APPENDIX B COMPARISON OF SINGAPORE COMPANIES LAW AND MALAYSIAN COMPANIES LAW (CONT'D)

Malaysian Company Law	Singapore Company Law	Comments on differences
Every company shall have at least two directors, who each has his principal or only place of residence within Malaysia.	Act. Every company must have at least one director who is ordinarily resident in Singapore. Where the company has only one member, that sole director may also be the sole member of the company	The Malaysian Companies Act provides for a minimum of 2 resident directors whereas the Singapore Companies Act only stipulates that there must be at least 1 director who is ordinarily resident in Singapore. Pursuant to paragraph 4A.09(b) of the Listing Requirements, a foreign corporation with a primary listing on Bursa Securities, which has predominantly foreign based operation must have at least 1 director whose principal or only place of residence is within Malaysia. This is provided for in Article 98
DISQUALIFICATION, RESIGNATION AND REMOVAL OF DIRECTORS		
Disqualification of Directors		
Governing Provisions Section 125 Malaysian Companies Act.	Governing Provisions: Sections 148 and 149 Singapore Companies Act.	Both the Singapore Companies Act and the Malaysian Companies Act provide that an undischarged bankrupt shall not take part in the management of the corporation unless with leave of the court. However, the Singapore Companies Act also provides that an undischarged bankrupt may, with the written permission of the official assignee, act as a director. The Singapore Companies Act provides that a person may be disqualified as a director if he is a director of a company which is ordered to be wound up by the Singapore court on the ground that it is being used for the purposes against national security or interest. However the Malaysian Companies Act does not provide for this. The possible disqualifications of directors as specified in both the Malaysian Companies Act and the Listing Requirements have been substantially provided for in Article 104.1 and 104.3.

APPENDIX B COMPARISON OF SINGAPORE COMPANIES LAW AND MALAYSIAN COMPANIES LAW (CONT'D)

Malaysian Company Law	**Singapore Company Law**	**Comments on differences**
Resignation of Directors		
Governing Provisions: Section 122(6) Malaysian Companies Act. A director of a company cannot resign or vacate his office, if by his resignation or vacation from office, the number of directors of the company is reduced below the minimum of two directors who each has his principal or only place of residence within Malaysia, and any purported resignation or vacation of office in breach of this provision is deemed to be invalid.	Governing Provisions: Section 145(5) Singapore Companies Act. A director of a company cannot resign or vacate his office unless there is remaining in the company at least one director who is ordinarily resident in Singapore, and any purported resignation or vacation of office in breach of this provision is deemed to be invalid.	The Malaysian Companies Act invalidates resignation if the number of directors of the company is reduced below the minimum of 2 directors, whereas the Singapore Companies Act allows for a minimum of l director. Our Article 98, in accordance to the Malaysian provisions, provides for a minimum 3 directors of which at least 1 must have his principal place of residence within Malaysia.
Removal of Directors		
Governing Provisions Section 128 Malaysian Companies Act.	Governing Provisions: Section 152 Singapore Companies Act.	Both the Singapore Companies Act and the Malaysian Companies Act allow the removal of directors by ordinary resolution at general meeting and both require special notice for such removal. This is similar to our Article 118.1 which provides for such removal and Article 71.2 which provides that at least 14 days' notice of a general meeting shall be given to each member entitled to attend and vote thereat.
RIGHTS, PREFERENCES AND RESTRICTIONS ATTACHING TO EACH CLASS OF SHARES		
Notice of Meetings and Business to be Concluded Thereat		
Governing Provisions: Section 145 Malaysian Companies Act.	Governing Provisions: Section 177 Singapore Companies Act	Both the Singapore Companies Act and the Malaysian Companies Act provide that a meeting of a company or of a class of members, other than a meeting for the passing of a special resolution, shall be called by notice in writing of not less than 14 days or such longer period as is provided in the Article

APPENDIX B COMPARISON OF SINGAPORE COMPANIES LAW AND MALAYSIAN COMPANIES LAW (CONT'D)

Malaysian Company Law	Singapore Company Law	Comments on differences
		71.1. The Malaysian Companies Act further provides that the annual general meeting of a public company shall be called by a notice in writing of not less than 21 days before the annual general meeting or such longer period as is provided in the articles. This is provided for in Article 71.2.
Venues and technology for company meetings.		
Governing Provisions: Section 145A Malaysian Companies Act. A company shall hold all meetings of its members within Malaysia and may hold a meeting of its members within Malaysia at more than one venue using any technology that allows all members a reasonable opportunity to participate.	No equivalent provision.	The Singapore Companies Act does not contain provision allowing company meetings to be held by telephonic or electronic means. Article 67.1 provides that general meetings shall be held in Malaysia for so long as the shares of the Company are listed on the Designated Stock Exchange and Article 84A allows members to participate in general meetings by means of communication facilities.
Rights attaching to shares		
Governing Provisions: Section 55, 61 and 65 Malaysian Companies Act.	Governing Provisions: Section 64, 70, 74 and 75 Singapore Companies Act.	Both the Singapore Companies Act and the Malaysian Companies Act contains provisions which set out the voting rights of equity shares (both ordinary and preference shares) and mechanism with regards to redeemable preference shares in certain companies. The provisions of the Malaysian Companies Act and the Singapore Companies Act on variation or abrogation of rights attached to any class of shares in a company are similar except for the percentage of holders (10% for Malaysia and 5% for Singapore) who may apply to the Courts to cancel the variation or abrogation to the rights attached to that class of shares. The Courts may, if satisfied that the variation or abrogation would

APPENDIX B COMPARISON OF SINGAPORE COMPANIES LAW AND MALAYSIAN COMPANIES LAW (CONT'D)

Malaysian Company Law	Singapore Company Law	Comments on differences
		unfairly prejudice the shareholders of the class represented by the applicant, disallow the variation or abrogation.
Annual General Meetings		
Governing Provisions: Section 143, 147 and 152A Malaysian Companies Act.	Governing Provisions: Section 175 and 175A Singapore Companies Act.	The Malaysian and Singapore provisions for annual general meetings are similar. Articles 66, 67.1, 67.2 and 68 contain provisions on annual general meetings. However, although the Singapore provisions allows a private company to dispense with holding of an annual general meeting by resolutions passed by all members entitled to vote at the meeting such does not extend to a public company. Although not expressly limited, it is uncertain as to whether the equivalent provision under Section 152A of the Malaysian Companies Act can apply to annual general meetings of a public company. Article 91 contains provisions on corporations acting by representatives.
Quorum for Meetings		
Governing Provisions Section 147 Malaysian Companies Act.	Governing Provisions: Section 179(1) Singapore Companies Act.	Both the Singapore Companies Act and the Malaysian Companies Act state that the quorum is 2 members personally present, subject to the articles of association not making other provision in that behalf. In this regards, Article 76 and 77 provide that 2 members present in person or by proxy shall form a quorum.
Special Resolutions		
Governing Provisions: Section 152(1) Malaysian Companies Act.	Governing Provisions: Section 184(1) Singapore Companies Act.	Both the Singapore Companies Act and the Malaysian Companies Act provide for distinction between "ordinary resolution" and "special resolution". The Singapore Companies

Malaysian Company Law	Singapore Company Law	Comments on differences
		Act further provides a distinction in the notice period for convening general meeting in passing a special resolution for both private company and public company. A public company has to give not less than 21 days' written notice of its intention to pass a special resolution at a general meeting (compared to 14 days' written notice by a private company).Article 71.2 provides that the period for Special Resolutions and special notice is subject to the provisions of the Malaysian Companies Act.
Proxies		
Governing Provisions: Section 149(1) Malaysian Companies Act.	Governing Provisions: Section 181 Singapore Companies Act	Both the Malaysian Companies Act and Singapore Companies Act have similar provisions on proxies. However, the Malaysian Companies Act further provides that a member shall not unless the articles otherwise provide be entitled to appoint a person who is not a member as his proxy unless that person is an advocate, an approved company auditor or a person approved by the Registrar in a particular case. In this respect, Article 90.1 of our Articles provides that a proxy need not be a member of the Company
Depositor as member		
Governing Provisions: Section 107B Malaysian Companies Act. A depositor whose name appears in the record of depositors maintained by Bursa Depository shall be deemed to be a member, debenture holder, interest holder or option holder as the case may be, of the company.	The equivalent provisions under the Singapore Companies Act are not applicable to a company where its securities are not deposited with the "Depository" as defined in the Singapore Companies Act.	However, we have provided in our Article 2.1 under the definition of "Member" that where our Shares are deposited with the Depository or its nominee, the Depository or its nominee (as the case may be) shall be a bare trustee of the Company and the persons named as Depositors in the Record of Depositors shall be members of the Company even though the Depositors' names are not entered in the Register. We have further provided in our Article 14B.1 that where book-

APPENDIX B COMPARISON OF SINGAPORE COMPANIES LAW AND MALAYSIAN COMPANIES LAW (CONT'D)

Malaysian Company Law	Singapore Company Law	Comments on differences
		entry securities of the Company are deposited with the Depository or its nominee, the Depository or its nominee (as the case may be) shall be a bare trustee and the persons named as Depositors in the Record of Depositors shall, for such period as the book-entry securities are entered against their names in the Record of Depositors, be (i) members of the Company in respect of the amount of book-entry securities (relating to the stocks or shares issued by the Company) entered against their respective names in the Record of Depositors; or (ii) holders of the amount of the book-entry securities (relating to the debentures or any derivative instrument) entered against their respective names in the Record of Depositors, even though the Depositors' names are not entered in the Register. Article 14B.2 also provides that notwithstanding any provisions in the Articles to the contrary, a Depositor shall be entitled to all rights (including voting and other rights), benefits, powers and privileges and be subject to all liabilities, duties and obligations in respect of, or arising from, such Deposited Security registered in the Depositor's name (whether conferred or imposed by the Singapore Companies Act, the memorandum of association of the Company or these Articles, or otherwise) as if such Depositor is the sole holder of such Deposited Security. Notwithstanding that the Depository is named in the Register as the holder of any Deposited Security, the Depository shall not be entitled to any rights (including voting and other rights), benefits, powers and privileges in respect of, or arising from, such Deposited Security and nor shall the Depository be subject to any liabilities, duties and obligations in respect of, or arising from, such Deposited Security.
Transfer of Shares deposited with Bursa		
Governing Provisions: Section 104 and 107(C) Malaysian Companies Act. The transfer of any securities or class of securities of a company whose securities or any	Governing Provisions: Sections 130 and 127 Singapore Companies Act. Shares are transferred by the execution and delivery of a proper	Both the Singapore Companies Act and the Malaysian Companies Act provide for transfer of shares. However the Singapore provisions do not apply to companies listed on Bursa Securities.

