghai Taihuan.

(c) As of 22 February 2017, the Group acquired a 100% equity interest in Wide Source Development Limited and its subsidiary, Xiamen Taofu from Judy Chan. Further details are included in note 33.

(d) Outstanding balances with related parties:

Details of the Group's balances with the related parties are included in notes 21, 23, 27 and 29 to the Historical Financial Information.

(e) Compensation of key management personnel of the Group:

	Years ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	402	408	1,185
Performance related bonuses	46	46	124
Pension scheme contributions	105	102	187
	<u>553</u>	<u>556</u>	<u>1,496</u>

Further details of directors' emoluments are included in note 10 to the Historical Financial Information.

[#] *The English name of this company represents the best effort made by management of the Company to directly translate the Chinese name of this company as it has not registered any official English names.*

40. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group as at the end of each of the reporting periods are loans and receivables, and financial liabilities stated at amortised cost, respectively.

41. FAIR VALUE HIERARCHY

At the end of each of the reporting periods, the Group did not have any financial assets or financial liabilities measured at fair value.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk means the risk on the fluctuation of fair value on future cash flows of financial instruments which arose from changes in interest rates. Floating interest rate instruments will result in the Group facing the risk of changes in market interest rate, and fixed interest rate instruments will result in the Group facing fair value interest rate risk.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with floating interest rates.

The Group regularly reviews and monitors the floating interest rate borrowings in order to manage its interest rate risks. The interest-bearing loans, and cash and bank balances are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to the statement of profit or loss as earned/incurred.

At 31 December 2016, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit before tax for the year ended 31 December 2016 would have been RMB260,000 lower/higher, mainly as a result of higher/lower interest expenses on floating rate borrowings. At 31 December 2015 and 2017, the Group had no interest-bearing loans.

The sensitivity analysis above has been determined assuming that the change in interest rates has occurred at the end of each of the reporting periods.

Foreign currency risk

Foreign currency risk refers to the risk on the fluctuation of fair value or future cash flows of financial instruments which arose from changes in exchange rates.

The Group's businesses are mainly located in Mainland China and are mainly transacted and settled in RMB. Accordingly, the directors considered that the Group's foreign currency exchange risk is insignificant. Certain sales and purchases were settled in other currencies including Hong Kong dollars, United States dollars and Euros. The fluctuation of the exchange rates of such currencies against RMB will affect the Group's results of operations. In addition, RMB is currently not a freely convertible currency. The PRC Government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the

remittance of currency out of China. Shortages in the availability of foreign currencies may restrict the ability of the Group's PRC subsidiaries to remit sufficient foreign currencies to pay dividends or other amounts to the Group.

Under existing PRC foreign exchange regulations, payments of current account items, including dividends, trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration for Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate PRC Government authorities is required where RMB is to be converted into foreign currencies and remitted out of Mainland China to pay capital account items, such as the repayment of bank loans denominated in foreign currencies.

Currently, the Group's PRC subsidiaries may purchase foreign exchange for settlement of current account transactions, including payment of dividends to the shareholders of the PRC subsidiaries, with the prior approval of the State Administration for Foreign Exchange. The Group's PRC subsidiaries may also retain foreign exchange in their current accounts to satisfy foreign exchange liabilities or to pay dividends. Since foreign exchange transactions on the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange, this could affect the Group's subsidiaries' ability to obtain the required foreign currency amounts through debt or equity financing, including by means of loans or capital contributions from the Company.

There are limited hedging instruments available in the PRC to reduce the Group's exposure to exchange rate fluctuations between RMB and other currencies. To date, the Group has not entered into any hedging transactions in an effort to reduce the Group's exposure to foreign currency exchange risks. While the Group may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and the Group may not be able to hedge the Group's exposure successfully, or at all. A reasonably possible change of 5% in the exchange rate between the Hong Kong dollar and RMB would have no material impact on the Group's profit during the Track Record Period and there would be no impact on the Group's equity.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, amounts due from related parties, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

At 31 December 2015, 2016 and 2017, the Group had certain concentrations of credit risk as 14.1%, 21.1% and 81.9% of the Group's trade receivables were due from the Group's largest customer, respectively, and 90.2%, 99.6% and 96.2% of the Group's trade receivables were due from the Group's five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the Historical Financial Information.

Liquidity risk

Liquidity risk refers to the risk that an enterprise may encounter difficulties to obtain adequate finance to repay the debt related to financial instruments. Liquidity risk may arise from the inability to dispose of financial assets promptly, counterparties being unable to repay their contracted debt obligations, the repayment of debts before the maturity dates of debt obligations, or the inability to generate the expected cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of cash deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings and funding from related parties. In the opinion of the directors of the Company, the Group expects to have adequate sources of funding to finance the Group and manage the liquidity position.

The maturity profile of the Group's financial liabilities as at the end of each of the reporting periods, based on the contractual undiscounted payments, was as follows:

As at 31 December 2015				
Group	Within 1 year or on demand	In the second year	In the third to fifth years, inclusive	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	799	—	—	799
Other payables	5,292	—	—	5,292
Due to related parties	119,058	—	—	119,058
Shareholder's loan	25,142	—	—	25,142
	<u>150,291</u>	<u>—</u>	<u>—</u>	<u>150,291</u>
As at 31 December 2016				
	Within 1 year or on demand	In the second year	In the third to fifth years, inclusive	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings . .	1,000	1,000	24,000	26,000
Trade payables	287	—	—	287
Other payables and accruals	3,490	—	—	3,490
Due to related parties	112,924	—	—	112,924
Shareholder's loan	26,991	—	—	26,991
	<u>144,692</u>	<u>1,000</u>	<u>24,000</u>	<u>169,692</u>
As at 31 December 2017				
	Within 1 year or on demand	In the second year	In the third to fifth years, inclusive	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	860	—	—	860
Other payables and accruals	12,403	—	—	12,403
Due to related parties	401	—	—	401
	<u>13,664</u>	<u>—</u>	<u>—</u>	<u>13,664</u>

The maturity profile of the Company's financial liabilities as at the end of each of the reporting periods, based on the contractual undiscounted payments, was as follows:

Company	Within 1 year or on demand As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Other payables and accruals	—	—	2,803
Due to subsidiaries	342	384	44,092
	<u>342</u>	<u>384</u>	<u>46,895</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, and to maintain healthy capital ratios in order to support its business.

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

The Group monitors capital using a net debt to equity ratio, which is calculated as total interest-bearing bank borrowings net of cash and bank balances, and divided by total equity and multiplied by 100%. Net debt includes interest-bearing bank borrowings (as shown in the consolidated statements of financial position) less cash and bank balances. Total equity includes all components of equity attributable to owners of the Company. The Group aims to maintain the net debt to equity ratio at a reasonable level. The net debt to equity ratios as at the end of each of the reporting periods were as follows:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	—	26,000	—
Less: Cash and bank balances	(22,567)	(51,367)	(32,152)
Net cash	<u>(22,567)</u>	<u>(25,367)</u>	<u>(32,152)</u>
Total equity	<u>110,550</u>	<u>114,495</u>	<u>204,060</u>
Net debt to equity ratio	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

43. EVENTS AFTER THE END OF THE TRACK RECORD PERIOD

Subsequent to the Track Record Period, in order to rectify certain defects to the land use rights and non-compliant land usage of a parcel of land in Ningxia, the directors of the Company have decided to dispose of the Disposal Group (defined below) to Judy Chan. On 1 June 2018, the Group and Judy Chan entered into a share transfer agreement, pursuant to which the Company transferred its 100% equity interests in Interfusion Limited and its subsidiaries Corpwealth Asia Limited and Ningxia Ganlin (collectively the "Disposal Group") at a consideration of RMB1 to Judy Chan. The expected gain on disposal before tax is approximately RMB5.7 million. Such consideration was determined with reference to the net liabilities of RMB5.7 million of the Disposal Group as appraised by an independent valuer as at 31 March 2018.

Subsequent to the Track Record Period, on 4 June 2018, the Company declared and approved a special dividend of RMB10,000,000 to its shareholders.

44. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2017.

The information sets out in this appendix does not form part of the Accountants' Report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma statement of adjusted consolidated net tangible assets of the Group prepared in accordance with paragraph 7.31 of the GEM Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer on the consolidated net tangible assets of the Group as if the Share Offer had taken place on 31 December 2017. This unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Share Offer been completed as at 31 December 2017 or any future dates:

	Consolidated net tangible assets as at 31 December 2017	Estimated net proceeds from the Share Offer	Unaudited Pro forma adjusted consolidated net tangible assets	Unaudited Pro forma adjusted consolidated net tangible assets per Share	Unaudited Pro forma adjusted consolidated net tangible assets per Share
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Notes 3, 4 and 5)	HK\$ (Notes 3, 4 and 5)
Based on an Offer Price of HK\$0.30 per Share	<u>204,060</u>	<u>36,063</u>	<u>240,123</u>	<u>0.300</u>	<u>0.368</u>
Based on an Offer Price of HK\$0.40 per Share	<u>204,060</u>	<u>51,406</u>	<u>255,466</u>	<u>0.319</u>	<u>0.391</u>

Notes:

1. The consolidated net tangible assets of the Company as at 31 December 2017 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Share Offer are based on the indicative Offer Price of HK\$0.30 and HK\$0.40 per Share, being the low and high end of the indicative offer price range, after deduction of the underwriting fees and commissions (taking into account any discretionary fee and excluding approximately RMB11.1 million listing expenses which have been accounted for prior to 31 December 2017) payable by the Company and takes no account of any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for allotment and issue or repurchase of Shares.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share is determined on the basis as described in Note 2 above and is calculated based on 800,000,000 Shares expected to be in issue immediately following the completion of the Share Offer on 27 June 2018, without taking into account of any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares.
4. The unaudited pro forma adjusted consolidated net tangible assets of the Company does not take into account of a dividend of RMB10.0 million declared on 4 June 2018 by our Company. Such dividend is expected to be paid to our then Shareholders before the Listing. Had the dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be HK\$0.352 (assuming an Offer Price of HK\$0.30 per Share) and HK\$0.376 (assuming an Offer Price of HK\$0.40 per Share), respectively.
5. The unaudited pro forma adjusted consolidated net tangible assets of the Company per Share is converted to RMB at the rate of HK\$1.0000 to RMB0.8161.
6. Except for aforementioned above, no adjustment has been made to reflect any trading results or other transactions of the Group, entered into subsequent to 31 December 2017.

B. LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from our independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this document, in respect of the unaudited pro forma financial information of the Group.



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
Grace Wine Holdings Limited

To the Directors of Grace Wine Holdings Limited

Independent Reporting Accountants' Assurance Report on the Compilation of Unaudited Pro Forma Financial Information

We have completed our assurance engagement to report on the compilation of pro forma financial information of Grace Wine Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated net tangible assets of the Group as at 31 December 2017 and related notes as set out on Section A of Appendix II to the prospectus dated 12 June 2018 (the “**Prospectus**”) issued by the Company (the “**Unaudited Pro Forma Financial Information**”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Section A of Appendix II to the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Public Offer and Placing of shares of the Company on the Group's financial position as at 31 December 2017 as if the transaction had taken place at 31 December 2017. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2017, on which an accountants' report has been published.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and with reference to Accounting Guideline (“**AG**”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the Public Offer and Placing of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

12 June 2018

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this prospectus received from AVISTA Valuation Advisory Limited, an independent valuer, in connection with its valuation of the property interests as at 31 March 2018.