APPENDIX B COMPARISON OF SINGAPORE COMPANIES LAW AND MALAYSIAN COMPANIES LAW (CONT'D)

Malaysian Company Law	**Singapore Company Law**	**Comments on differences**
class of whose securities have been deposited with a central depository shall be by way of book entry by the central depository in accordance with the rules of the central depository and such company shall be precluded from registering and effecting any transfer of securities or class of securities which have been deposited. However, the above does not apply to transfer of securities to a central depository or its nominee company.	instrument of transfer to the company, which will be registered by the company. On the request in writing of the transferor of any share, the company shall enter in the appropriate register the name of the transferee in the same manner and subject to the same conditions as if the application for the entry were made by the transferee.	Our Article 40 stipulates that for so long as the Company is listed on Bursa Securities, the transfer of any Deposited Securities or class of Deposited Securities of the Company shall be made by way of book entry by the Depository in accordance with the Rules of the Depository, and the Company shall be precluded from effecting any transfer of listed securities other than through the Depository in accordance with the Rules of the Depository.
Power of Directors to Dispose of the Issuer's or any of its Subsidiaries' Assets		
Governing Provisions: Section 132C Malaysian Companies Act. In general, prior shareholders' approval must be obtained by a company before its directors can effect transactions (whether acquisition or disposal) of substantial value. The term 'substantial value' or 'substantial portion' shall mean the same value prescribed by the provisions in the Listing Requirements.	Governing Provisions: Section 160 Singapore Companies Act. Prior approval of the company at a general meeting is require before directors can carry into effect any proposals for disposing the whole or substantially the whole of the company's undertaking or property.	Both the Singapore Companies Act and the Malaysian Companies Act adopts similar provision in prohibiting the disposal of substantial portion of the company's undertaking or property by the director unless with the approval of members in general meeting. The Malaysian provisions also extend to acquisitions. Our Article 116.2 makes further reference to the requirements under the Listing Requirements in this regards.
Alterations of Memorandum and Articles of Association/Constituent Documents		
Governing Provisions: Section 21(1 A), 28 and 62(1) Malaysian Companies Act.	Governing Provisions: Sections 26 and 33 Singapore Companies Act.	Both the Singapore Companies Act and the Malaysian Companies Act provide that a company's memorandum and articles of association may be altered by way of special resolution except that any entrenching provisions may be removed or altered only if all members of the company agree. Our Article 173 permits the Company to alter its articles of

APPENDIX B COMPARISON OF SINGAPORE COMPANIES LAW AND MALAYSIAN COMPANIES LAW (CONT'D)

Malaysian Company Law	**Singapore Company Law**	**Comments on differences**
		association with approval from the Board and conrirmed by a special resolution of the members. It further states that special resolution is required for alteration of provisions of memorandum of association or to change the name of the company.
Giving of Financial Assistance to Purchase the Issuer's or its Holding Company's Shares		
Governing Provision: Section 67 Malaysian Companies Act	Governing Provision: Section 76 Singapore Companies Act	Under both the Singapore Companies Act and the Malaysian Companies Act, a company is prohibited from financial assistance in connection with the acquisition of that company's own shares or that of its holding company. Financial Assistance includes the making of a loan, the giving of a guarantee, the provision of security, and the release of a debt or obligation of a loan, the giving of a guarantee, the provision of security, and the release of a debt or obligation. The exceptions to the provisions in the Malaysian Companies Act are found particularly in Sections 67(2) and 67A. The Singapore Companies Act also provides for certain exceptions. These include the payment of a dividend in good faith and in the ordinary course of commercial dealing. The Singapore Companies Act further provides that a company cangive financial assistance if it complies with certain procedural requirements and, inter alia, a special resolution is passed approving the provision of the financial assistance. However, Section 67 of the Malaysian Companies Act is adopted in our Article 11.
Disclosure of Substantial Shareholders		
Governing Provisions: Section 69D, 69E, and 69F Malaysian Companies Act.	Governing Provisions: Sections 81, 82, 83 and 84 Singapore Companies Act.	Both the Singapore Companies Act and the Malaysian Companies Act require the disclosure of shareholder ownership beyond the specified threshold.

APPENDIX B COMPARISON OF SINGAPORE COMPANIES LAW AND MALAYSIAN COMPANIES LAW (CONT'D)

Malaysian Company Law	**Singapore Company Law**	**Comments on differences**
A substantial shareholder (holding 5% or more of the voting shares) of a company is required to notify the company of his interest in the voting shares in the company within 7 days after becoming a substantial shareholder. This obligation extends to all natural persons (including bodies corporate) whether resident in or citizen of Malaysia or not and extends to acts outside Malaysia.		The Singapore Companies Act requires a substantial shareholder to give notice in writing to the company disclosing his shareholding interests and changes in his interests within 2 business days after he becomes aware of such a change whilst the Malaysian Companies Act provides for 7 days.
Mergers and Similar Arrangements		
Governing Provisions: Section 176 and 178 Malaysian Companies Act.	Governing Provisions: Sections 210, 212, 215 and 215A Singapore Companies Act.	Both the Singapore Companies Act and the Malaysian Companies Act allow for an application to the court by the company for a compromise or arrangement between the Company and its members or creditors. In essence, a scheme of arrangement must be approve by a majority in number representing three fourths in value of the members or class of member present and voting either in person or by proxy at the meeting. When the scheme approved by the members is sanctions by the Court, it will be binging on all members or class of members (including the dissenting members) of the company.
Shareholders' Suits and Protection of Minority Shareholders		
Governing Provisions: Section 181, 181 and 368A Malaysian Companies Act.	Governing Provisions: Section 216, 216A and 409A Singapore Companies Act	Both the Singapore Companies Act and the Malaysian Companies Act allow for an application to the court by the company for a compromise or arrangement between the Company and its members or creditors. In essence, a scheme of arrangement must be approve by a majority in number representing three fourths in value of the

APPENDIX B COMPARISON OF SINGAPORE COMPANIES LAW AND MALAYSIAN COMPANIES LAW (CONT'D)

Malaysian Company Law	Singapore Company Law	Comments on differences
		members or class of member present and voting either in person or by proxy at the meeting. When the scheme approved by the members is sanctions by the Court, it will be binging on all members or class of members (including the dissenting members) of the company. Both the Singapore Companies Act and the Malaysian Companies Act provide for remedies for oppression in situations where: - (a) a company's affairs are being conducted or the power of the company's directors are being exercised in a manner oppressive to, or in disregard of the interest of, one or more of the members, shareholders or debenture holders; or (b) a company has done an act, or threatens to do an act, or the members or debenture holders have passed some resolution which unfairly discriminates against, or is otherwise prejudicial to, one or more of the company's members or debenture holders.
CHANGES IN CAPITAL		
Power of Directors to Allot and Issue Shares		
Governing Provisions: Section 132D Malaysian Companies Act.	Governing Provisions: Section 161 Singapore Companies Act.	Singapore Companies Act and the Malaysian Companies Act provide that the directors may only allot and issue shares with the prior approval of the Company in general meeting. The Articles 5 and 6 contain additional provisions referring to the Listing Requirements in respect of issuance of shares.

APPENDIX B COMPARISON OF SINGAPORE COMPANIES LAW AND MALAYSIAN COMPANIES LAW (CONT'D)

Malaysian Company Law	Singapore Company Law	Comments on differences
Powers of Issuer to Purchase its Own Shares		
Governing Provisions: Section 67A Malaysian Companies Act. Except in relation to a special purpose acquisition company, a listed company can only buy-back its own shares through the Stock Exchange (i.e. Bursa Securities for our Company) on which the shares of the Company are quoted and in accordance with the relevant rules of the Stock Exchange. Directors may resolve to either cancel the shares so purchased, or retain the shares so purchased as treasury or retained part of the shares as treasury shares and cancel the remainder. The directors may also distribute the treasury shares as dividends to shareholders or resell the treasury shares on the market of Bursa Securities on which the shares are quoted, in accordance with •the relevant rules of Bursa Securities. Where there is any breach, an "officer" of the company will be guilty of an offence. An "officer" includes its director, secretary, and employee.	Governing Provisions: Section 76B to 76E and 76H to 76K (on dealings with treasury shares) Singapore Companies Act. Section 76K of the Singapore Companies Act further provides for circumstances on disposal and cancellation of treasury shares, which allows treasury shares held from a share buy-back can be (i) sold for cash, (ii) transferred for employees' share scheme purposes; (iii) transferred as consideration for the acquisition of shares in or assets of another company or assets of a person; (iv) cancelled; or (v) sold, transferred or otherwise used for any other purpose as the Minister may prescribe. Section 76C further allows a company, whether or not it is listed on a securities exchange, to make a purchase or acquisition of its own shares otherwise than on a securities exchange (referred to in this section as an off-market purchase) if the purchase or acquisition is made in accordance with an equal access scheme authorised in advance by the company in general meeting.	Although both the Singapore Companies Act and the Malaysian Companies Act generally prohibit against the acquisition (whether directly or indirectly) by a company of its own shares or shares in its holding company, both acts however, do provide for purchase by the company of its own shares these include purchase under court sanction, redemption of redeemable preference shares and shareholder repurchases. The provisions of the Malaysian Companies Act and the Singapore Companies Act are however different in their treatment of **"treasury shares"** as well as the mechanism of shares buy back implementation. The Singapore provisions are broader than the Malaysian provisions in relation to treasury shares held pursuant to share buy back. The Singapore Companies Act also allows off-market purchase of securities or purchase of securities through contingency purchase contract, which is not provided for under our Malaysian Companies Act or the Listing Requirements. In view of the differences, we have provided in our Article 16 that treasury shares shall be dealt with in accordance with the Malaysian Companies Act and the Listing Requirements. We have further provided in our Article 16 that share buy back shall be conducted in compliance with the Malaysian Companies Act and Listing Requirements. Please also refer the comments under *Giving of Financial Assistance to Purchase the Issuer's or its Holding Company's Shares.*