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12 June 2018

The Board of Directors
Grace Wine Holdings Limited
Unit 1-3, 11th Floor
Westlands Centre
No. 20 Westlands Road
Hong Kong

Dear Sirs / Madams,

INSTRUCTIONS

In accordance with the instructions for us to value the property interests held by Grace Wine Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter together referred to as the “**Group**”) in the People’s Republic of China (the “**PRC**”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 31 March 2018 (the “**valuation date**”).

PREMISES OF VALUE

The valuation is our opinion of market value which is defined by the Hong Kong Institute of Surveyors as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion”.

BASIS OF VALUATION

In valuing the property interests, we have complied with all the requirements set out in Chapter 8 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited (“**GEM Listing Rules**”), the HKIS Valuation Standards (2017 Edition) published by the Hong Kong Institute of Surveyors and the International Valuation Standards published from time to time by the International Valuation Standards Council.

Our valuation exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value or costs of sale and purchase or offset for any associated taxes.

CATEGORISATION OF PROPERTY INTERESTS

In the course of our valuation, the appraised property interests have been categorised according firstly to type of interests held and occupied by the Group in the PRC, which in turn being classified into the following groups:

Group I — Property interests held and occupied by the Group in the PRC; and

Group II — Property interests rented and occupied by the Group in the PRC

VALUATION METHODOLOGY

In the course of our valuation, unless otherwise stated, we have valued the property in their designated uses with the understanding that the property will be used as such (hereafter referred to as “**continued uses**”).

In valuing the property interests in Group I, due to the nature of the buildings and structures of the property interests, there are no market sales comparables readily available, we have valued a property on the basis of its depreciated replacement cost. Depreciated replacement cost is defined as “the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization”. It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interests is subject to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interests in Group II which are rented by the Group, due to inclusion of non-alienation clause or otherwise due to the lack of substantial profit rents.

TITLE INVESTIGATION

We have been provided by the Company with copy of extract of the title documents relating to the property interests. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any amendments which may not appear on the copies handed to us.

However, we have not searched the original documents to verify ownership or to ascertain any amendment. Due to the current registration system of the PRC under which the registration information is not accessible to the public, no investigation has been made for the title of the property interests in the PRC and the material encumbrances that might be attached. In the course of our valuation, we have relied considerably on the legal opinion given by the Company’s PRC legal adviser — JunHe LLP, concerning the validity of title of the properties in the PRC.

SITE INVESTIGATION

We have inspected the exterior and, where possible, the accessible portions of the interior of the property being appraised. The inspection was carried out by Ivan Lui (Associate Director), Raymond Chan (Manager), Hugo Wong (Analyst) and Greivis Sze (Assistant Valuer), during the date 25 April 2017 to 27 April 2017 and Jim Du (Valuer), during the date 15 March 2018 to 17 March 2018. However, we have not been commissioned to carry out structural survey nor to arrange for an inspection of the services. We are, therefore, not able to report whether the property is free of rot, infestation or any other structural defects. We formulate our view as to the overall conditions of the property taking into account the general appearance, the apparent standard and age of fixtures and fittings and the existence of utility services. Hence it must be stressed that we have had regard to you with a view as to whether the buildings are free from defects or as to the possibility of latent defects which might affect our valuation. In the course of our inspection, we did not note any serious defects. No tests were carried out on any of the services. We have assumed that utility services, such as electricity, telephone, water, etc., are available and free from defect.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverized fly ash, or any other deleterious material has been used in the construction of the property. We are therefore unable to report that the property is free from risk in this respect. For the purpose of this valuation, we have assumed that deleterious material has not been used in the construction of the property.

We have not been commissioned to carry out detailed site measurements to verify the correctness of the land or building areas in respect of the property but have assumed that the areas provided to us are correct. Based on our experience of valuation of similar property, we consider the assumptions so made to be reasonable.

Moreover, we have not carried out any site investigation to determine the suitability of the ground conditions or the services for any property development erected or to be erected thereon. Nor did we undertake archaeological, ecological or environmental surveys for the property interests. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Should it be discovered that contamination, subsidence or other latent defects exists in the property or on adjoining or neighbouring land or that the property had been or are being put to contaminated use, we reserve right to revise our opinion of value.

SOURCE OF INFORMATION

Unless otherwise stated, we shall rely to a considerable extent on the information provided to us by the Company or the legal or other professional advisers on such matters as statutory notices, planning approval, zoning, easements, tenure, completion date of building, development proposal, identification of property, particulars of occupation, site areas, floor areas, matters relating to tenure, tenancies and all other relevant matters. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us and are therefore approximations and for reference only. We have not searched original plans, developer brochures and the like to verify them.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view and we have no reason to suspect that any material information has been withheld.

VALUATION ASSUMPTIONS

For the property which is held under long term land use rights, we have assumed that transferable land use rights in respect of the property interests at nominal land use fees has been granted and that any premium payable has already been fully settled. Unless stated as otherwise, we have assumed that the respective title owner of the properties have an enforceable title of the property interests and have free and uninterrupted rights to occupy, use, sell, lease, charge, mortgage or otherwise dispose of the properties without the need of seeking further approval from and paying additional premium to the Government for the unexpired land use term as granted. Unless noted in the report, vacant possession is assumed for the property concerned.

Moreover, we have assumed that the design and construction of the property is/will be in compliance with the local planning regulations and requirements and had been/would have been duly examined and approved by the relevant authorities.

Continued uses assumes the property will be used for the purposes for which the property is designed and built, or to which they are currently adapted. The valuation on the property in continued uses does not represent the amount that might be realised from piecemeal disposition of the property in the open market.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed. Moreover, it is assumed that all required licences, consents or other legislative or administrative authority from any local, provincial or national government or private entity or organisation either have been or can be obtained or renewed for any use which the report covers.

It is also assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined and considered in the valuation report. In addition, it is assumed that the utilisation of the land and improvements are within the boundaries of the property described and that no encroachment or trespass exists, unless noted in the report.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have further assumed that the property was not transferred or involved in any contentious or non-contentious dispute as at the valuation date. We have also assumed that there was not any material change of the properties in between dates of our inspection and the valuation date.

CURRENCY

Unless otherwise stated, all amounts are denominated in Renminbi (RMB). Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited
Sr Oswald W Y Au
MHKIS(GP) AAPI MSc(RE)
Registered Professional Surveyor (GP)
Director

Note: Mr. Oswald W Y Au holds a Master's Degree of Science in Real Estate from the University of Hong Kong. He is also a member of Hong Kong Institute of Surveyors (General Practice) and Associate Member of Australian Property Institute. In addition, he is a Registered Professional Surveyor (General Practice) registered with Surveyors Registration Board. He has over 10 years of property valuation experience in Hong Kong, the PRC, the U.S., Canada, East and Southeast Asia including Singapore, Japan and Korea.

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Market value in existing state as at 31 March 2018	Interest Attributable to the Group	Market value Attributable to the Group as at 31 March 2018
		RMB		RMB
1.	Grace Vineyard (“怡園酒莊”) Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	52,991,000	100%	52,991,000
Sub-total:		52,991,000	100%	52,991,000

Group II — Property interests rented and occupied by the Group in the PRC

No.	Property	Market value in existing state as at 31 March 2018	Interest Attributable to the Group	Market value Attributable to the Group as at 31 March 2018
		RMB		RMB
2.	Two parcels of land Located at Dongbo Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value
3.	One parcel of land Located at Hao Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value

APPENDIX III

PROPERTY VALUATION

No.	Property	Market value in existing state as at 31 March 2018	Interest Attributable to the Group	Market value Attributable to the Group as at 31 March 2018
		RMB		RMB
4.	Two parcels of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value
5.	Four parcels of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value
6.	One parcel of land Located at Neijia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value
7.	Three parcels of land Located at Hao Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value

APPENDIX III

PROPERTY VALUATION

No.	Property	Market value in existing state as at 31 March 2018	Interest Attributable to the Group	Market value Attributable to the Group as at 31 March 2018
		RMB		RMB
8.	One parcel of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value
9.	One parcel of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value
10.	Three parcels of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value
11.	One parcel of land Located at Hao Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value

APPENDIX III

PROPERTY VALUATION

No.	Property	Market value in existing state as at 31 March 2018	Interest Attributable to the Group	Market value Attributable to the Group as at 31 March 2018
		RMB		RMB
12.	One parcel of land Located at Hao Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value
13.	One parcel of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value
14.	Two parcels of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value
15.	One parcel of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value

APPENDIX III

PROPERTY VALUATION

No.	Property	Market value in existing state as at 31 March 2018	Interest Attributable to the Group	Market value Attributable to the Group as at 31 March 2018
		RMB		RMB
16.	One parcel of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value
17.	Two parcels of land Located at Hao Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	No Commercial Value	100%	No Commercial Value
Sub-total:		No Commercial Value	100%	No Commercial Value
Grand Total:		52,991,000	100%	52,991,000

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018 RMB
1.	Grace Vineyard ("怡園酒莊") Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 29,064.27 sq.m and various blocks of building and ancillary structures erected thereon completed from 2002 to 2013.</p> <p>Pursuant to the Building Ownership Certificates, the buildings have a gross floor area of approximately 18,993.53 sq.m. and mainly include 2 blocks of warehouse, 1 block of office building, one block of complex building, 2 blocks of workshop and 1 block of dormitory (please refer to Notes no. 2).</p> <p>The ancillary structures mainly include landscaping area, boundary wall, refrigeration room, water well and road.</p> <p>The land use rights of portion of the property have been granted for a term commencing from 29 September 2009 and expiring on 1 September 2059 for industrial use whilst the remaining portion of land use rights of the property have been granted for a term commencing from 18 November 1998 and expiring on 18 November 2048 for wine factory.</p>	As at the date of valuation, the property was occupied by the Group.	52,991,000

Notes:

1. Pursuant to three State-owned Land Use Rights Certificates dated 4 December 2008, the land use rights of three parcels of land with a total site area of approximately 29,064.27 sq.m, for a term of approximately 50 years for industrial and wine factory use. The details are tabulated as below:

State-owned Land Use Rights					
No.	Certificates No.	Owner	Expiry Date	Site Area (sq.m.)	Usage
1	Tai Guo Yong (1998) Zi Di No. 192	山西雅怡谷葡萄酒有限公司 (the former name of 山西怡園酒莊有限公司)	18 November 2048	23,850.00	Wine factory
2	Tai Guo Yong (2009) Di No. 057	山西怡園酒莊有限公司	1 September 2059	1,875.00	Industrial
3	Tai Guo Yong (2009) Di No. 058	山西怡園酒莊有限公司	1 September 2059	3,339.27	Industrial
Total:				29,064.27	

2. Pursuant to six Building Ownership Certificates, the property with a total gross floor area of approximately 18,993.53 sq.m. has been vested to 山西怡園酒莊有限公司. The details are tabulated as below:

No.	Building Ownership Certificates No.	Owner	Gross Floor Area (sq.m.)	Issuance Date
1	Fang Quan Zheng Tai Quan Zheng Zi Di No. 16674	山西怡園酒莊有限公司	2,341.57	12 July 2011
2	Fang Quan Zheng Tai Quan Zheng Zi Di No. 16688	山西怡園酒莊有限公司	499.31	12 July 2011
3	Fang Quan Zheng Tai Quan Zheng Zi Di No. 18252	山西怡園酒莊有限公司	293.08	29 May 2012
4	Tai Fang Quan Zheng Zi Di No. 1511070	山西怡園酒莊有限公司	1,950.45	16 November 2015
5	Tai Fang Quan Zheng Zi Di No. 1511071	山西怡園酒莊有限公司	1,737.69	16 November 2015
6	Tai Fang Quan Zheng Zi Di No. 1512082	山西怡園酒莊有限公司	12,171.43	25 December 2015
Total:			18,993.53	

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Company has legally obtained both of the land use right and building ownership of the property;
 - b. The Company has the right to possess, use, lease, transfer, pledge or dispose of the property of the property;
 - c. The property of the land use right and buildings were pledged; and
 - d. The Company needs to comply with the terms and conditions stated in the pledge agreement to dispose of the building and land use right.
4. A summary of major certificates/licenses is shown as follow:
 - a. State-owned Land Use Rights Certificate Yes
 - b. Building Ownership Certificate Yes
5. In our valuation, we have made reference to some transaction price references of land comparables in the subject and nearby development. We have adopted the range of unit rates between RMB120 to RMB140 per sq.m. The unit rates assumed by us are consistent with the said price reference. Due adjustments to the unit rates of those price reference have been made to reflect factors including but not limited to time, location and size in arriving at the key assumptions.
6. As confirmed by the Company, there are no material environmental and planning issues.