APPENDIX B COMPARISON OF SINGAPORE COMPANIES LAW AND MALAYSIAN COMPANIES LAW (CONT'D)

Malaysian Company Law	Singapore Company Law	Comments on differences
	Section 76DA states that a company may, whether or not it is listed on a securities exchange, make a purchase or acquisition of its own shares under a contingent purchase contract if the proposed contingent purchase contract is authorised in advance by a special resolution of the company.	
Power to Issue Shares at a Discount		
Governing Provisions: Section 59 Malaysian Companies Act.	No equivalent provision	The Malaysian Companies Act only permits issuance of shares at a discount if it is confirmed by an order of the Court. The Singapore Companies Act does not contain such provision. Further, Singapore has abolished the concept of **"par value".** Therefore, issuance of shares at a discount is irrelevant for our Company
Power to Issue Shares at a Premium		
Governing Provisions: Section 60 (2) Malaysian Companies Act.	No equivalent provision	The Malaysian Companies Act contains provision relating to issuance of shares at a premium and the application of premiums received. The Singapore Companies Act does not contain such provision. Further, Singapore has abolished the concept of **"par value".** Therefore, issuance of shares at a premium is irrelevant for our Company.
Reduction of capital		
Governing Provisions: Section 64 Malaysian Companies Act.	Governing Provisions Singapore Companies Act. Section 78A	There is a need for a special resolution and confirmation from the court for the reduction of capital under the Malaysian Companies Act where there is no such requirement under the

APPENDIX B COMPARISON OF SINGAPORE COMPANIES LAW AND MALAYSIAN COMPANIES LAW (CONT'D)

Malaysian Company Law	Singapore Company Law	Comments on differences
		Singapore Companies Act except for the conditions stipulated under Division 3A, Part IV of the Singapore Companies Act. Our Article 60.2 provides that our Company may reduce its share capital by special resolution
WINDING-UP		
Governing Provisions: Section 181(2), 211, 217 Malaysian Companies Act. Provides amongst other, for appointment of receivers and administrators as well as winding up in insolvency and voluntary winding up of a company.	Governing Provisions: Section 216(2), 247, 253, 254 and 290 Singapore Companies Act	Both the Malaysian Companies Act and Singapore Companies Act are similar in relation to the mode of winding up of a company in that the winding up of a company may be done, depending on whether a company is solvent, through the following: - (a) members voluntary winding up; (b) creditors voluntary winding up; (c) court compulsory winding up; or (d) a court order made pursuant to oppression of minority shareholder interest.
LIMITATIONS ON THE RIGHT TO OWN SHARES OF THE COMPANY, INCLUDING LIMITATIONS ON RIGHTS OF SHAREHOLDERS REGARDED AS NON-RESIDENT OR FOREIGN SHAREHOLDERS TO OWN OR VOTE OF THEIR SHARES		
No such provisions	No such provisions	Both the Singapore Companies Act and the Malaysian Companies Act do not contain limitations on this matter.
CORPORATE GOVERNANCE		
Governing Provisions: The Malaysian Code on Corporate Governance issued by the SC and Paragraph 15.25 of the Listing Requirements. The said code sets out the principles and best practices of good governance and on the structure and processes (such as board composition, recruitment of directors, directors'	The Singapore Code on Corporate Governance does not apply to companies listed on Bursa Securities.	Since our Company will be listed on Bursa Securities, we are required to comply with the Malaysian Code on Corporate Governance failing which Bursa Securities may take action against our Company or our Directors pursuant to the Listing Requirements.

Malaysian Company Law	Singapore Company Law	Comments on differences
remuneration and use of board committees) that companies may use in their operations towards achieving optimal governance framework. The Singapore Code on Corporate Governance does not apply to companies listed on Bursa Securities. Under Paragraph 15.25 of the Listing Requirement, a listed issuer must ensure its board of directors makes statements (as required therein) in relation to its compliance with the Malaysian Code on Corporate Governance.		
TAKE-OVER PROVISIONS		
Governing Provisions: Division 2 of Part VI of the Capital Markets (excluding Section 222 to Section 225) and Services Act 2007 of Malaysia and the Malaysian Code on Take-overs and Mergers 1998 ("Malaysian Code"). The Malaysian Code regulates the acquisition of ordinary shares of public companies (whether listed or not listed) in Malaysia and contains certain provisions that may delay, deter or prevent a take-over or change in control of such a public company. The Malaysian Code does not apply to companies incorporated outside Malaysia. Under the Malaysian Code, the obligation to make a mandatory general offer is triggered when: -	Governing Provisions: Part VIII of the Securities and Futures Act (cap 289) of Singapore and the Singapore Code on Take-overs and Mergers ("Singapore Code"). The Singapore Code applies to corporations with a primary listing of their equity securities and business trusts with a primary listing of their units in Singapore, and Singapore-incorporated companies with a primary listing overseas. Under the Singapore Code, the obligation to make a mandatory general offer is triggered when: - (a) any person or persons acting in concert, acquires shares which	Both Singapore and Malaysia has their respective regulations of general application which will require persons who acquire signitlcant holdings in a company's shares to make take-over offers for a company's shares. The core difference between the Malaysian Code and the Singapore Code lies in the triggering point for mandatory take-overs. In addition, where Malaysian Code specifically provides that the SC may extend the time for compliance with any provision of the Malaysian Code. The Singapore Code is silent on this matter. Further the Singapore Code, unlike the Malaysian Code, is non-statutory in that it does not have the force of law. However, being incorporated in Singapore, the Malaysian Code does not apply to our Company. In view of our listing on Bursa Securities, we have however adopted the Malaysian Code pursuant to Article 175.9 which

APPENDIX B COMPARISON OF SINGAPORE COMPANIES LAW AND MALAYSIAN COMPANIES LAW (CONT'D)

Malaysian Company Law	**Singapore Company Law**	**Comments on differences**
(a) any person or persons acting in concert, acquire, hold or control the exercise of more than 33% voting shares in a company; or (b) where such person or persons hold more than 33% but less than 50% of the voting shares of a company and acquires in any 6 month period more than 2% if the voting shares of the company. Any person triggering the general offer must, except with the consent of the SC, extend a takeover offer for the remaining voting shares in accordance with the provisions of the Malaysian Code. The SC may extend time for compliance with any provision of the Malaysian Code.	carry 30% or more of the voting rights in a company; or (b) where such person or persons hold more than 30% but less than 50% of the voting shares of a company and (c) acquires in any 6 month period more than 1% of the voting shares of the company. Any person triggering the general offer, must, unless the Securities Industry Council in Singapore grants a waiver, extend a takeover offer for the remaining voting shares in accordance with the provisions of the Singapore Code.	reads as follows:- *"For so long as the shares of the Company are listed on the Exchange, the provision of Division 2 of Part IV of the Malaysian Securities Commission Act 1993 and the Malaysian Code on Takeovers and Mergers 1998 (or their respective statutory modification or re-enactment or successor for the time being in force) shall apply mutatis mutandis to all takeover offers for the Company unless waived by the Exchange or under the Malaysian Securities Commission Act 1993 and the Malaysian Code on Takeovers and Mergers 1998 (or their respective statutory modification or re-enactment or successor for the time being in force), PROVIDED ALWAYS that such application does not contravene any applicable law of Singapore."* *The provisions of Division 2 of Part VI of the Capital Markets and Services Act 2007 and the Malaysian Code on Take-overs and Mergers 1998 or their respective statutory. modification or re-enactment or successor for the time being in force shall nol apply to the Depository.* *The Singapore Code on Take-overs and Mergers or its statutory modification or re-enactment or successor for the time being in force shall, in the absence of a waiver of its application to the Company by the Securities Industry Council of Singapore, apply to the Company. In the event the said waiver is not granted by the Securities Industry Council of Singapore and should there be any conjlicting rule(s) between the Singapore Code on Take-overs and Mergers and the Malaysian Code on Take-overs and Mergers 1998, the Singapore Code on Take-overs and Mergers shall prevail, and the Company shall use its best efforts to comply with the stricter of the two codes.* Therefore, our Article 175.9 requires us to make an application to the Securities Industry Council of Singapore ("SIC") for seek for waiver of application of the Singapore Code. We have

APPENDIX B COMPARISON OF SINGAPORE COMPANIES LAW AND MALAYSIAN COMPANIES LAW (CONT'D)

Malaysian Company Law	Singapore Company Law	Comments on differences
		received the approval from the SIC whereby SOC has waied the applcation of the Singapore Code in respect of the Company for so long as the Company remain listed on the Exchange. Notwithstanding the above, in the event that the waiver approval is revoked for whatsoever reason, the provisions under our Article 175.9 shall be applicable.

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SUMMARY OF PRC LAWS

1. PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council of the PRC is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council of the PRC are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders. The State Council also has the power to annul such directives, orders and regulations issued by its ministries and commissions.

At the regional level, the people's congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council. Rules, regulations or directives may be enacted or issued at the provincial level or municipal level or by the State Council of the PRC or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全国人民代表大会常务委员会关于加强法律解释工作的决议) passed on 10 June 1981, the Supreme People's Court has the power to issue general interpretations on the application of laws in judicial proceedings in addition to its power to issue specific interpretations in specific cases. The State Council and its ministries and commissions are also vested with the power to issue interpretations of the rules and regulations promulgated by itself. At the regional level, the power to issue interpretations of regional laws is vested in the regional legislative and administration organs which promulgate such laws. All such interpretations carry the force of law.

2. JUDICIAL SYSTEM

The People's Courts are the judicial organs of the PRC. Under the PRC Constitution (中华人民共和国宪法) and the Law of Organisation of the People's Courts of the People's Republic of China (中华人民共和国人民法院组织法), the People's Courts comprise the Supreme People's Court, the local people's courts, military courts and other special People's Courts. The local people's courts are divided into 3 levels, namely, the basic People's Courts, intermediate People's Courts and higher People's Courts. The basic People's Courts are divided into civil, criminal, administrative and economic divisions. The intermediate People's Courts have divisions similar to those of the basic People's Courts and, where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of People's Courts at lower levels are subject to supervision of People's Courts at higher levels. The People's procuratorates also have the right to exercise legal supervision over the proceedings of People's Courts of the same or lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the People's Courts of all levels.

The People's Court adopts a 2-tier appeal system. At first instance a party may, before a judgment or order takes effect, appeal against the judgment or order of a Local People's Court to the People's Court of the next higher level. Judgments or orders at the second instance of the same level of the People's Court or at the next higher level of the People's Court are final and binding. Judgments or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a People's Court of a higher level finds an error in a final and binding judgment of any People's Court of a lower level which has taken effect, or the presiding judge of a People's Court finds an error in a final and binding judgment which has taken effect in a court over which he presides, a retrial of the case may be ordered according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the People's Republic of China (中华人民共和国民事诉讼法) (the "Civil Procedure Law") adopted on 9 April 1991 and amended on 28 October 2007. The Civil Procedure Law governs the institution of a civil action, the jurisdiction of the People's Courts, the procedures for the conduct of a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's country of domicile. The jurisdiction may also be selected by express agreement of the contractual parties provided that the jurisdiction of the People's Court so selected is connected with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or performed in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. In respect of litigation, a foreign national or foreign enterprise is accorded the same rights and subject to the same obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a People's Court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the People's Court to enforce the judgment, order or award. There are time limits on the right to apply for such enforcement. Where at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other entities, the time limit is six months. According to the amendment dated 28 October 2007, the time limit for application of enforcement by both individuals and entities will be unified to two years with effect from 1 April 2008.

A party seeking to enforce a judgment or order of a People's Court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the People's Court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

3. ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the PRC (中华人民共和国仲裁法) (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31 August 1994 and came into effect on 1 September 1995 and was revised on 27 August 2009. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a People's Court.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party may apply to the People's Court for enforcement. A People's Court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes, an absence of material evidence or irregularities over the arbitration proceedings, or the jurisdiction or constitution of the arbitration committee.

A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognised as such for the purposes of PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award ("New York Convention") adopted on 10 June, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December, 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC at the time of the accession of the PRC that (1) the PRC would only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

4. COMPANY LAW

The establishment and operation of corporate entities in China is governed by the PRC Company Law (中华人民共和国公司法), which was promulgated by the Standing Committee of the NPC on 29 December 1993 and became effective on July 1, 1994. The Law was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005. The newly amended Company Law of PRC ("Company Law") on 27 October 2005 became effective from 1 January 2006.

The Company Law generally governs two types of companies: limited liabilities companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of assets owned by the company. Liabilities of shareholders of a limited liability company are limited to the contributions which they have made. A joint stock limited company is a company with a registered share capital divided into shares of equal par value, and liabilities of its shareholders are limited to the amount of capital they are legally obliged to contribute for the shares for which they have subscribed. According to the latest revised PRC Company Law, the principle of "piecing the corporate veil" is adopted and the creditors are allowed, under certain circumstances, to have access to recourse against the assets of the shareholders of a limited liability company or a joint stock limited company for repayment of the debt of the company.

The latest revised PRC Company Law has adopted provisions with respect to one-person limited liability companies, which legitimate the incorporation of one-shareholder limited liability companies in addition to wholly State-owned enterprises. However, if the shareholder of a one-person limited liability company is unable to prove that the property of its invested company is independent from its own property, the shareholder shall bear joint and several liabilities for the debts of such one-person limited liability company.

5. FOREIGN INVESTMENT POLICIES IN THE PRC

The three major Chinese government policies concerning foreign investment in China are outlined in the "Provisions on Guiding the Orientation of Foreign Investment', the "Catalogue of Industries for Guiding Foreign Investment (Amended in 2007) as well as the "Catalogue of Priority Industries for Foreign Investment in the Central-Western Region (Amended in 2008). These provisions classify investment projects into encouraged, permitted, restricted and prohibited categories. In general, projects engaged in the high-tech, agriculture, forestry, telecommunications, and export oriented sectors will be strongly encouraged and further supported by government agencies from financial and tax respects.

Foreign investment enterprises ("FIEs") can take many forms such as wholly foreign owned enterprise（"WFOE"）, Sino-foreign equity joint venture ("EJV") or Sino-foreign co-operative joint venture.

5.1 EJV

EJVs are governed by the Law of the PRC on Sino-foreign Equity Joint Venture Enterprises promulgated on 1 July 1979, and amended on 4 April 1990 and 15 March 2001 respectively ("EJV Law") and its Implementation Rules promulgated on 20 September 1983, and amended on 15 January 1986 and 22 July 2001 respectively ("Implementation Rules").

Under the EJV Law, foreign companies, enterprises, other commercial organizations and individuals, subject to the approval of the Chinese government are permitted to arrange within the territory of the PRC joint ventures with Chinese companies, enterprises and other commercial organizations based on the principles of equality and mutual benefit.

(a) Capitalization

The total amount of investment (including loans) of a joint venture refers to the sum of construction funds and the production working capitals needed for the EJV's production scale as stipulated in the contract and the articles of association of the EJV.

The registered capital refers to the sum of capital registered with the registration and administration government agency for the establishment of the EJV, which shall be the total amount subscribed by all parties to the EJV.

(b) Forms and timing of capital injection

Please refer to Paragraph 5 "Capital Injection to FIEs" hereof for details.

(c) Approval

Under the Implementation Rules, the approving authority must approve or not approve the application for establishment within three months from receiving such application. In practice, however, this period can be shortened substantially.

(d) Registration

EJVs which have been approved and issued with a formal certificate of approval must attend to registration procedure with the State Administration for Industry and Commerce ("SAIC") or its local branch offices within one month from receiving such approval. The date on which its business license is issued shall be regarded as the date of the establishment of an EJV.

(e) Management

For an EJV, the board of directors is the highest authority. A board of directors should comprise at least three directors who are appointed by the EJV parties with reference to, but not necessarily identical to, the proportion of each party's capital contribution. A chairman of the board is appointed by consultation between the parties.

The board of directors appoints a general manager and several deputy general managers. The general manager is responsible for managing the daily operations of the EJV.

(f) Legal status

All EJVs are limited liability companies with the right to own and use property, to carry out management and production independently and to sue and be sued. The liability of each EJV party is limited to its subscribed registered capital.

(g) Liquidation

Liquidation shall be conducted upon announcement of the dissolution of an EJV. A liquidation commission shall be set up, which shall be responsible for the matters of liquidation. EJV shall be liable to its debts with all of its assets. The remaining property after the clearance of debts shall be distributed among parties to the joint venture according to the proportion of each party's paid up capital unless otherwise provided by agreement, contract and articles of association of the EJV. Upon the approval by the State Administration of Foreign Exchange, the amount of Renminbi that belongs to foreign investors may be used to purchase foreign exchange and remit the same outside China.

(h) Decrease in registered capital

An EJV shall not reduce its registered capital during the term of the joint venture. If it is needed to reduce the registered capital because the total amount of investment and the production and business scale, etc, have changed, the approval from the approving authority must be obtained.

Any reduction of the registered capital of an EJV shall be approved by a meeting of the board of directors and submitted to the approving authority for approval. Registration procedures for changes shall be dealt with at the registration and administration office. If an EJV finds it necessary to reduce its registered capital, it must work out balance sheets and checklists of properties.

The EJV shall, within ten days after the decision of reducing registered capital, notify the creditors and make a public announcement on a newspaper within 30 days. The creditors shall, within 30 days after receiving the notice or within 45 days after the issuance of the public announcement if it fails to receive the notice, be entitled to demand the EJV to pay off the debts or to provide respective guaranties.

The registered capital of the EJV after reducing its registered capital shall not be lower than the minimum amount required by laws.

5.2 WFOE

WFOEs are governed by the Law of the PRC Concerning Enterprises with Sole Foreign Investments, which was promulgated on 12 April 1986 and amended on 31 October 2000, and its implementation Regulations promulgated on 12 December 1990 which was amended on 12 April 2001(collectively the "Foreign Enterprises Law")

(a) Procedures for establishments of a WFOE

The establishment of a WFOE will have to be approved by the Ministry of Commerce ("MOFCOM") (or its delegated authorities). If two or more foreign investors jointly apply for the establishment of a WFOE,. a copy of the contracts between the parties must also be submitted to MOFCOM (or its delegated authorities) for its approval and record. A WFOE must also obtain a business licence from State Administration for Industry and Commerce ("SAIC") (or its delegated authorities) before it can commence business.

(b) Nature

A WFOE is a limited liability company under the Foreign Enterprises Law. It is a legal person which may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. A foreign investor may make its contributions by instalments and the registered capital must be contributed within the period as approved by MOFCOM (or its delegated authorities) in accordance with relevant regulations.

(c) Profit distribution

The Foreign Enterprises Law provides that after payment of taxes, a WFOE must make contributions to a reserve fund and an employee bonus and welfare fund. The allocation ratio for the employee bonus and welfare fund may be determined by the enterprise. At least 10.0% of the after tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50.0% of an enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

Subject to compliance with relevant exchange rules and regulations, a WFOE may remit out of the PRC profits that are lawfully earned in the PRC.

6. REPATRIATION OF PROFITS AND DIVIDEND

The after tax dividends which the FIEs are permitted to declare consists of the amounts after the accumulated losses incurred in the previous years and the deductions required by law (such as employee bonus and welfare fund, reserve fund, enterprise expansion fund) have been deducted. The allocation ratios for the reserve fund, employee bonus and welfare fund and enterprise expansion fund are determined by the EJV's board of directors. Dividends not distributed in the previous year may be distributed together with those of the current year. The FIE's articles of association regulate the declaration of dividend. Such declaration of dividend usually requires the approval of the FIE's board of directors. The FIE's articles of association will also set out the quorum required for such approval.

FIEs whose registered capital has not been fully paid up as provided by the articles of association are not allowed to remit profits abroad. Profits distributed in accordance with the proportion of paid up registered capital can be remitted abroad based on the approval document issued by the original approving authority approving the establishment of the FIEs and the documents required by regulations of SAFE. Repatriation of the dividends declared requires submission to, inspections and examination of relevant documents by designated banks. The examination is merely administrative provided all the requisite documents are complete and in order (e.g., written board resolution authorizing such distribution/repatriation, audited annual report, tax returns, foreign exchange registration certificate, capital verification report and other documents required by SAFE). Dividends will be converted into foreign exchange for repatriation out of PRC by making withdrawals from their foreign exchange accounts or purchasing the necessary foreign exchange at designated foreign exchange banks.

Under the PRC Laws, FIEs are not allowed to provide loan or advance to its foreign investors if such loan or advances are remitted abroad in foreign exchange.