VALUATION CERTIFICATE

Group II — Property interests rented and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
2.	Two parcels of land Located at Dongbo Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 2 parcels of land with a total site area of approximately 115.20 mu (approximately 76,799.23 sq.m.). The land contractual operation rights of the property have been obtained for a term commencing from 31 December 2013 and expiring on 31 December 2024 for agricultural use.	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

- Pursuant to two land tenancy agreements (土地租賃合同) entered into between 山西省太谷縣任村鄉東卜村村民委員會 and 山西紫源農業開發有限公司, the land operation rights of two parcels of land with a total site area of approximately 115.20 mu (approximately 76,799.23 sq.m.) were contracted to be assigned for a term commencing from 31 December 2013 and expiring on 31 December 2024 at a total annual rent of RMB34,560 for agricultural use.
- Pursuant to a Rural Land Contractual Operation Rights Certificate (農村土地承包經營權證) — Tai Nong Di Jing Ying Quan Zheng (2014) Di No. 80002 entered into between 太谷縣任村鄉東卜村村民委員會 and 山西紫源農業開發有限公司 dated 25 April 2014 issued by the People's Government of Taigu County, the land contractual operation rights of a parcel of land with a site area 115.20 mu (approximately 76,799.23 sq.m.) have been obtained by 山西紫源農業開發有限公司, for a term commencing from 31 December 2013 and expiring on 31 December 2024 for agricultural use.
- We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - The Company has the right to use the property under the terms and conditions stated in the land tenancy agreements within the tenancy period and there is no legal impediment.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
3.	One parcel of land Located at Hao Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 1 parcel of land with a total site area of approximately 3.65 mu (approximately 2,433.31 sq.m.). The land contractual operation rights of the property have been obtained for a term commencing from 1 January 2014 and expiring on 31 December 2024 for agricultural use.	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

1. Pursuant to a rural land contractual operation rights circulation agreement (農村土地承包經營權流轉合同) entered into between 太谷縣紫韻葡萄專業合作社 and 山西紫源農業開發有限公司, the land operation rights of one parcel of land with a total site area of approximately 3.65 mu (approximately 2,433.31 sq.m.) were contracted to be assigned for a term commencing from 1 January 2014 and expiring on 31 December 2024 at a total annual rent of RMB3,650 for agricultural use.
2. Pursuant to a Rural Land Contractual Operation Rights Certificate (農村土地承包經營權證) — Tai Nong Di Jing Ying Quan Zheng (2014) Di No. 80161 entered into between 太谷縣紫韻葡萄專業合作社 and 山西紫源農業開發有限公司 dated 18 June 2014 issued by the People's Government of Taigu County, the land contractual operation rights of a parcel of land with a site area 3.65 mu (approximately 2,433.31 sq.m.) have been obtained by 山西紫源農業開發有限公司, for a term commencing from 1 January 2014 and expiring on 31 December 2024 for agricultural use.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Company has the right to use the property under the terms and conditions stated in the rural land contractual operation rights circulation agreement within the tenancy period and there is no legal impediment.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
4.	Two parcels of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 2 parcels of land with a total site area of approximately 7.70 mu (approximately 5,133.28 sq.m.). The land contractual operation rights of the property have been obtained for a term commencing from 1 January 2014 and expiring on 31 December 2024 for agricultural use.	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

- Pursuant to a rural land contractual operation rights circulation agreement (農村土地承包經營權流轉合同) entered into between 李三貨 and 山西紫源農業開發有限公司, the land operation rights of two parcels of land with a total site area of approximately 7.70 mu (approximately 5,133.28 sq.m.) were contracted to be assigned for a term commencing from 1 January 2014 and expiring on 31 December 2024 at a total annual rent of RMB7,700 for agricultural use.
- Pursuant to a Rural Land Contractual Operation Rights Certificate (農村土地承包經營權證) — Tai Nong Di Jing Ying Quan Zheng (2015) Di No. 80001 entered into between 任村鄉東賈村民委員會 and 山西紫源農業開發有限公司 dated 14 April 2015 issued by the People's Government of Taigu County, the land contractual operation rights of a parcel of land with a site area 7.55 mu (approximately 5,033.28 sq.m.) have been obtained by 山西紫源農業開發有限公司, for a term commencing from 1 January 2014 and expiring on 31 December 2024 for agricultural use.
- We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - The Company has the right to use the property under the terms and conditions stated in the rural land contractual operation rights circulation agreement within the tenancy period and there is no legal impediment for the parcel of land mentioned in Note 2; and
 - As at the date of valuation, the lessor could not provide the legal title ship document of the remaining 0.15 mu land parcel. As confirmed by the Company, there is no material impact for the operation if the property cannot be leased by the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
5.	Four parcels of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	<p>The property comprises 4 parcels of land with a total site area of approximately 239.10 mu (approximately 159,398.41 sq.m.).</p> <p>The land contractual operation rights of the property have been obtained for a term commencing from 1 January 2014 and expiring on 31 December 2024 for agricultural use.</p>	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

1. Pursuant to a rural land contractual operation rights circulation agreement (農村土地承包經營權流轉合同) entered into between 太谷縣紫韻葡萄專業合作社 and 山西紫源農業開發有限公司, the land operation rights of four parcels of land with a total site area of approximately 239.10 mu (approximately 159,398.41 sq.m.) were contracted to be assigned for a term commencing from 1 January 2014 and expiring on 31 December 2024 at a total annual rent of RMB239,100 for agricultural use.
2. Pursuant to a Rural Land Contractual Operation Rights Certificate (農村土地承包經營權證) — Tai Nong Di Jing Ying Quan Zheng (2014) Di No. 80158 entered into between 太谷縣紫韻葡萄專業合作社 and 山西紫源農業開發有限公司 dated 29 May 2014 issued by the People's Government of Taigu County, the land contractual operation rights of four parcels of land with a site area 239.10 mu (approximately 159,398.41 sq.m.) have been obtained by 山西紫源農業開發有限公司, for a term commencing from 1 January 2014 and expiring on 31 December 2024 for agricultural use.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Company has the right to use the property under the terms and conditions stated in the rural land contractual operation rights circulation agreement within the tenancy period and there is no legal impediment.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
6.	One parcel of land Located at Neijia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 1 parcel of land with a total site area of approximately 91.72 mu (approximately 61,146.06 sq.m.). The land contractual operation rights of the property have been obtained for a term commencing from 1 January 2014 and expiring on 31 December 2024 for agricultural use.	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

1. Pursuant to a rural land contractual operation rights circulation agreement (農村土地承包經營權流轉合同) entered into between 太谷縣紫韻葡萄專業合作社 and 山西紫源農業開發有限公司, the land operation rights of one parcel of land with a total site area of approximately 91.72 mu (approximately 61,146.06 sq.m.) were contracted to be assigned for a term commencing from 1 January 2014 and expiring on 31 December 2024 at a total annual rent of RMB91,720 for agricultural use.
2. Pursuant to a Rural Land Contractual Operation Rights Certificate (農村土地承包經營權證) — Tai Nong Di Jing Ying Quan Zheng (2014) Di No. 80159 entered into between 太谷縣紫韻葡萄專業合作社 and 山西紫源農業開發有限公司 dated 29 May 2014 issued by the People's Government of Taigu County, the land contractual operation rights of a parcel of land with a site area 91.72 mu (approximately 61,146.06 sq.m.) have been obtained by 山西紫源農業開發有限公司, for a term commencing from 1 January 2014 and expiring on 31 December 2024 for agricultural use.
3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Company has the right to use the property under the terms and conditions stated in the rural land contractual operation rights circulation agreement within the tenancy period and there is no legal impediment.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
7.	Three parcels of land Located at Hao Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 3 parcels of land with a total site area of approximately 245.55 mu (approximately 163,698.36 sq.m.). The land contractual operation rights of the property have been obtained for a term commencing from 1 January 2014 and expiring on 31 December 2024 for agricultural use.	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

- Pursuant to a rural land contractual operation rights circulation agreement (農村土地承包經營權流轉合同) entered into between 太谷縣紫韻葡萄專業合作社 and 山西紫源農業開發有限公司, the land operation rights of three parcels of land with a total site area of approximately 245.55 mu (approximately 163,698.36 sq.m.) were contracted to be assigned for a term commencing from 1 January 2014 and expiring on 31 December 2024 at a total annual rent of RMB245,550 for agricultural use.
- Pursuant to a Rural Land Contractual Operation Rights Certificate (農村土地承包經營權證) — Tai Nong Di Jing Ying Quan Zheng (2014) Di No. 80160 entered into between 太谷縣紫韻葡萄專業合作社 and 山西紫源農業開發有限公司 dated 29 May 2014 issued by the People's Government of Taigu County, the land contractual operation rights of three parcels of land with a site area 245.55 mu (approximately 163,698.36 sq.m.) have been obtained by 山西紫源農業開發有限公司, for a term commencing from 1 January 2014 and expiring on 31 December 2024 for agricultural use.
- We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - The Company has the right to use the property under the terms and conditions stated in the rural land contractual operation rights circulation agreement within the tenancy period and there is no legal impediment.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
8.	One parcel of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 1 parcel of land with a total site area of approximately 2.55 mu (approximately 1,699.98 sq.m.).	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

1. Pursuant to a land tenancy agreement (土地租賃合同) entered into between 成潤軍 and 山西紫源農業開發有限公司, the land operation rights of one parcel of land with a total site area of approximately 2.55 mu (approximately 1,699.98 sq.m.) were contracted to be assigned for a term commencing from April 2011 and expiring on December 2024 at a total annual rent of RMB3,825 for agricultural use.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. As at the date of valuation, the lessor could not provide the legal title ship document. As confirmed by the Company, there is no material impact for the operation if the property cannot be leased by the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
9.	One parcel of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 1 parcel of land with a total site area of approximately 1.81 mu (approximately 1,206.65 sq.m.).	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