7. CAPITAL INJECTION TO FIES

Under the current applicable PRC Laws, capital contribution may take a variety of forms, including cash, machinery, equipment, land use rights and intellectual property rights, such as proprietary technology, trademarks and other industrial property rights.

Regulations jointly issued by the MOFTEC (now known as the Ministry of Commerce) and the SAIC in January 1988 provide that the joint venture contract must set forth a schedule for contributions of registered capital. Under these regulations, registered capital may be contributed in one lump sum, in which case it must be contributed within six months following the issuance of the business licence or in installments, in which case the first installment must be at least 15% of each party's total subscribed registered capital and must be contributed within 90 days following the date of issuance of the business license.

After each party has paid up its capital contribution, the EJV shall appoint an accountant registered in the PRC to verify the contribution and an investment certificate will be issued to each party as evidence of its ownership of the share of the EJV's registered capital.

When the foreign investors have fully paid up the registered capital of the FIE, the investors may apply to the authorities to increase the registered capital of the FIE and make contribution to the increased registered capital.

In addition to the above, foreign investors of FIE may provide shareholder's loan to the FIE, the parties should enter into written loan agreement and the loan agreement should be filed with the local SAFE. The shareholder's loan of a FIE should not exceed the difference between the registered capital and the total investment amount of the FIE.

8. FOREIGN EXCHANGE CONTROL

Major reforms have been introduced on the foreign exchange control system of the PRC since 1993.

The People's Bank of China ("PBOC"), with the authorisation of the State Council, issued on 28 December 1993 the Notice on the Further Reform of the Foreign Exchange Control System(中国人民银行关于进一步改革外汇管理体制的通知) and on 26 March 1994 the Provisional Regulations on the Settlement, Sale and Payment of Foreign Exchange (结汇、售汇及付汇管理暂行规定) which came into effect on 1 April 1994 respectively. On 29 January 1996, the State Council promulgated the PRC Foreign Exchange Administration Regulations (中华人民共和国外汇管理条例) which took effect on 1 April 1996 and revised on 14 January 1997 and 1 August 2008. On 20 June 1996, the PBOC issued the Administration Regulations on the Settlement, Sale and Payment of Foreign Exchange (结汇、售汇及付汇管理规定), which took effect on 1 July 1996. On 25 October 1998, the People's Bank of China and the State Administration for Foreign Exchange issued a Joint Announcement on Abolishment of Foreign Exchange Swap Business which stated that from 1 December, 1998, all foreign exchange transactions for FIEs may only be conducted through authorised banks.

These regulations contain detailed provisions regulating the holding, sale and purchase of foreign exchange by individuals, enterprises, economic bodies and social organisations in the PRC.

On 21 July 2005, the Public Annoucement of the PBOC on Reforming the RMB Exchange Rate Regime ("the Announcement") (完善人民币汇率形成机制改革有关事宜公告) was promulgated by PBOC. Under the new regulations, the previous dual exchange rate system for Renminbi was abolished and a unified floating exchange rate system based largely on supply and demand with reference to a basket of currencies, giving more flexibility as compared with the former system in which the RMB was pegged to the US dollar was introduced. The People's Bank of China, having regard to the trading prices between Renminbi and major foreign currencies on the inter-bank foreign exchange market, publishes on each bank business day the Renminbi exchange rates against major foreign currencies. In general, all organisations and individuals within the PRC, including foreign investment enterprises, are required to remit their foreign exchange earnings to the PRC. In relation to PRC enterprises, their recurrent foreign exchange earnings are generally required to be sold to designated banks unless specifically approved otherwise. Foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises), on the other hand, are permitted to retain certain percentage of their recurrent foreign exchange earnings and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks. Capital foreign exchange earnings must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

In accordance with the New Foreign Exchange Administration Regulations of PRC promulgated on 5 August 2008, all organizations and individuals, includes FIEs, within the PRC can remit their foreign exchange earnings back to the PRC or deposit them abroad. The terms and conditions for such remittance / deposit are prescribed by the SAFE or its delegated authorities in accordance with the PRC's international balance of payments and foreign exchange management needs. In relation to PRC enterprises, their foreign exchange earnings under current account can be retained or exchanged through financial institutions that have foreign exchange settlement, sale and payment operations. Before retaining the foreign exchange income under capital account or selling it to any designated financial institution, the approval of the SAFE or its delegated authorities shall be obtained, unless it is otherwise provided by the state.

At present, control on the purchase of foreign exchange is being relaxed. Enterprises which require foreign exchange for their current activities such as trading activities and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents without the need for any prior approvals of the State Administration of Foreign Exchange.

In addition, where an enterprise requires any foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as the distribution of profits by a foreign investment enterprise to its foreign investment party, then, subject to the due payment of tax on such dividends the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks, and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks upon the presentation of the resolutions of the board of directors on the profit distribution plan of that enterprise.

Despite the relaxation of foreign exchange control over current account transaction, the approval or registration procedure of the foreign exchange administration authority is still required before a PRC enterprise may borrow a loan in foreign currency or provide any foreign exchange guarantee or make any investment outside of the PRC or engage in business of distribution and trading for securities and derivative products outside PRC, registration is still required from SAFE (or its designated authorities). Further, the approval from the relevant authorities may be required before registration can be made effective with SAFE (or its designated authorities).

When conducting actual foreign exchange transactions, the designated banks may, based on the exchange rate published by the People's Bank of China and subject to certain limits, freely determine the applicable exchange rate.

The China Foreign Exchange Trading Centre ("CFETC") was formally established and came into operation in April 1994. CFETC has set up a computerised network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can trade in foreign exchange and settle their foreign currency obligations. Prior to 1 December, 1998, enterprises with foreign investment may at their own choice enter into exchange transactions through Swap Centre or through designated PRC banks. From 1 December, 1998 onwards, exchange transactions will have to be conducted through designated banks. Swap Centres became restricted to conducting foreign exchange transactions between authorised banks and inter-bank lending between PRC banks.

The PRC has also established a system to regulate return investment via overseas special purpose companies. According to the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (国家外汇管理局关于境内居民通过境外特殊目的公司融资及返程投资外汇管理有关问题的通知) which became effective on 1 November 2005, a domestic resident shall, before establishing or controlling an overseas special purpose company (the "SPC"), bring the prescriptive materials to the local branch of SAFE (the "SAFE Branch") to apply for going through the procedures for foreign exchange registration of overseas investments, SAFE Branch shall, after examining and checking the materials to be inerrant, affix the special seal for foreign exchange business for capital account transactions on the "Certificate of Foreign Exchange Registration of Overseas Investments" or the "Form of Foreign Exchange Registration of Overseas Investments of the Domestic Individual Resident". Where a domestic resident contributes the assets or stock rights of a domestic enterprise it owns into a SPC, or engages in stock right financing abroad after contributing assets or stock rights into a SPC, it shall go through the procedures for modification of foreign exchange registration of overseas investments with regard to the net asset equities of the SPC it holds. After a SPC accomplishes overseas financing, the domestic resident may, according to the plan on use of funds as stated in the business plans or the prospectus, transfer the funds which ought to be arranged for use inside PRC into PRC. A domestic resident may, after accomplishing the procedures for foreign exchange registration of overseas investments or for modification thereof in accordance with the legal provisions, pay the profits, dividends, liquidation expenses, stock right assignment expenses, capital decrease expenses, etc. to the SPC. Where a SPC meets with a major capital modification event such as capital increase or decrease, stock right assignment or exchange, merger or division, investment with long-term stock rights or credits, provision of guaranty to a foreign party, etc., and is not involved in return investment (the "Major Events"), the domestic resident shall, within 30 days as of the major event, apply to the SAFE Branch for going through the procedures for modification or filing of the foreign exchange registration of the overseas investments.

9. TAXATION

(a) Income tax on FIEs

There was no standardized enterprise income tax law which applied to all forms of enterprises in PRC before NPC promulgated the PRC Corporate Income Tax Law on 16 March 2007 which became effect on 1 January 2008.

The former applicable income tax laws, regulations, notices and decisions (collectively referred to as "Old Foreign Enterprises Tax Law") related to foreign investment enterprises and their investors before 1 January 2008 were as follows:-

(i) Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises adopted by the NPC on 9 April 1991;

(ii) Implementing Rules of the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises promulgated by the State Council, which came into effect on 1 July 1991;

(iii) Notice Relating to taxes Applicable to Foreign Investment Enterprises/Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares promulgated by State Tax Bureau on 21 July 1993;

(iv) Notice on Some Policy Questions Concerning Individual Income Tax issued by Ministry of Finance and the State Tax Bureau on 13 May 1994;

(v) Notice on Relevant Policies Concerning the Reduction of Income Tax on Interest and Other Income of Foreign Enterprises Derived from Sources in China issued by the State Council, which came into effect on 1 January 2000;

(vi) The third amendments to the Income Tax Law Applicable to Individuals of the PRC promulgated by Standing Committee of NPC on 27 October 2005.

According to the Old Foreign Enterprises Tax Law, foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises established in the territory of the PRC) are required to pay a national income tax at a rate of 30.0% of their taxable income and a local income tax at a rate of 3.0% of their taxable income.

A foreign investment enterprise engaged in production having a period of operation of not less than ten years shall be exempted from income tax for the first two profit-making years and a 50.0% reduction in the income tax payable for the next three years.

Foreign investment enterprises established in special economic zones, foreign enterprises having an establishment in special economic zones engaged in production or business operations and foreign investment enterprises engaged in production in economic and technological zones may pay income tax at a reduced rate of 15.0%. Foreign investment enterprises engaged in production established in coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located may pay income taxes at a reduced rate of 24.0%. A reduced income tax rate of 15.0% may apply to an enterprise located in such regions which is engaged in energy, communication, harbour, wharf or other projects encouraged by the State. Losses incurred in a tax year may be carried forward for not more than five years. The people's governments of provinces, autonomous regions and municipalities directly under the central government may grant exemptions from or reduced local income tax for a foreign investment enterprise engaged in an industry or a project encouraged by the State.

On 16 March 2007, NPC promulgated the new Enterprise Income Tax Law which became effective on 1 January 2008. On 28 November 2007, the Implemental Regulations of the Enterprise Income Tax Law was promulgated by the State Council and became effective on 1 January 2008.

According to the new Enterprise Income Tax Law and its implemental regulations, a standardized enterprise income tax is applied to all PRC resident enterprises (including FIEs) and the tax rate is 25.0%, which means the aforesaid tax preferential treatment on the FIEs in accordance with the Old Foreign Enterprises Tax Law is terminated.

On 26 December 2007, the State Council promulgated Notice on the Implementation of Enterprise Income Tax Transitional Preferential Policy (关于实施企业所得税过渡优惠政策的通知). According to which, with effect from 1 January 2008, enterprises established before 16 March 2007 and which enjoy the preferential tax treatment of a two-year tax exemption, followed by a three-year 50.0% reduced tax rate or a five-year tax exemption, followed by a five-year 50.0% reduced tax rate, will continue to enjoy such preferential tax treatment until the expiry of the aforesaid respective periods. In addition, the previous 15.0% preferential tax rate enjoyed by certain enterprises will gradually be increased from this current preferential tax rate to the unified 25.0% tax rate within five years commencing from 1 January 2008. Enterprises which previously enjoy the 24.0% preferential tax rate will be imposed with the unified 25.0% tax rate with effect from 1 January 2008. Further, the tax preferential treatments applicable to enterprises within the designated western region in the PRC will continue to be in force. However, regarding those enterprises that have not enjoyed the aforesaid preferential policy due to them not being profit-making, the preferential period shall commence from 1 January 2008.

(b) Value added tax

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax promulgated by the State Council came into effect on 1 January 1994, which was amended on 10 November 2008. Under these regulations and the Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Value added tax payable in the PRC is charged on an aggregated basis at a rate of 13.0 or 7.0% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17.0% on the charges for the taxable services provided but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

(c) Business tax

The Provisional Regulations of the PRC Concerning Business Tax adopted by the State Council on 13 December 1993 and revised on 5 November 2008. Under these regulations and the newly amended Implementing Rules of the Provisional Regulations of the PRC Concerning Business Tax,,businesses that provide services (including entertainment businesses), assign intangible assets or sell immovable property are liable to business tax at a rate ranging from 3.0% to 20.0% of the charges for the services provided, intangible assets assigned or immovable property sold, as the case may be. The formula for calculation of the amount of tax payable is set forth below:

Amount of tax payable = amount of business x tax rate

The amount of tax payable shall be calculated in RMB. Taxpayers that settle their amounts of business income in foreign exchange shall convert the amounts into RMB at the foreign exchange market rate.

(d) Consumption tax

On 13 December 1993, the State Council promulgated the Provisional Regulations on the Consumption Tax of PRC, which became effect from 1 January 1994 and was revised on 5 November 2008. According to which, any entity or individual that manufactures, subcontract the processing of or imports wine shall be taxpayers of consumption tax and shall pay consumption tax at a rate of 10% of sales amount.

(e) Tax on dividends from PRC enterprise with foreign investment

According to the Old Foreign Enterprises Tax Law, income such as rental, interest and royalty from the PRC derived by a foreign enterprise which has no establishment in the PRC or has establishment but the income has no relationship with such establishment is subject to a 10.0% withholding tax, subject to reduction as provided by any applicable double taxation treaty, unless the relevant income is specifically exempted from tax under the Applicable Foreign Enterprises Tax Law. The dividends derived by a foreign investor from a PRC enterprise with foreign investment are exempted from PRC withholding tax according to the Applicable Foreign Enterprises Tax Law. With the effectiveness of new Enterprise Income Tax Law since 1 January 2008, dividends derived by a foreign enterprise, which has no establishment in the PRC or has establishment but the dividends have no relationship with such establishment, from a PRC enterprise with foreign investment shall pay income tax at the rate of 20.0%.

In addition, according to the Implemental Regulations of the Enterprise Income Tax Law, the aforesaid dividend tax on foreign enterprise which has no establishment in the PRC or has establishment but the dividends have no relationship with such establishment was reduced to 10.0%

Further, according to the Agreement between the Government of the People's Republic of China and the Government of the Republic of Singapore for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (中华人民共和国政府和新加坡共和国政府关于对所得避免双重征税和防止偷漏税的协定) executed on 11 July 2007 and became effective on 1 January 2008, where the foreign enterprise is a resident of Singapore, the applicable income tax rate of this foreign enterprise shall not exceed 5.0% (if it holds directly at least 25.0% of the capital of the PRC enterprise) or 10.0% (in all other cases) of the gross amount of the dividends.

(f) Income tax on Non-Resident Enterprises' Equity Transfer Income

Capital gains realized by shareholders from sales of shares in the PRC are subject to PRC income tax. Pursuant to the Circular of the State Administration of Taxation on Strengthening Administration of Enterprise Income Tax on Non-Resident Enterprises' Equity Transfer Income (关于加强非居民企业股权转让所得企业所得税管理的通知) effective on 1 January 2008 ("Circular 698"), when a foreign investor (the actual controlling party) transfers a Chinese resident enterprise equity indirectly, if the actual tax rate is lower than 12.5% in the country (region) does not levy income tax to its resident on overseas income, then the enterprise needs to provide the documents in accordance with the Circular 698 to the local tax authority where the Chinese resident enterprise registered with within 30 days after the signing of the equity transfer contract.

Pursuant to the Circular of the Ministry of Finance and the State Administration of Taxation on Several Issues regarding Corporate Income Tax Treatment of Corporate Restructuring Transactions (财政部、国家税务总局关于企业重组业务企业所得税处理若干问题的通知) effective on 1 January 2008 ("Circular 59"), enterprises engaged in cross-border equity transfer may benefit from the special tax treatment provided that they satisfy the criteria set forth in the Circular 59.

(g) Custom duties

According to the Custom Law of the PRC, the consignee of the imports, the consignor of exports and the owner of the imports and the exports are the persons obligated to pay customs duties (generally speaking, exports are not subject to custom duties). The Customs is the authorities in charge of the collection of customs duties.

The customs duties in the PRC mainly fall under ad valorem duties, i.e. the price of import / export ccommodities is the basis for the calculation of the duties.

When calculating the customs duties, import / export commodities shall be classified under appropriate tax items in accordance with the category provisions of the Customs Import and Export Tariff and shall be subject to tax levies pursuant to relevant tax rates.

Under the laws of the PRC, raw materials, supplementary materials, parts, components, accessories and packing materials imported for processing and assembling finished products for foreign parties or for manufacturing products for export shall be exempt from import duties pursuant to the actual amount of goods processed for exports; or import duties may be levied upfront on import materials and parts and subsequently refunded pursuant to the actual amount of goods processed for export.

To encourage the introduction of foreign investments, as of 1992, the PRC exercised exemption and reduction of customs duties on the import of machinery, equipment, parts and other materials within the total investment of foreign investment companies. But after the adjustment of policies as of 1 April 1996, such exemption and reduction has been terminated, while the foreign investment companies incorporated before then can still continue to enjoy such preferential treatment within the grace period.

As from 1 January 1998, according to the Notice of the State Council regarding the Adjustment of Taxation Policy of Import Equipment, in respect of the foreign investment projects that fall under Encouraging Category and Restricted B Category of the Industrial Guidance Catalogue of Foreign Investment and also involve the transfer of technology, the equipment imported for its own use within the total investment can be exempt from the customs duties, except for the commodities listed in the Catalogue of the Non-tax-exemption Import Commodities of Foreign Investment Projects.

10. LABOUR LAW

The PRC Labour Contract Law, which became effective on 1 January 2008, imposes certain requirements in respect of human resources management, including, among other things, signing labour contracts with employees, terminating labour contracts, paying remuneration and compensation and making social insurance contributions. In addition, the PRC Labour Contract Law requires employers to provide remuneration packages which are not lower than the relevant local minimum standards.

The PRC Employment Promotion Law, which became effective on 1 January 2008, requires that individuals have equal employment opportunities, both in hiring and in employment terms, without discrimination on the basis of ethnicity, race, gender, religious belief, communicable disease or rural residence. Under this law, enterprises are also required to provide employees with vocational training. Administrative authorities at the county level or above are responsible for implementing policies to promote employment.

The Regulation on Work-Related Injury Insurance, which became effective on 1 January 2004, requires employers to pay work-related injury insurance fees for their employees. Under the Interim Measures Concerning the Maternity Insurance of Enterprises Employees, which became effective on 1 January 1995, employers must pay maternity insurance fees for their employees.

Under the Interim Regulations Concerning the Levy of Social Insurance Fees , which became effective on 22 January 1999 and the Interim Measures Concerning the Administration of the Registration of Social Insurance, which were adopted on 19 March 1999, employers in the PRC must apply for social insurance registration with the local social insurance authorities and make contributions to the basic pension insurance fund, basic medical insurance fund and unemployment insurance fund for their employees.

11. ENVIRONMENTAL PROTECTION REGULATIONS

(a) Environmental Protection Law

In accordance with the Environmental Protection Law of the PRC (中华人民共和国环境保护法) adopted by the Standing Committee of the NPC on 26 December 1989, the Administration Supervisory Department of Environmental Protection of the State Council is responsible for the overall supervision and control of environmental protection in the PRC. It formulates national standards for the discharging of water materials, environmental protection and monitors the PRC's environmental protection system. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have cause severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalised or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate the any losses or damages suffered as a result of such environmental pollution.

(b) The Water Pollution Prevention Law

The PRC Water Pollution Prevention Law (中华人民共和国水污染防治法) (the "Water Pollution Prevention Law") is the legal framework for the prevention and control of water pollution in respect of terrestrial and underground water from rivers, lakes, canals, channels and reservoirs. It was promulgated on 11 May 1984 and was revised twice on 15 May 1996 and 28 February 2008, respectively. The latest revision became effective on 1 June 2008. Environmental protection divisions under the local governments are vested with the functions to supervise and administer the prevention and control of water pollution, while the Ministry of Environmental Protection is in charge of the formulation of State water quality standards and State pollutant discharge standards. The provincial governments can supplement non- formulated items by setting local standards and filing reports to the State Environmental Protection Administration.