1. Pursuant to a rural land contractual operation rights circulation agreement (農村土地承包經營權流轉合同) entered into between 孫秋兵 and 山西紫源農業開發有限公司, the land operation rights of one parcel of land with a total site area of approximately 1.81 mu (approximately 1,206.65 sq.m.) were contracted to be assigned for a term commencing from 1 January 2016 and expiring on 31 December 2024 at a total annual rent of RMB1,810 for agricultural use.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. As at the date of valuation, the lessor could provide the related Rural Land Contractual Operation Right Certificate. The rural land contractual operation rights circulation agreement mentioned in Note 1. is legal and valid, the Company has the right to use the property under the terms and conditions stated in the rural land contractual operation rights circulation agreement within the tenancy period and there is no legal impediment.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
10.	Three parcels of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 3 parcels of land with a total site area of approximately 2.52 mu (approximately 1,679.98 sq.m.).	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

1. Pursuant to a rural land contractual operation rights circulation agreement (農村土地承包經營權流轉合同) entered into between 康雲虎 and 山西紫源農業開發有限公司, the land operation rights of three parcels of land with a total site area of approximately 2.52 mu (approximately 1,679.98 sq.m.) were contracted to be assigned for a term commencing from 1 January 2016 and expiring on 31 December 2024 at a total annual rent of RMB2,520 for agricultural use.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. As at the date of valuation, the lessor could provide the related Rural Land Contractual Operation Right Certificate. The rural land contractual operation rights circulation agreement mentioned in Note 1. is legal and valid, the Company has the right to use the property under the terms and conditions stated in the rural land contractual operation rights circulation agreement within the tenancy period and there is no legal impediment.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
11.	One parcel of land Located at Hao Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 1 parcel of land with a total site area of approximately 1.27 mu (approximately 846.66 sq.m.).	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

1. Pursuant to a rural land contractual operation rights circulation agreement (農村土地承包經營權流轉合同) entered into between 徐利生 and 山西紫源農業開發有限公司, the land operation rights of one parcel of land with a total site area of approximately 1.27 mu (approximately 846.66 sq.m.) were contracted to be assigned for a term commencing from 1 January 2016 and expiring on 31 December 2024 at a total annual rent of RMB1,270 for agricultural use.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. As at the date of valuation, the lessor could provide the related Rural Land Contractual Operation Right Certificate. The rural land contractual operation rights circulation agreement mentioned in Note 1. is legal and valid, the Company has the right to use the property under the terms and conditions stated in the rural land contractual operation rights circulation agreement within the tenancy period and there is no legal impediment.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
12.	One parcel of land Located at Hao Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 1 parcel of land with a total site area of approximately 1.20mu (approximately 799.99 sq.m.).	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

1. Pursuant to a rural land contractual operation rights circulation agreement (農村土地承包經營權流轉合同) entered into between 李永利 and 山西紫源農業開發有限公司, the land operation rights of one parcel of land with a total site area of approximately 1.20 mu (approximately 799.99 sq.m.) were contracted to be assigned for a term commencing from 1 January 2016 and expiring on 31 December 2024 at a total annual rent of RMB1,200 for agricultural use.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. As at the date of valuation, the lessor could not provide the legal title ship document. As confirmed by the Company, there is no material impact for the operation if the property cannot be leased by the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
13.	One parcel of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 1 parcel of land with a total site area of approximately 0.92 mu (approximately 613.33 sq.m.).	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

1. Pursuant to a rural land contractual operation rights circulation agreement (農村土地承包經營權流轉合同) entered into between 王顯斌 and 山西紫源農業開發有限公司, the land operation rights of one parcel of land with a total site area of approximately 0.92 mu (approximately 613.33 sq.m.) were contracted to be assigned for a term commencing from 1 January 2016 and expiring on 31 December 2024 at a total annual rent of RMB920 for agricultural use.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. As at the date of valuation, the lessor could provide the related Rural Land Contractual Operation Right Certificate. The rural land contractual operation rights circulation agreement mentioned in Note 1. is legal and valid, the Company has the right to use the property under the terms and conditions stated in the rural land contractual operation rights circulation agreement within the tenancy period and there is no legal impediment.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
14.	Two parcels of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 2 parcels of land with a total site area of approximately 0.80 mu (approximately 533.33 sq.m.).	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

1. Pursuant to a rural land contractual operation rights circulation agreement (農村土地承包經營權流轉合同) entered into between 趙利明 and 山西紫源農業開發有限公司, the land operation rights of two parcels of land with a total site area of approximately 0.80 mu (approximately 533.33 sq.m.) were contracted to be assigned for a term commencing from 1 January 2016 and expiring on 31 December 2024 at a total annual rent of RMB800 for agricultural use.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. As at the date of valuation, the lessor could provide the related Rural Land Contractual Operation Right Certificate. The rural land contractual operation rights circulation agreement mentioned in Note 1. is legal and valid, the Company has the right to use the property under the terms and conditions stated in the rural land contractual operation rights circulation agreement within the tenancy period and there is no legal impediment.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
15.	One parcel of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 1 parcel of land with a total site area of approximately 1.90 mu (approximately 1,266.65 sq.m.).	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

1. Pursuant to a rural land contractual operation rights circulation agreement (農村土地承包經營權流轉合同) entered into between 趙夠虎 and 山西紫源農業開發有限公司, the land operation rights of one parcel of land with a total site area of approximately 1.90 mu (approximately 1,266.65 sq.m.) were contracted to be assigned for a term commencing from 1 January 2016 and expiring on 31 December 2024 at a total annual rent of RMB1,900 for agricultural use.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. As at the date of valuation, the lessor could provide the related Rural Land Contractual Operation Right Certificate. The rural land contractual operation rights circulation agreement mentioned in Note 1. is legal and valid, the Company has the right to use the property under the terms and conditions stated in the rural land contractual operation rights circulation agreement within the tenancy period and there is no legal impediment.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
16.	One parcel of land Located at Dongjia Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 1 parcel of land with a total site area of approximately 3.10 mu (approximately 2,066.65 sq.m.).	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

1. Pursuant to a rural land contractual operation rights circulation agreement (農村土地承包經營權流轉合同) entered into between 趙秀根 and 山西紫源農業開發有限公司, the land operation rights of one parcel of land with a total site area of approximately 3.10 mu (approximately 2,066.65 sq.m.) were contracted to be assigned for a term commencing from 1 January 2016 and expiring on 31 December 2024 at a total annual rent of RMB3,100 for agricultural use.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. As at the date of valuation, the lessor could provide the related Rural Land Contractual Operation Right Certificate. The rural land contractual operation rights circulation agreement mentioned in Note 1. is legal and valid, the Company has the right to use the property under the terms and conditions stated in the rural land contractual operation rights circulation agreement within the tenancy period and there is no legal impediment.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2018
				RMB
17.	Two parcels of land Located at Hao Village Rencun Town Taigu County Jinzhong City Shanxi Province the PRC	The property comprises 2 parcels of land with a total site area of approximately 1.75 mu (approximately 1,166.66 sq.m.).	As at the date of valuation, the property was occupied by the Group.	No commercial value

Notes:

1. Pursuant to a rural land contractual operation rights circulation agreement (農村土地承包經營權流轉合同) entered into between 韓振興 and 山西紫源農業開發有限公司, the land operation rights of two parcels of land with a total site area of approximately 1.75 mu (approximately 1,166.66 sq.m.) were contracted to be assigned for a term commencing from 1 January 2016 and expiring on 31 December 2024 at a total annual rent of RMB1,750 for agricultural use.
2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. As at the date of valuation, the lessor could provide the related Rural Land Contractual Operation Right Certificate. The rural land contractual operation rights circulation agreement mentioned in Note 1. is legal and valid, the Company has the right to use the property under the terms and conditions stated in the rural land contractual operation rights circulation agreement within the tenancy period and there is no legal impediment.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 14 February 2012 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association ("**Memorandum**") and its Amended and Restated Articles of Association ("**Articles**").

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 1 June 2018 and effect from the Listing Date. A summary of certain provisions of the Articles is set out below.

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less

than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) Transfer of shares

Subject to the Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant

registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the GEM Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not

by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the

first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

(aa) resign;

(bb) dies;

(cc) is declared to be of unsound mind and the Board resolves that his office be vacated;

(dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) he is prohibited from being or ceases to be a director by operation of law;

(ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;

(gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or

(hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or

otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(d) Meetings of member***(i) Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution”, by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the GEM Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Companies Law and the GEM Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(v) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarised financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(i) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 14 February 2012 subject to the Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

Under Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of

its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the

company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Financial Secretary that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in "Appendix VI — Documents Delivered to the Registrar of Companies and Available for Inspection — Documents Available for Inspection" in this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 14 February 2012. We have established a principal place of business in the PRC at Dongjia Village, Rencun Town, Taigu County, Jinzhong City, Shanxi, the PRC and have been registered as a non-Hong Kong company under Part XI of the Predecessor Companies Ordinance (or Part 16 of the Companies Ordinance) on 30 April 2012 with its registered address at Unit 1-3, 11/F, Westlands Centre, No. 20 Westlands Road, Hong Kong. Ms. Chan has been appointed as our authorised representative for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As we were incorporated in the Cayman Islands, our corporate structure and the operation and our constitutive documents which comprise of the Memorandum of Association and Articles of Association are subject to the relevant laws and regulations of the Cayman Islands. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum of Association and Articles of Association is set out in the section headed “Appendix IV — Summary of the Constitution of the Company and Cayman Islands Company Law” in this prospectus.

2. Changes in share capital of our Company

On the date of incorporation, our authorised share capital was HK\$380,000 divided into 380,000,000 Shares of a par value of HK\$0.001 each. For details relating to the issue and the transfer of shares in the issued capital of our Company, see “History, Reorganisation and Corporate Structure” in this prospectus. Save as disclosed in this prospectus, there has been no alteration and no redemption, repurchase or sale of the share capital in our Company since the date of the incorporation of our Company.

Pursuant to the written resolutions of our Shareholders dated 1 June 2018, among others, our authorised share capital will be increased from HK\$380,000 to HK\$8,000,000 by the creation of an additional 7,620,000,000 Shares of HK\$0.001 each, and a total of 179,999,700 Shares and 419,999,300 Shares will be issued to Palgrave Enterprises and Macmillan Equity, respectively by way of the Capitalisation Issue. Assuming that the Share Offer becomes unconditional and the Offer Shares are issued but prior to any Shares being issued pursuant to the exercise of any option that may be granted under the Share Option Scheme, a total of 800,000,000 Shares will have been issued by us, fully paid or credited as fully paid.

3. Subsidiaries and changes in capital structure of our subsidiaries

Our subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountants' Report, our Company has no other subsidiaries.

Save for (i) the transfer of 100 shares in Wide Source from Ms. Chan to Clover Star on 22 February 2017 and (ii) the transfer of the entire issued share capital of Interfusion from the Company to Ms. Chan completed on 1 June 2018, there has been no change to the capital structure of our subsidiaries within the two years immediately prior to the issue of this prospectus.

4. Reorganisation

In preparation for the Listing, the companies comprising our Group underwent the Reorganisation and our Company became the holding company of our Group. For details, see “History, Reorganisation and Corporate Structure”.