Any enterprise or institution that discharges pollutants directly or indirectly into bodies of water must register with the environmental protection department of the local government at county level or above in the area where they are situated. Such companies must provide information on their facilities which discharge such pollutants, their treatment plants, the type, amount and concentration of the pollutants discharged under normal business operations, in accordance with regulations set by the Administration Supervisory Department of Environmental Protection of the State Council. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment plants also require the approval of the environmental protection department of the local government at county level or above. Any enterprise or institution that discharges water pollutants is subject to a discharge fee in accordance with relevant regulations and an excess-pollutant discharge fee in case of discharges in excess of the prescribed level and has to take corrective measures. Entities that fail to comply with the Water Pollution Prevention Law will be subject to a warning notice, a penalty payment, suspension of operations and closure of business as determined by the relevant environmental authority-in-charge. Any entity that causes water pollution is obliged to ensure the elimination of the pollution and compensate direct losses suffered by entities or individuals.

(c) The Atmospheric Pollution Prevention Law

The PRC Atmospheric Pollution Prevention Law (中华人民共和国大气污染防治法) (the "Atmospheric Pollution Prevention Law") was promulgated on 5 September 1987 and revised on 29 August 1995 and 29 April 2000, respectively. It is aimed at the prevention and control of atmospheric pollution. Administrative departments of environmental protection under the government at or above the county level shall be responsible for conducting unified supervision and management of the prevention and control of atmospheric pollution. Where atmospheric pollutants are discharged, the concentration of the said pollutants should not exceed the standards prescribed by State and local authorities. In addition, a system of collecting fees has been implemented by the government for discharging pollutants on the basis of the categories and quantities of the atmospheric pollutants.

Entities that discharge pollutants into the atmosphere must report to the local administrative department of environmental protection its existing discharge and treatment facilities for pollutants and the categories, quantities and concentrations of pollutants discharged under normal operation conditions and submit to the same department relevant technical data concerning the prevention and control of atmosphere pollution.

Entities that fail to comply with the Atmospheric Pollution Prevention Law will be subject to (i) a warning notice, (ii) a fine, confiscation of illegal earnings, (iii) a suspension of operations or the closure of their operations as determined by the competent environmental authority-in-charge and (iv) potential criminal liability. Any entity that causes an atmospheric pollution hazard will be responsible for eliminating the pollution and must compensate relevant entities or individuals for their loss resulting from the pollution.

(d) The Noise Pollution Prevention Law

The PRC Noise Pollution Prevention Law (中华人民共和国环境噪声污染防治法)

(the "Noise Pollution Prevention Law"), promulgated on 29 October 1996 and effective on 1 March 1997, establishes the framework for noise pollution prevention in the PRC. Under the Noise Pollution Prevention Law, any person undertaking a construction, renovation or expansion project which might cause environmental noise pollution must prepare and submit an environmental impact statement to the Ministry of Environmental Protection for approval. Facilities for the prevention and control of environmental noise pollution must be designed, approved by the Ministry of Environmental Protection prior to commencement of the project, built and placed into use simultaneously when the project commences work. Facilities for the prevention and control of environmental noise pollution may not be dismantled or left idle without the approval of the Ministry of Environmental Protection.

Entities that make noise pollution must report to the local administration department of environmental protection the categories, quantities of its exsiting facilities which create and abate noise and the noise level emitted under normal operation conditions, and also submit to the same department relevant technical data concerning the prevention and control of noise pollution.

(e) The Solid Waste Pollution Prevention Law

The Laws of the PRC on the Prevention and Control of the Solid Waste Pollution (the "Solid Waste Pollution Prevention Law") promulgated by the Standing Committee of NPC on 30 October 1995 and revised on 29 December 2004, establishes the provisions of the prevention, treatment and management of solid pollution within the Chinese territory. "Solid waste" means articles and substances in solid, semi-solid state or gaseity in containers that are produced in the production, living and other activities and have lost their original use values or are discarded or abandoned though haven't yet lost use values, and articles and substances that are subject to the management of solid wastes as stipulated by the laws and administrative regulations. New constructions project, expansion, or reconstruction project that discharges solid pollutants shall comply with the Solid Waste Pollution Prevention Law and other state regulations on environmental protection. Enterprises that discharge solid pollutants must report to the local administration department of environmental protection its existing discharge and treatment facilities for pollutants and the categories, quantities and concentrations of pollutants discharged under normal operation conditions and submit to the same department relevant technical data concerning the prevention and control of solid waste pollution.

The environmental protection administrative department of the State Council shall, pursuant to state environmental quality standards and state economic and technical conditions, formulate state technical standards on the prevention and control of environmental pollution by solid wastes in collaboration with the relevant administrative departments of the State Council. The environmental protection administrative department of the State Council shall establish a system for monitoring environmental pollution by solid wastes, formulate unified monitoring standards and, in conjunction with relevant departments, set up a monitoring network.

Government authorities shall impose different penalties against persons or enterprises in violation of the Solid Waste Pollution Prevention Law depending on the individual circumstances and extent of contamination. Such penalties include orders to stop illegal acts, fines, decisions to impose deadlines for cure, orders to suspend production, orders to reinstall contamination prevention and cure facilities which have been removed or left unused, imposition of administrative actions against relevant responsible persons, or orders to close down those enterprises or authorities. Any of the above penalties together with fines may be imposed by government authorities. Where the violation committed is serious, persons in violation may be required to pay damages to victims. Persons directly responsible may be subject to criminal liabilities.

12. LAWS AND REGULATIONS APPLICATION TO THE WINE INDUSTRY

(a) Food Safety Law

The PRC Food Safety Law (中华人民共和国食品安全法) (the "Food Safety Law") promulgated on 28 February 2009 and effective on 1 June 2009, which replaced The Law on Food Hygiene of the PRC (中华人民共和国食品卫生法) (the "Food Hygiene Law") promulgated on 30 October 1995, sets out the legal framework for food production safety and the administration of the food industry.

Under the Food Safety Law, the State Council shall establish a State Food Safety Commission, whose specific obligations are to be determined by the State Council. The Ministry of Health of the PRC, an authority at the ministerial level under the State Council, is responsible for the overall coordination of (i) food safety, (ii) food safety risk evaluation, (iii) formulation of food safety standards, (iv) release of food safety information, (v) formulation of qualification standards for food test agencies, (vi) formulation of food testing rules and (vii) investigation of major food safety incidents. The General Administration of Quality Supervision, Inspection and Quarantine of the PRC ("AQSIQ"), the State Administration of Industry and Commerce of the PRC ("SAIC") and the State Food and Drug Administration of the PRC ("SDFA") also monitor food production, food distribution and food and beverage services in accordance with the Food Safety Law and their respective obligations as determined by the State Council.

All enterprises who are engaged in food production have to comply with the national mandatory food safety standards. Before such national mandatory food safety standards were promulgated, food producers and dealers had to comply with the (i) edible agricultural products safety standards, (ii) food hygiene standards, (iii) food quality standards and (iv) relevant industry standards which were in effect. The State is also responsible for establishing food safety risk monitoring and evaluation systems. The public hygiene authority will conduct a food safety risk evaluation immediately upon the identification of any potential food safety issues through the food safety risk monitoring system or upon receipt of any report on potential food safety issues. If the food safety risk evaluation concludes that the relevant food is unsafe, the AQSIQ, SAIC and SFDA should take immediate action to ensure that the food production is stopped and should make the appropriate warnings to consumers not to consume the food.

The Food Safety Law also stipulates that a food production permit, a food distribution permit or a food and beverage permit must be obtained before any person or enterprise can engage in food production, food distribution, or food and beverage services. A food producer who possesses a food production permit is not required to obtain a food distribution permit in order for it to sell food at its site of production.

Should any enterprise violate the Food Safety Law, the relevant authorities may, taking into account the individual circumstances of each case, (i) issue a warning to the enterprise, (ii) require it to rectify its violation, (iii) confiscate its illegal gains, (iv) impose a fine on it, (v) require it to stop production, (vi) require it to make an immediate announcement recalling the food it has sold or (vii) withdraw its relevant food permit. In the event such violation constitutes a criminal offence, the enterprise and persons directly responsible for such violations may be prosecuted.

The Implementation Regulations of the PRC Food Safety Law (中华人民共和国食品安全法实施条例) (the "Implementation Regulations") promulgated by the Sate Council on 20 July 2009 and effective on the same date sets out supplementary and/or detailed rules as to the implementation of the Food Safety Law. Pursuant to the Implementation Regulations, a food production permit or a food distribution permit is valid for a term of three years. The Implementation Regulations also provides that a food producer should keep its record as to stock or quality inspection or food production safety management for a period of two years, and should establish and implement food safety management systems related to raw materials inspection, operational safety, storage, equipment and deficit products.

(b) Food Hygiene Law

According to the Food Hygiene Law, food production enterprises should obtain the Food Hygiene Permit in order to conduct its business and the Hygiene Administration of the State Council is the relevant governmental authority which administrates the food hygiene issues. The Administration Rules on Food Hygiene Permit (食品卫生许可证管理办法) (the "Food Hygiene Permit Rules") promulgated by the Ministry of Health of the PRC which became effective on 1 June 2006 stipulates the compulsory standards and the detailed procedures in obtaining Food Hygiene Permits.

According to the Food Hygiene Permit Rules, the validity period of a food hygien permit is four years since the date of obtaining it. In addition, a food producer conducting food production in more than two (including two) places shall separately obtain Food Hygiene Permits for each of its food production places.

(c) Standardisation Law

The PRC Standardisation Law (中华人民共和国标准化法) (the "Standardisation Law"), promulgated on 29 December 1988 and effective on 1 April 1989, and the related Implementation Regulations (中华人民共和国标准化法实施条例) promulgated on 6 April 1990, set out the legal framework for the development of standard directives and their applications by all industries and sectors nationwide. According to the Standardisation Law and its implemental regulations, the food hygiene executive standard is a compulsory standard imposed on food production enterprises. Products that fall short of the compulsory standards shall not be produced, distributed or imported.

Compulsory National Standards for Wines was jointly issued by the AQSIQ and the China National Standardizing Committee on 11 December 2006 and became effective on 1 January 2008.

(d) Provisional Rules on Administration of Export Food Hygiene

The Provisional Rules on Administration of Export Food Hygiene (中华人民共和国出口食品卫生管理办法) (the "Export Food Rules") issued by the State Administration of Export-Import Inspection of the PRC (now known as the State Administration for Entry-Exit Inspection and Quarantine of the PRC) ("SAEEIQ") and the Ministry of Health of the PRC on 20 October 1984. According to the Export Food Rules, food production enterprises which conduct the production of export food should register with the provincial Administration for Entry-Exit Inspection and Quarantine. Export food which is lack of export inspection or fails to pass the export inspection should not be exported.