Following the completion of the Reorganisation, our Company became the holding company of our principal operating subsidiaries within our Group.

5. Resolutions in writing of our Shareholders passed on 1 June 2018

Pursuant to the written resolutions passed by all of our Shareholders on 1 June 2018, among others:

- (a) the Memorandum and Articles of Association were approved and adopted conditional upon Listing;
- (b) the authorised share capital of our Company was increased from HK\$380,000 to HK\$8,000,000 by the creation of a further 7,620,000,000 Shares;
- (c) conditional on (i) the Listing Division granting the approval of the Listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme); and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise:
 - (i) conditional upon the share premium account of our Company being credited as a result of the Share Offer, 599,999,000 Shares to be allotted and issued credited as fully paid for nil consideration to holders of Shares whose names appeared on the register of members of our Company at the close of business on 1 June 2018 (or as they may direct) in proportion as nearly as may be without involving fractions to their then existing shareholdings in our Company and the Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued Shares (other than the Capitalisation Issue) and our Directors or any committee of our Board were authorised to give effect to the Capitalisation Issue;
 - (ii) the Share Offer were approved and the Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer;

- (iii) the rules of the Share Option Scheme were conditionally approved and adopted and the Directors were authorised, subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant thereto and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;
 - (iv) a general unconditional mandate was given to the Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend, schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or under the Share Offer, or issue of Shares upon exercise of rights of subscription or conversion attaching to any warrants of our Company or any securities which are convertible into Shares, Shares with an aggregate number not exceeding the sum of (aa) 20% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue but excluding (where applicable) any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), and (bb) the number of Shares which may be purchased by our Company pursuant to the authority granted to the Directors as referred to below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Ordinance to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to the Directors, whichever occurs first;
 - (v) a general unconditional mandate was given to the Directors to exercise all powers of our Company to purchase Shares with an aggregate number of not exceeding 10% of the total number of Shares in issue immediately following the completion of the Share Offer but excluding (where applicable) any shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Ordinance to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to the Directors, whichever occurs first; and
 - (vi) the extension of the Issuing Mandate to include the number of Shares which may be purchased or repurchased pursuant to paragraph (v) above.
- (d) the form and substance of each of the service contracts (including the duration thereof) made between our executive Directors and our Company were approved.

B. REPURCHASE OF OUR SHARES

This sub-section sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by us of our own securities.

1. Provisions under the GEM Listing Rules

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(a) Shareholders' approval

Under the GEM Listing Rules, all proposed repurchase of securities (which must be fully paid-up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

(b) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with our Articles of Association and the GEM Listing Rules and the applicable laws of the place of incorporation of the relevant listed company. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchases by us may be made out of our funds which would otherwise be available for dividend or distribution or out of the proceeds of a new issue of shares made for the purpose of the repurchase.

(c) Trading restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring our company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The GEM Listing Rules also prohibit a listed company from repurchasing its securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of

securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(d) *Status of repurchased shares*

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(e) *Suspension of repurchase*

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the inside information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of: (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules), and (ii) the deadline for publication of an announcement of a listed company's results for any year or half-year under the GEM Listing Rules, or quarterly or any other interim period (whether or not required under the GEM Listing Rules) and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the GEM Listing Rules.

(f) *Reporting requirements*

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchase, where relevant, and the aggregate prices paid.

(g) *Core connected persons*

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their close associates and a core connected person is prohibited from knowingly selling his securities to the company.

2. Reasons for repurchases

Our Directors believe that it is in the best interest of our Company and our Shareholders as a whole to have general authority from our Shareholders to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value and the assets of our Company and/or the earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders as a whole.

3. Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with our Articles of Association, the GEM Listing Rules and the applicable laws and regulations. On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or our gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

4. General

Exercise in full of the Repurchase Mandate, on the basis of 800,000,000 Shares in issue upon completion of the Share Offer (taking into no account any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), could accordingly result in up to 80,000,000 Shares being repurchased by us during the period prior to the earliest of:

- (a) the conclusion of our Company's next annual general meeting unless by ordinary resolution at that meeting, the authority is renewed, either unconditionally or subject to conditions; or
- (b) the expiration of the period within which our Company is required by the applicable law or our Articles of Association to hold our next annual general meeting; or
- (c) when varied, revoked or renewed by a resolution of our Shareholders in a general meeting. None of our Directors nor, to the best of their knowledge having made all reasonable enquiries,

any of their close associates currently intends to sell any Shares to us or our subsidiaries. Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, our Articles of Association and the applicable laws and regulations from time to time in force.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of us increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No core connected person has notified us that he or she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of our Group's business) were entered into by members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:

- (1) the instrument of transfer and bought and sold notes all dated 22 February 2017 between Ms. Chan Judy and Clover Star International Limited, pursuant to which Ms. Chan Judy transferred 100 shares in Wide Source Development Limited to Clover Star International Limited for a consideration of HK\$1;
- (2) the deed of novation dated 8 September 2017 entered into among Dragonet Limited, Kingcorp International Limited and Mr. Chan Chun Keung, pursuant to which Kingcorp International Limited novated to Mr. Chan Chun Keung its obligation to repay HK\$135,000 to Dragonet Limited;
- (3) the deed of novation dated 8 September 2017 entered into among Dragonet Limited, Ms. Chan Judy and Mr. Chan Chun Keung, pursuant to which Ms. Chan Judy novated to Mr. Chan Chun Keung her obligation to repay HK\$18,213,712 to Dragonet Limited;
- (4) the deed of novation dated 8 September 2017 entered into among Dragonet Limited, Macmillan Equity Limited and Mr. Chan Chun Keung, pursuant to which Macmillan Equity Limited novated to Mr. Chan Chun Keung its obligation to repay HK\$1,200 to Dragonet Limited;
- (5) the deed of novation dated 8 September 2017 entered into among Dragonet Limited, Palgrave Enterprises Limited and Mr. Chan Chun Keung, pursuant to which Palgrave Enterprises Limited novated to Mr. Chan Chun Keung its obligation to repay HK\$1,200 to Dragonet Limited;
- (6) the deed of set-off dated 8 September 2017 entered into between Dragonet Limited and Mr. Chan Chun Keung, pursuant to which the respective obligations of the parties to repay each other in respect of an amount of HK\$18,351,112 was set-off;

- (7) the deed of novation dated 8 September 2017 entered into among Sanlion International Investment Limited, Dragonet Limited and Medford Global Limited, pursuant to which Dragonet Limited novated to Medford Global Limited its obligation to repay HK\$15,883,256 to Sanlion International Investment Limited;
- (8) the deed of novation dated 8 September 2017 entered into among Dragonfield Management Limited, Dragonet Limited and Medford Global Limited, pursuant to which Dragonet Limited novated to Medford Global Limited its obligation to repay HK\$50,822,771 to Dragonfield Management Limited;
- (9) the deed of novation dated 8 September 2017 entered into among Mr. Chan Chun Keung, Dragonet Limited and Medford Global Limited, pursuant to which Dragonet Limited novated to Medford Global Limited its obligation to repay HK\$2,757,677 to Mr. Chan Chun Keung;
- (10) the deed of novation dated 8 September 2017 entered into among Sanlion International Investment Limited, Genwood Hong Kong Limited and Grand Fiesta Limited, pursuant to which Genwood Hong Kong Limited novated to Grand Fiesta Limited its obligation to repay HK\$18,466,280 to Sanlion International Investment Limited;
- (11) the deed of novation dated 8 September 2017 entered into among Sanlion International Investment Limited, Excellence Regent Limited and Grandtel Limited, pursuant to which Excellence Regent Limited novated to Grandtel Limited its obligation to repay HK\$1,615,903 to Sanlion International Investment Limited;

- (12) the deed of novation dated 8 September 2017 entered into among Sanlion International Investment Limited, Fly Dragon China Limited and Mercci Limited, pursuant to which Fly Dragon China Limited novated to Mercci Limited its obligation to repay HK\$1,318,960 to Sanlion International Investment Limited;
- (13) the deed of novation dated 8 September 2017 entered into among Sanlion International Investment Limited, Wide Source Development Limited and Clover Star International Limited, pursuant to which Wide Source Development Limited novated to Clover Star International Limited its obligation to repay HK\$1,338,858 to Sanlion International Investment Limited;
- (14) the deed of novation dated 8 September 2017 entered into among Ms. Chan Judy, Dragonet Limited and Medford Global Limited, pursuant to which Dragonet Limited novated to Medford Global Limited its obligation to repay HK\$30,000,000 to Ms. Chan Judy;
- (15) the deed of novation dated 8 September 2017 entered into among Sanlion International Investment Limited, Medford Global Limited and our Company, pursuant to which Medford Global Limited novated to our Company its obligation to repay HK\$15,883,256 to Sanlion International Investment Limited;
- (16) the deed of novation dated 8 September 2017 entered into among Dragonfield Management Limited, Medford Global Limited and our Company, pursuant to which Medford Global Limited novated to our Company its obligation to repay HK\$50,854,023 to Dragonfield Management Limited;
- (17) the deed of novation dated 8 September 2017 entered into among Mr. Chan Chun Keung, Medford Global Limited and our Company, pursuant to which Medford Global Limited novated to our Company its obligation to repay HK\$2,757,677 to Mr. Chan Chun Keung;
- (18) the deed of novation dated 8 September 2017 entered into among Kingcorp International Limited, Interfusion Limited and our Company, pursuant to which Interfusion Limited novated to our Company its obligation to repay HK\$2,298,011 to Kingcorp International Limited;
- (19) the deed of novation dated 8 September 2017 entered into among Dragonfield Management Limited, Interfusion Limited and our Company, pursuant to which Interfusion Limited novated to our Company its obligation to repay HK\$31,522 to Dragonfield Management Limited;
- (20) the deed of novation dated 8 September 2017 entered into among Sanlion International Investment Limited, Grand Fiesta Limited and our Company, pursuant to which Grand Fiesta Limited novated to our Company its obligation to repay HK\$18,492,172 to Sanlion International Investment Limited;

- (21) the deed of novation dated 8 September 2017 entered into among Sanlion International Investment Limited, Grandtel Limited and our Company, pursuant to which Grandtel Limited novated to our Company its obligation to repay HK\$1,615,903 to Sanlion International Investment Limited;
- (22) the deed of novation dated 8 September 2017 entered into among Dragonfield Management Limited, Grandtel Limited and our Company, pursuant to which Grandtel Limited novated to our Company its obligation to repay HK\$31,252 to Dragonfield Management Limited;
- (23) the deed of novation dated 8 September 2017 entered into among Sanlion International Investment Limited, Mercci Limited and our Company, pursuant to which Mercci Limited novated to our Company its obligation to repay HK\$1,339,938 to Sanlion International Investment Limited;
- (24) the deed of novation dated 8 September 2017 entered into among Sanlion International Investment Limited, Clover Star International Limited and our Company, pursuant to which Clover Star International Limited novated to our Company its obligation to repay HK\$1,345,438 to Sanlion International Investment Limited;
- (25) the deed of novation dated 8 September 2017 entered into among Ms. Chan Judy, Medford Global Limited and our Company, pursuant to which Medford Global Limited novated to our Company its obligation to repay HK\$30,000,000 to Ms. Chan Judy;

- (26) the deed of confirmation dated 8 September 2017 entered into among our Company, Macmillan Equity Limited and Ms. Chan Judy, pursuant to which the parties confirmed that in consideration of the issue of 217 shares in our Company to Macmillan Equity Limited, the amount of HK\$124,649,191 owed by our Company to Ms. Chan Judy were deemed to have been repaid;
- (27) the share purchase agreement dated 1 June 2018 entered into between Ms. Chan Judy and our Company, pursuant to which our Company sold and Ms. Chan Judy purchased 150 shares in Interfusion Limited which represented the entire issued share capital of Interfusion Limited for a consideration of RMB1;
- (28) the deed of capitalisation dated 1 June 2018 entered into between Interfusion Limited and our Company, pursuant to which Interfusion Limited allotted and issued 50 shares to our Company to capitalise and settle the amount of HK\$2,381,908.15 due to our Company by Interfusion Limited;
- (29) the Deed of Non-competition dated 1 June 2018 entered into among Ms. Chan Judy, Macmillan Equity Limited and our Company regarding non-competition undertakings given by Ms. Chan Judy and Macmillan Equity Limited as our Controlling Shareholders in favour of our Company, details of which are set out in “Relationship with our Controlling Shareholders — Deed of Non-competition”;
- (30) the Deed of Indemnity dated 1 June 2018 entered into among Ms. Chan Judy, Macmillan Equity Limited and our Company pursuant to which Ms. Chan Judy and Macmillan Equity Limited as our Controlling Shareholders agreed to give certain indemnities in favour of our Company, the details of which are set out in “— G. Other Information — 10. Taxation of holders of our Shares”; and
- (31) the Public Offer Underwriting Agreement.

2. Our material intellectual property rights

(a) Trademarks

As at the Latest Practicable Date, we were the registered owner of the following trademarks which we believe are material to our business:






Trademark	Place of Registration	Class(es)	Registration number	Registration date	Expiry date
	PRC	35	10438877	28 March 2013	27 March 2023
熙园	PRC	33	8009265	7 February 2011	6 February 2021
怡园深蓝	PRC	33	5531785	21 June 2009	20 June 2019
怡园深蓝	PRC	33	5835039	28 October 2009	27 October 2019
Grace Vineyard Symphony	PRC	33	7225010	28 July 2010	27 July 2020
	PRC	35	7519828	7 December 2013	6 December 2023
怡园民星	PRC	33	17994967	14 November 2016	13 November 2026
	PRC	35	10438874	28 March 2013	27 March 2023
In the Mood for Love	PRC	33	11324536	7 January 2014	6 January 2024
柏园酒庄	PRC	33	8833120	28 November 2011	27 November 2021
	PRC	35	13974433	28 April 2015	27 April 2025
怡园协奏曲	PRC	33	7225011	28 July 2010	27 July 2020

Trademark	Place of Registration	Class(es)	Registration number	Registration date	Expiry date
怡园酒庄	PRC	33	3400401	7 February 2014	6 February 2024
	PRC	33	8833132	28 November 2011	27 November 2021
怡园奏鸣曲	PRC	33	17994968	14 November 2016	13 November 2026
Grace Vineyard Deep Blue	PRC	33	5531784	21 June 2009	20 June 2019
昆园	PRC	33	8009267	7 February 2011	6 February 2021
	PRC	33	10438847	7 June 2014	6 June 2024
Angelina	PRC	33	13974269	14 March 2015	13 March 2025
	PRC	35	13974270	14 March 2015	13 March 2025
庆春	PRC	33	11913160	28 May 2014	27 May 2024
Grace Vineyard --Tasya's Reserve--	PRC	33	3645345	7 April 2015	6 April 2025

Trademark	Place of Registration	Class(es)	Registration number	Registration date	Expiry date
	PRC	33	5111552	28 November 2008	27 November 2018
	PRC	32	8833126	21 December 2011	20 December 2021
Angelina's Blanc de Blancs	PRC	33	12708520	21 October 2014	20 October 2024
	PRC	33	13974271	14 March 2015	13 March 2025
	PRC	33	13974273	14 March 2015	13 March 2025
怡园庄主	PRC	33	3645342	21 March 2015	20 March 2025
桃符	PRC	33	11913178	28 May 2014	27 May 2024
Grace vineyard	PRC	33	3400402	7 February 2014	6 February 2024
GRACE PEOPLE' S	PRC	35	11197272	28 November 2013	27 November 2023
GRACE VINEYARD SONATA	PRC	33	17994969	14 November 2016	13 November 2026
怡园人民	PRC	33	11197201	7 December 2013	6 December 2023
Angelina's Winery	PRC	33	12468741	28 September 2014	27 September 2024


Trademark	Place of Registration	Class(es)	Registration number	Registration date	Expiry date
协奏曲	PRC	33	11411658	28 January 2014	27 January 2024
怡园庆春	PRC	33	11913092	28 May 2014	27 May 2024
	PRC	33	10438834	28 March 2013	27 March 2023
Angelina's Winery	PRC	33	12468698	28 September 2014	27 September 2024
金蛇狂舞	PRC	33	10992480	21 September 2013	20 September 2023
resonate	PRC	33	12405116	21 September 2014	20 September 2024
共鸣	PRC	33	12468707	28 September 2014	27 September 2024
德熙庄	PRC	33	8833124	28 November 2011	27 November 2021
	PRC	35	13974274	14 March 2015	13 March 2025
	PRC	33	13974275	14 March 2015	13 March 2025
Grace Vineyard Deep Blue	PRC	33	5835038	28 October 2009	27 October 2019
德宁白中白	PRC	33	12708510	21 October 2014	20 October 2024
Angelina's	PRC	33	13275263	7 February 2015	6 February 2025

Trademark	Place of Registration	Class(es)	Registration number	Registration date	Expiry date
怡园人民	PRC	35	11197262	21 July 2014	20 July 2024
	PRC	33	1429976	7 August 2010	6 August 2020
德熙 DEXI	PRC	33	16713277	7 June 2016	6 June 2026
	PRC	33	3220853	28 June 2013	27 June 2023
	PRC	35	13974272	14 March 2015	13 March 2025
德宁酒庄	PRC	35	12627727	14 October 2014	13 October 2024
	PRC	33	10438841	28 March 2013	27 March 2023
德熙 DE XI	PRC	33	16713276	7 June 2016	6 June 2026
德宁酒庄	PRC	33	12627611	14 October 2014	13 October 2024
GRACE PEOPLE' S	PRC	33	11197209	28 November 2013	27 November 2023
德宁庄	PRC	33	7458150	7 September 2010	6 September 2020
德宁庄	PRC	35	7519829	28 November 2010	27 November 2020

Trademark	Place of Registration	Class(es)	Registration number	Registration date	Expiry date
德宁堡	PRC	35	7519830	28 November 2010	27 November 2020
TERRA COTTA WINERY	PRC	35	7519831	28 November 2010	27 November 2020
德宁堡	PRC	33	7458747	7 September 2010	6 September 2020
TERRA COTTA WINERY	PRC	33	7458151	7 September 2010	6 September 2020
	Hong Kong	40	300338517	16 December 2004	15 December 2024
	Hong Kong	33, 40	302159730	14 February 2012	13 February 2022
	Hong Kong	33, 40	302159749	14 February 2012	13 February 2022
	Hong Kong	33, 40	302159758	14 February 2012	13 February 2022
怡園	Hong Kong	33, 40	302217564	11 April 2012	10 April 2022
	Hong Kong	33, 40	302217573	11 April 2012	10 April 2022

Trademark	Place of Registration	Class(es)	Registration number	Registration date	Expiry date
GRACE	Hong Kong	33, 40	302217582	11 April 2012	10 April 2022
	Hong Kong	33	302756016	4 October 2013	3 October 2023
德熙	Hong Kong	33	302756025	4 October 2013	3 October 2023
民星	Hong Kong	33	302756034	4 October 2013	3 October 2023
德寧	Hong Kong	33	302756052	4 October 2013	3 October 2023
DEXI	Hong Kong	33	302826135	5 December 2013	4 December 2023
	Hong Kong	33	302913246	5 March 2014	4 March 2024
	Hong Kong	33	302913273	5 March 2014	4 March 2024
	Hong Kong	33	302913282	5 March 2014	4 March 2024
年華	Hong Kong	33, 35	304296268	10 October 2017	9 October 2027

As at the Latest Practicable Date, we had applied for the registration of the following trademarks which we believe are material to our business:

Trademark	Place of Registration	Class(es)	Application number	Filing date
	PRC	33	22001051	23 November 2016
怡園留白	PRC	33	26858368	13 October 2017
怡園留白	PRC	35	26858369	13 October 2017
GRACE VINEYARD WHITE SPACE	PRC	33	26858370	13 October 2017
GRACE VINEYARD WHITE SPACE	PRC	35	26858371	13 October 2017
WHITE SPACE	Hong Kong	33	304296259	10 October 2017
留白	Hong Kong	33	304296277	10 October 2017

(b) Domain names

As at the Latest Practicable Date, we were the registered proprietor of the following domain names, which we believe are material to our business:

Domain Name	Date of registration	Date of expiry
www.gracewine.com.hk	11 May 2012	28 May 2021
www.grace-vineyard.com.....	8 April 2002	8 April 2019

D. FURTHER INFORMATION ABOUT OUR DIRECTORS, CHIEF EXECUTIVE OFFICER AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

(a) *Interests of our Directors and the chief executive in our share capital and our associated corporations following the Share Offer*

The table below sets out the interests of our Directors and chief executive immediately following the completion of the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme) in the Shares, underlying Shares or debentures of us or any of our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the GEM Listing Rules, once the Shares are listed:

Name of Director(s)/ Chief executive	Capacity/nature of interest	Relevant company (including associated corporation)	Number and class of Shares ¹	Approximate percentage of shareholding in the total issued share capital of our Company
Ms. Chan	Interest in controlled corporation	Macmillan Equity	420,000,000 Shares	52.5%

Notes:

- (1) All the above Shares are held in long position.
- (2) Macmillan Equity, wholly-owned by Ms. Chan, held 420,000,000 Shares. Ms. Chan is deemed to be interested in the 420,000,000 Shares pursuant to the SFO. Ms. Chan is an executive Director, Chairlady of the Board and the Chief Executive Officer.

(b) *Interests of the substantial shareholders in the Shares which are discloseable under Division 2 and 3 of Part XV of the SFO*

Immediately following the completion of the Share Offer (without taking into account any Share which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme), so far as our Directors are aware, the following persons (not being a Director or a chief executive of ours) will have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of

the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity/nature of interest	Number and class of Shares ¹	Approximate percentage of shareholding in the total issued share capital of our Company
Macmillan Equity ²	Beneficial interest	420,000,000 Shares	52.5%
Palgrave Enterprises ³	Beneficial interest	180,000,000 Shares	22.5%
Ms. Wong ³	Interest in controlled corporation	180,000,000 Shares	22.5%
Mr. Chan ⁴	Spouse/Interest in controlled corporation	180,000,000 Shares	22.5%

Notes:

- (1) All the above Shares are held in long position.
- (2) Macmillan Equity, wholly-owned by Ms. Chan, held 420,000,000 Shares. Ms. Chan is deemed to be interested in the 420,000,000 Shares pursuant to the SFO.
- (3) Palgrave Enterprises, wholly-owned by Ms. Wong, held 180,000,000 Shares. Ms. Wong is deemed to be interested in the 180,000,000 Shares pursuant to the SFO.
- (4) Mr. Chan, the spouse of Ms. Wong, is deemed to be interested in the 180,000,000 Shares held by Ms. Wong, through her controlled corporation, Palgrave Enterprises, pursuant to the SFO.

2. Particulars of Directors' service agreements and letters of appointment

Each of our executive Directors has signed a service agreement with us commencing on the Listing Date for a term of three years (subject to termination in certain circumstances as stipulated in the service agreement). Ms. Chan and Mr. Fan Chi Chiu, our executive Directors, are entitled to a directors' fee of HK\$720,000 and HK\$360,000 per annum, respectively.

Each of our non-executive Directors and independent non-executive Directors has signed a letter of appointment with us commencing on the Listing Date for a term of three years (subject to termination in certain circumstances as stipulated in the relevant letters of appointment). Each of our non-executive Directors is entitled to a directors' fee of HK\$100,000 per annum. Each of our independent non-executive Directors is entitled to a directors' fee of HK\$100,000 per annum.

For each of FY2015, FY2016 and FY2017, the aggregate amount of the directors' fee paid to our Directors was nil, nil and RMB471,000, respectively. For further details on the remuneration of our Directors, see note 10 to the Accountants' Report in Appendix I in this prospectus.

3. Agency fees or commission

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any share or loan capital of us or any of our subsidiaries.

4. Related party transactions

For details of our related party transactions, see note 39 to the Accountants' Report set out in Appendix I to this prospectus.

E. DISCLAIMERS

Save as disclosed herein:

- (a) none of our Directors or our chief executive has any interest or short position in the shares, underlying shares or debentures of us or any of our associated corporation (within the meaning of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO of which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;
- (b) none of our Directors or experts referred to in “— G. Other Information — 7. Qualifications of experts” has any direct or indirect interest in the promotion of us, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any members of our Group;
- (c) none of our Directors or experts referred to in “— G. Other Information — 7. Qualifications of experts” is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));

- (e) taking into account Shares which may be taken up under the Share Offer, none of our Directors knows of any person (not being a Director or chief executive of us) who will, immediately following the completion of the Share Offer, have an interest of short position in the shares or underlying shares of us which would fall to be disclosed to us under the provisions of Division of 2 and 3 of Part XV of the SFO or to be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of our Group;
- (f) none of the experts referred to in “— G. Other Information — 7. Qualifications of experts” has any shareholding in any member of our member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (g) so far as is known to the Directors, none of our Directors, their respective close associates (as defined under the GEM Listing Rules) or shareholders who are interested in more than 5% of our share capital have any interests in the five largest customers or the five largest suppliers of our Group.

F. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by the written resolutions of our Shareholders passed on 1 June 2018. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to enable our Company to grant options to Eligible Participants (as defined in paragraph 2 below) as incentives or rewards for their contribution or potential contribution to our Group.

2. Eligible participants

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph 5 below to any full-time or part-time employees, or potential employees, executives or officers (including executive, non-executive and independent non-executive Directors) of our Company or any of its subsidiaries and any suppliers, customers, agents and advisers who, in the sole opinion of the Board, will contribute or have contributed to our Company and/or any of its subsidiaries (the “**Eligible Participants**”).

3. Acceptance of an offer of options

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptance of the option duly signed by the grantee, together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such remittance shall in no circumstances be refundable and shall be deemed as part payment of the exercise price. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered, provided that it must be accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option in the manner as set out in this paragraph. To the extent that the offer to grant an option is not accepted by the acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs 9, 11, 13, 14 and 15 below, an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given. Within 30 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to our Company or the approved independent financial adviser as the case may be pursuant to paragraph 17, our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of the Shares so allotted.

4. Maximum number of Shares

The maximum number of Shares in respect of which options under the Share Option Scheme and any other share option schemes of our Company may be granted is 10% of the Shares in issue immediately upon completion of the Share Offer, being 80,000,000 Shares (the “**Scheme Limit**”), excluding for this purpose (i) the number of Shares which would be issued on the exercise in full of the options which may be granted under the Share Option Scheme or any other schemes of our Company but not cancelled, lapsed or exercised; and (ii) the number of cancelled Shares. Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the GEM Listing Rules from time to time, the Board may:

- (a) renew this limit at any time to 10% of the Shares in issue (the “**New Scheme Limit**”) as at the date of the approval by our Shareholders in a general meeting; and/or

- (b) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 23.02(2)(d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time (the “**Maximum Limit**”). No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. The Scheme Limit or the New Scheme Limit shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph 17 below whether by way of capitalisation issue, rights issue, sub-division or consolidation of shares or reduction of share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

5. Price of Shares

The exercise price in relation to each option offered to an Eligible Participant shall, subject to the adjustments referred to in paragraph 17, be determined by the Board (or its committee) in its sole discretion, save that such price shall not be less than the highest of:

- (a) the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of grant, which must be a day on which the Stock Exchange is open for business of dealing in securities;
- (b) the average of the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five business days (as defined in the GEM Listing Rules) immediately preceding the date of grant; and
- (c) the nominal value of a Share,

provided that for the purpose of determining the exercise price where the Shares have been listed on the Stock Exchange for less than five business days (as defined in the GEM Listing Rules) preceding the date of the grant, the issue price of the Shares in connection with such Listing shall be deemed to be the closing price of the Shares for each business day (as defined in the GEM Listing Rules) falling within the period before Listing.

6. Granting options to connected persons

Any grant of options to a director, chief executive or substantial shareholder of our Company or any of their respective associates is required to be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board determines to offer to grant options to a Substantial Shareholder or an independent non-executive Director or any of their respective associates which will result in the number of Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under the Share Option Scheme and any other schemes of our Company in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the Shares in issue or such other percentage as may be from time to time provided under the GEM Listing Rules, of the Shares in issue on the date of such grant; and
- (b) having an aggregate value, based on the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of each grant, in excess of HK\$5 million or such other sum as may be from time to time provided under the GEM Listing Rules,

such grant will be subject to the approval of the independent non-executive Directors as referred to in this paragraph, the issue of a circular by our Company to our Shareholders and the approval of our Shareholders in general meeting on a poll at which all core connected persons of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the GEM Listing Rules from time to time.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:

- (a) the details of the number and terms (including the exercise price) of the options to be granted to each Eligible Participant which must be fixed before the shareholders' meeting and the date of the grant, which shall be the date of Board meeting at which the Board proposes to grant the proposed options to such Eligible Participant;
- (b) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (c) the information required under Rule 23.02(2)(c) and (d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules; and
- (d) the information required under Rule 2.28 of the GEM Listing Rules.

7. Restrictions on the times of grant of options

A grant of options may not be made after inside information has come to our Company's knowledge until our Company has announced the information. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (a) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the GEM Listing Rules); and
- (b) the deadline for our Company to publish an announcement of the results for any year, or half-year period in accordance with the GEM Listing Rules, and where our Company has elected to publish them, any quarterly or any other interim period,

and ending on the actual date of publication of the results for such year, half-year, quarterly or interim period (as the case may be).

No options shall be granted during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

8. Rights are personal to grantee

An option and an offer to grant an option is personal to the grantee and is not transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option held by him or any offer relating to the grant of an option made to him or attempt to do so (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

9. Time of exercise of option and duration of the Share Option Scheme

Each of the grantees to whom an option has been granted under the Share Option Scheme shall be entitled to exercise his/her option in the manner set out in his/her offer document, provided that such period of time shall not exceed a period of ten years commencing on the date on which the option is granted. The exercise of any Option shall be subject to the shareholders of the Company in general meeting approving any necessary increase in the authorised share capital of the Company.

10. Performance target

A grantee may be required to achieve performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

11. Rights on ceasing employment/death

If the grantee of an option ceases to be an Eligible Participant:

- (a) by any reason other than death, ill-health, injury, disability or termination of his relationship with our Company and/or any of its subsidiaries on one of more of the grounds specified in paragraph 12 below, the grantee may exercise the option up to his entitlement at the date of cessation of being an Eligible Participant (to the extent not already exercised) within a period of one month (or such longer period as the Board may determine) following the date of such cessation (which date shall be, in relation to a grantee who is an Eligible Participant by reason of his employment with our Company or any of its subsidiaries, the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not); or
- (b) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of our Board) and none of the events which would be a ground for termination of his relationship with our Company and/or any of its subsidiaries under paragraph 12 has occurred, the grantee or his personal representative(s) shall be entitled within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the options in full (to the extent not already exercised).

12. Rights on dismissal

If the grantee of an option ceases to be an Eligible Participant by reason of his resignation or dismissal, or by reason of the termination of his relationship with our Company and/or any of the subsidiaries on any one or more of the grounds that he has been guilty of serious misconduct, or has been convicted of any criminal offence involving his integrity or honesty or in relation to an employee or consultant of our Company and/or any of its subsidiaries (if so determined by our Board) on any other ground on which an employer would be entitled to unilaterally terminate his employment or service at common law or pursuant to any applicable laws or under the grantee's service contract with our Company or the relevant subsidiary, the grantee's options will lapse on the date on which he ceases to be an Eligible Participant. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the relationship of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive.

13. Rights on takeover

If a general offer (whether by way of takeover offer, share repurchase offer or scheme of arrangement or otherwise in like manner) is made to all our Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror (as defined in the Takeovers Code) and/or any person acting in association or in concert with the offeror), our Company shall use its best endeavours to procure that such offer is extended to all the grantees (on the same terms mutatis mutandis, and assuming that they shall become, by the exercise in full of the options granted to them, Shareholders). If such offer, having been approved in accordance with the applicable laws and regulatory requirements, becomes, or is declared unconditional, the grantee (or his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes or is declared unconditional.

14. Rights on winding-up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company, give notice thereof to all grantees and thereupon, each grantee (or in the case of the death of the grantee, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days (as defined in the GEM Listing Rules) prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate exercise price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the GEM Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

15. Rights on compromise or arrangement between our Company and its members or creditors

If a compromise or arrangement between our Company and its members and/or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give notice to all the grantees of the options on the same day as it despatches to its members and/or creditors of our Company a notice summoning the meeting to consider such a compromise or arrangement and each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12 noon (Hong Kong time) on the business day (as defined in the GEM Listing Rules) immediately prior to the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. Our Board shall endeavour to procure that the Shares issued as a result of the exercise of options in such circumstances shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the relevant court (whether upon the terms presented to the relevant court or upon any other terms as may be approved by such court) the rights of the grantees to exercise their respective options shall with effect from the date of the making of the order by the relevant court be restored in full, as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

16. Ranking of Shares

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person nominated by the grantee) as the holder thereof. Subject to the aforesaid, the Shares to be allotted upon the exercise of an option shall be subject to all the provisions of the Articles and shall rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation of our Company as attached to the fully-paid Shares in issue on the date of issue and rights in respect of any dividend or other distributions paid or made on or after the date of issue. Shares issued on the exercise of an option shall not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

17. Effect of alterations to capital

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer (if there is a price-dilutive element), subdivision, consolidation of shares or reduction of share capital of our Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the exercise price per Share and/or the Scheme Limit, the New Scheme Limit and the Maximum Limit as the auditors of our Company or an independent financial adviser shall certify in writing to be in their opinion fair and reasonable in compliance with Rule 23.03(13) of the GEM Listing Rules and the note thereto and the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes (the “**Supplemental Guidance**”). The capacity of the auditors of our Company or the approved independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on our Company and the grantees.

Any such alterations shall be made on the basis that a grantee shall have the same proportion of the equity capital of our Company (as interpreted in accordance with the Supplemental Guidance) as that to which he was entitled to subscribe had he exercised all the options held by him immediately before such adjustments and the aggregate exercise price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event and that no such alterations shall be made if the effect of such alterations would be to enable a Share to be issued at less than its nominal value. Any adjustment to be made in accordance with this paragraph shall comply with the GEM Listing Rules, the Supplemental Guidance and any future guidance/interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time. In respect of any adjustments required by this paragraph 17, other than any made on a capitalisation issue, the auditors of the Company or the approved independent financial adviser, as the case may be, shall confirm to the Board in writing that the adjustments satisfy the requirements set out in Rule 23.03(13) of the GEM Listing Rules and the note thereto and the Supplemental Guidance and/or such other requirement prescribed under the GEM Listing Rules from time to time. In no circumstances shall the exercise price be less than the par value of the Shares.

18. Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the date of expiry of the option as may be determined by the Board;
- (b) the expiry of any of the periods referred to in paragraphs 11, 13, 14 and 15;
- (c) the date on which the scheme of arrangement of our Company referred to in paragraph 15 becomes effective;
- (d) the date of commencement of the winding-up of our Company;
- (e) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation or dismissal, or by termination of his relationship with our Company and/or any of its subsidiaries on any one or more of the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his integrity or honesty or in relation to an employee or consultant of our Company and/or any of its subsidiaries (if so determined by the Board) on any other grounds on which an employer would be entitled to unilaterally terminate his employment or service at common law or pursuant to any applicable laws or under the grantee's service contract with our Company or the relevant subsidiary. A resolution of the Board or the board of directors of the relevant subsidiary to the effect that the relationship of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (f) the date that is 30 days after the date on which the grantee is terminated by our Company and/or any of the subsidiaries on a ground other than those set forth in paragraph 18(e); and

- (g) the date on which the Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph 8 above or the options are cancelled in accordance with paragraph 20 below.

19. Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (a) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 23.03 of the GEM Listing Rules; and
- (b) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted (except any alterations which take effect automatically under the terms of the Share Option Scheme),

must be made with the prior approval of our Shareholders in general meeting at which any persons to whom or for whose benefit the Shares may be issued under the Share Option Scheme and their respective associates shall abstain from voting, provided that the amended terms of the Share Option Scheme or the options shall remain in compliance with Chapter 23 of the GEM Listing Rules and no alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration or to reduce the proportion of the equity capital to which any person was entitled pursuant to such option prior to such alteration, except with (i) the consent in writing of grantees holding in aggregate options which if exercised in full on the date immediately preceding that on which such consent is obtained would entitle them to the issue of three-fourths in nominal value of all Shares which would fall to be issued upon the exercise of all options outstanding on that date, or (ii) the sanction of a special resolution. Written notice of any alterations made in accordance with paragraph 19 shall be given to all grantees.

20. Cancellation of options

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event any option is cancelled pursuant to paragraph 8.

21. Termination of the Share Option Scheme

Our Company may by resolution in general meeting or the Board at any time resolve to terminate the operation of the Share Option Scheme and in such event, no further options shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

22. Administration of the Board

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided therein) shall be final and binding on all parties.

23. Conditions of the Share Option Scheme

The Share Option Scheme is conditional on:

- (a) the passing of the necessary resolutions by our Shareholders to approve and adopt the rules of the Share Option Scheme;
- (b) the Listing Division granting the Listing of, and permission to deal in, the Shares falling to be issued pursuant to the exercise of options under the Share Option Scheme;
- (c) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, following the waiver(s) of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and
- (d) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions in this paragraph 23 are not satisfied within six calendar months from the date on which the Share Option Scheme was conditionally adopted by the written resolutions of our Shareholders passed on 1 June 2018:

- (a) the Share Option Scheme shall forthwith terminate;
- (b) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (c) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

24. Disclosure in annual and interim reports

Our Board shall procure that details of the Share Option Scheme and other schemes of our Company and its subsidiaries are disclosed in its annual and interim reports in compliance with the GEM Listing Rules in force from time to time.

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Division for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, being 80,000,000 Shares in total.

G. OTHER INFORMATION**1. Litigation**

As at the Latest Practicable Date, save as disclosed herein, we were not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

2. Preliminary expenses and the Sole Sponsor's fees

Our preliminary expenses were approximately HK\$44,700 and were paid by us.

The Sole Sponsor will be paid by our Company an aggregate fee of HK\$5.5 million to act as the sole sponsor to the Listing.

3. Promoter

Our Company has no promoter for the purpose of the GEM Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to any promoter in connection with the Share Offer and the related transactions described in this prospectus.

4. Application for Listing

The Sole Sponsor has made an application on behalf of our Company to the Listing Division for the Listing of, and permission to deal in, the Shares: (i) in issue; (ii) to be issued pursuant to the Share Offer; and (iii) to be issued upon exercise of any options which may be granted under the Share Option Scheme, being up to 10% of the Shares in issue on the Listing Date. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

5. No material adverse change

Our Directors confirm that save as disclosed in this prospectus, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 31 December 2017 (the date of the latest audited combined financial statements of our Group) and up to the date of this prospectus.

6. Agency fees and commissions received

The Underwriters will receive an underwriting commission as referred to in “Underwriting — Underwriting Arrangements and Expenses — Underwriting commission and expenses”.

7. Qualifications of experts

The qualifications of the experts (as defined under the GEM Listing Rules and the Companies (WUMP) Ordinance) who have given their opinion and/or advice in this prospectus are as follows:

Name	Qualifications
Southwest Securities (HK) Capital Limited	Licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified public accountants, Hong Kong
JunHe LLP	Legal adviser to our Company as to the laws of the PRC
Appleby	Legal adviser to our Company as to the laws of the Cayman Islands
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
AVISTA Valuation Advisory Limited	Property valuer
AVISTA Valuation Advisory Limited	Biological assets valuer

8. Consents

Each of the experts listed in the preceding paragraph has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

10. Taxation of holders of our Shares***Dividends***

No tax is imposed in Hong Kong in respect of dividends our Company pays to the Shareholders. Dividends paid to the Shareholders are free of withholding taxes in Hong Kong.

Stamp duty

The sale, purchase and transfer of Shares registered on our register of members in Hong Kong will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration, or if higher, the value of the Shares being sold or transferred. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK\$5.00. Where a sale or purchase of shares registered on the Hong Kong branch share register is effected by a person who is not resident in Hong Kong and any stamp duty payable on the contract note is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee shall be liable to pay such duty.

Capital gains and profits tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of the Shares. Trading gains from the sale of the Shares by persons carrying on a business in Hong Kong, where such gains are sourced in Hong Kong and arise from such business, will be chargeable to Hong Kong profits tax.

Estate duty

No Hong Kong estate duty is payable in respect of holders of Shares on their death.

Prospective holders of Shares are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding, disposing of or dealing in Shares. It is emphasised that none of us, the Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding, disposal of or dealing in Shares or exercise any rights attaching to them. Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands and BVI.

Our Controlling Shareholders (as indemnifiers) have entered into the Deed of Indemnity in favour of our Company (for itself and as trustee for each of our subsidiaries) on 1 June 2018, pursuant to which they have, amongst others, agreed and undertaken, jointly and severally, with our Company to indemnify our Company (for itself and as a trustee for each of its subsidiaries) and at all times keep the same fully

indemnified on demand from and against, among other things, (i) any tax liability falling on any member of our Group resulting from, or by reference to any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the Listing; and (ii) all claims, payments, suits, damages, settlement payments and any associated costs and expenses which would be incurred or suffered in connection with the non-compliance incident described in “History, Reorganisation and Corporate Structure — Compliance with relevant applicable laws and regulations in respect of the increase of registered capital and transfer of equity interest of Shanxi Grace Vineyard” and “Business — Properties — Owned land and properties — Title defects and non-compliance incidents relating to our property interests” or any other non-compliance of any member of our Group which has occurred at any time on or before the Listing.

11. Miscellaneous

Save as otherwise disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or of any of our principal operating subsidiaries has been issued agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our principal subsidiaries;
- (c) within the two years preceding the date of this prospectus, no commission has been paid or is payable (except commissions to underwriters) for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Shares in our Company;
- (d) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (e) no share or loan capital of our Company or any of our consolidated subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (f) none of the parties (save in connection with the Underwriting Agreement) listed in “— G. Other Information — 7. Qualification of experts”:
 - (i) is interested legally or beneficially in any securities of any member of our Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (g) no company within our Group is presently listed on any stock exchange or traded on any trading system;

- (h) there is no arrangement under which future dividends are waived or agreed to be waived;
- (i) our Directors confirm that our Company has no outstanding convertible debt securities or debentures; and
- (j) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.

12. Estate duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

13. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

14. Independence of the Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Division for the Listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including any shares that may be issued pursuant to any option that may be granted under the Share Option Scheme).

Southwest Securities (HK) Capital Limited satisfies the independence criteria applicable to sponsors set out in Rule 6A.07 of the GEM Listing Rules.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were: (i) copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms; and (ii) copies of each of the material contracts referred to in “Appendix V — Statutory and General Information — C. Further Information about our Business — 1. Summary of material contracts” in this prospectus; and (iii) the consent letters referred to in “Appendix V — Statutory and General Information — G. Other Information — 8. Consents” in this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of H.M. Chan & Co in association with Taylor Wessing at 21st Floor, 8 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) our Memorandum and Articles of Association;
- (b) the Accountants’ Report from Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the report from Ernst & Young on our unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements as have been prepared for the companies comprising our Group for FY2015, FY2016 and FY2017;
- (e) the industry report prepared by Frost & Sullivan;
- (f) the Cayman Companies Law;
- (g) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by AVISTA Valuation Advisory Limited, the texts of which are set out in Appendix III to this prospectus;
- (h) the valuation report relating to the fair values of biological assets and agricultural produce belonging to our Group prepared by AVISTA Valuation Advisory Limited;
- (i) the letter of advice prepared by Appleby, our legal adviser as to the laws of the Cayman Islands, summarising our constitution and certain aspects of the Companies Law as referred to in Appendix IV to this prospectus;
- (j) the material contracts referred to in “Appendix V — Statutory and General Information — C. Further Information about our Business — 1. Summary of material contracts” in this prospectus;

- (k) the service agreements and letters of appointment referred to in “Appendix V — Statutory and General Information — D. Further Information about our Directors, chief executive officer and Substantial Shareholders — 2. Particulars of Directors’ service agreements and letters of appointment” in this prospectus;
- (l) the written consents referred to in “Appendix V — Statutory and General Information — G. Other Information — 8. Consents” in this prospectus;
- (m) the rules of the Share Option Scheme;
- (n) the PRC legal opinions prepared by JunHe LLP, our PRC Legal Adviser, in respect of certain aspects of our Group and the property interests of our Group in the PRC; and
- (o) this prospectus.

GRACE
VINEYARD

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