(e) Regulatory Rules on Hygiene Registration of Enterprises Producing Export Foods

The Regulatory Rules on Hygiene Registration of Enterprises Producing Export Foods (出口食品生产企业卫生注册登记管理规定) ("Hygiene Registration Rules") issued by SAEEIQ which became effective on 20 May 2002. According to the Hygiene Registration Rules, PRC adopted the registration system on the enterprises that produce, process or store export foods ("Food Production Enterprises"). The State Certification and Accreditation Administration (国家认证认可监督管理委员会) ("CNCA") is in charge of the nationwide registration of Food Production Enterprises in PRC. Local Administration for Entry-Exit Inspection and Quarantine (Local SAEEIQ) directly administrated by AQSIQ is in charge of the registration of the hygiene registration work with their jurisdictions. Food Production Enterprises within the scope of the Catalogue of the Food Products Under Export Food Hygiene Registration Control (实施出口食品卫生注册、登记的产品目录) shall be under the administration of the hygiene registration. Food production enterprises within the scope of the Catalogue of Registration That Need To Be Reviewed According to HACCP (卫生注册需评审HACCP体系的产品目录) shall establish and implement the HACCP system according to the Hazard Analysis and Critical Control Point (HACCP) System and Guidelines for its Application issued by the Codex Alimentarius Commission (国际食品法典委员会).

(f) Regulations on the Administration of Permits for the Production of Industrial Products

Pursuant to the PRC Regulations on the Administration of Permits for the Production of Industrial Products (中华人民共和国工业产品生产许可证管理条例), promulgated by the State Council on 9 July 2005 and effective on 1 September 2005, and its Implementation Rules (中华人民共和国工业产品生产许可证管理条例实施办法), promulgated on 31 August 2005 and effective on 1 November 2005, China has implemented a system to issue production permits to enterprises which are engaged in the production of processed food directly relating to human health (such as meat and dairy products, beverages, rice, noodles, edible oil and wine). The AQSIQ is responsible for formulating and publishing relevant industrial product catalogues and published the latest catalogue (实行生产许可证制度管理的产品目录) on 5 December 2007 accordingly. Enterprises which manufacture products falling under the said catalogue should apply for and obtain production permits from the designated authorities and should include the permit number and the production permit mark (QS mark) on their products, manuals or packaging. No one is allowed to manufacture products under the industrial product catalogue without valid production permits. The production permit for a food production enterprise is valid for three years.

Yours faithfully,

景天公诚

Jingtian & Gongcheng

APPENDIX D OPINION FROM SHOOK LIN & BOK LLP ON FOREIGN INVESTMENT POLICY, TAXATION, FOREIGN EXCHANGE CONTROL AND REPATRIATION OF PROFITS OUT OF SINGAPORE, OWNERSHIP OF TITLE TO EQUITY INTEREST/ ASSETS IN SINGAPORE, ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS UNDER THE LAW OF SINGAPORE

ShookLin & Bok LLP
旭龄及穆律師樓

Advocates & Solicitors
Notaries Public & Commissioners for Oaths
Associated with Shook Lin & Bok Kuala Lumpur

By Hand Despatch Only

30 September 2010

Your ref :

China Ouhua Winery Holdings Limited
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AIA Tower
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Our ref : (in reply please quote our reference)
OEB/HLC/2090950
Fax No. :
Total no. of pages 7 including this page

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Corporate & Corporate Finance

Banking

Litigation & Arbitration

Restructuring & Insolvency

Regulatory/Competition

Asset, Fund & Wealth Management

Technology, Media & Telecommunications

Property

China/India/ASEAN Practices

Dear Sirs

CHINA OUHUA WINERY HOLDINGS LIMITED (THE "COMPANY") - FOREIGN INVESTMENT POLICIES AND REPATRIATION OF CAPITAL AND DIVIDENDS, LEGAL STRUCTURE, OWNERSHIP AND TITLE TO SECURITIES/ASSETS, ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS GIVEN BY FOREIGN COUNTERPARTIES UNDER RELEVANT LAWS OF SINGAPORE

Introduction

1. We are a law firm practicing Singapore law, and we act as legal advisers to the Company on Singapore law in connection with the proposed initial public offering of the Company in conjunction with the Company's proposed listing ("**Proposed Listing**") on the Main Market of Bursa Malaysia Securities Berhad.

   We have been requested by the Company to advise on the following matters:

   (a) the current legal position under Singapore laws in relation to foreign investment policies (including exchange controls) and repatriation of dividends from Singapore under Singapore law;

   (b) the ownership by the Company of equity interests in its subsidiary, Yantai Fazenda Ouhua Winery Co., Ltd. (烟台欧华庄园葡萄酿酒有限公司) ("**Ouhua PRC**") (which is incorporated in the People's Republic of China ("**PRC**")) under Singapore law;

   (c) ownership of shares in the capital of the Company under Singapore law; and

   (d) the enforceability of agreements, representations and undertakings given by the Company under Singapore law.

2. This letter has been prepared for the purposes of inclusion in the prospectus to be dated 15 October 2010 ("**Prospectus**") in connection with the Proposed Listing.

Governing Law

3. This letter, and in particular our opinion set out in paragraph 5 herein, is limited to matters of the laws of Singapore as applied by the Singapore courts and is given on the basis that it will be governed by and construed in accordance with, and any liability which may arise in respect of it is to be governed by, the laws of Singapore.

We express no opinion with respect to the laws of any other jurisdiction. We have made no investigation of the laws of any country or jurisdiction other than Singapore and do not express or imply any opinion thereof.

Our views expressed herein pertain to the laws of Singapore only, and we express no view with respect to any other matter. This letter is also given on the basis that we undertake no responsibility and are under no obligation to advise you of any other matters that may occur after the date of this letter which could render the views expressed herein no longer applicable.

Work Undertaken

4. For the purpose of rendering our opinion set out in paragraph 5 herein, we have been provided with, reviewed and relied on the following documents (the "**Documents**"):

(a) Bizfile Certificate dated 13 January 2009 issued by the Accounting & Regulatory Authority of Singapore confirming incorporation of the Company;

(b) the Memorandum and Articles of Association of the Company ("**M&A**");

(c) the minute book and statutory registers of the Company;

(d) Equity Transfer Agreement dated 13 March 2009 entered into between the Company and Hualian Commercial Building (Spain) S.L.;

(e) Capital Increase Agreement dated 16 March 2009 entered into between the Company and Yantai Ouhua Winery Co., Ltd (烟台欧华酒业有限公司) ("**YO Winery**");

(f) Shareholders' Agreement dated 4 May 2009 entered into between the Company, Wang Chao, Huaxin International Holdings Limited ("**Huaxin**") and Soleil Capital Limited ("**Soleil**");

(g) Deed of Release and Discharge dated 20 November 2009 entered into between the Company and Wang Chao;

(h) Call Option Agreement dated 27 November 2009 entered into between the Company, YO Winery and Yantai Fazenda Ouhua Winery Co., Ltd. (烟台欧华酒业有限公司) ("**Ouhua PRC**");

(i) Deed of Undertaking dated 4 December 2009 executed by YO Winery and addressed to the Company;

(j) Loan Agreement dated 22 September 2010 entered into between the Company and Soleil; and

(k) Loan Agreement dated 22 September 2010 entered into between the Company and Huaxin.

Other than the above Documents, we have not reviewed any other document and have not made any other enquiries or investigations for the purpose of rendering our opinion set out in paragraph 5 herein.

Our Opinion

5. Based upon and subject to the foregoing, and subject to the assumptions and qualifications set out in paragraphs 3, 6 and 7 herein, we are of the view that:

(a) Foreign Investment Policies

Subject to the payment of the taxes applicable under Singapore law:

(i) there is no restriction or time frame imposed on the reinvestment or repatriation of earnings, dividends or capital under Singapore laws; and

(ii) there is no restriction on the Company receiving remitted monies or profits, or engaging in foreign exchange transactions or capital movements,

provided there is no breach of any rule for international monitoring for countering money-laundering and terrorism.

(b) Dividends

The M&A provides for the declaration of dividends upon its shareholders' approval by ordinary resolution in a general meeting, provided that no such dividend shall exceed the amount recommended by the Company's directors ("**Directors**"). The Directors may, with shareholders' approval in general meeting, distribute in specie or in kind among the shareholders of the Company in satisfaction in whole or in part of any dividend any of the assets of the Company, and in particular any shares or securities of other companies to which the Company is entitled. The Directors may also, if they think fit, from time to time, pay to the shareholders of the Company, such interim dividends as appear to the Directors to be justified by the profits of the Company. The M&A provides that no dividend shall bear interest against the Company. Under Singapore laws, no dividend shall be payable except out of the profits of the Company.

(c) Legal Structure

There is no restriction under Singapore laws or in the M&A that prohibits the Company from holding equity interests in Ouhua PRC.

(d) Ownership of shares in the Company

There is no restriction under Singapore laws or in the M&A that prohibits or restricts foreigners from holding shares in the Company or exercising their voting rights attached to such shares. For the purposes of this sub-paragraph 5(d) herein, the term "foreigners" refers to persons other than Singapore Citizens and Singapore Permanent Residents.

(e) Enforceability of Agreements, Representations and Undertakings

The agreements, representations and undertakings given by a Singapore company are generally enforceable in the Singapore courts in accordance with their terms unless:

(i) the validity, performance and enforcement is limited by statutes of limitation, lapse of time, waiver and laws relating to bankruptcy, insolvency, reorganisation, liquidation, moratorium arrangements or similar laws affecting creditors' rights generally; or

(ii) where the obligations are illegal or contrary to public policy.

In respect of the agreements and deed referred to in paragraphs 4(d) to (k) herein ("**Relevant Agreements**"), the Company has taken all corporate action required to authorize its execution and performance of the Relevant Agreements; the terms and provisions of the Relevant Agreements do not violate any applicable law or regulation in Singapore; and the Relevant Agreements constitute valid and enforceable obligations of the Company in accordance with the terms and provisions thereof.

Assumptions

6. In considering the Documents and rendering the opinion that we have expressed in paragraph 5 herein, we have made the following assumptions:

(a) the authenticity and completeness of all Documents provided to us as originals, and the conformity to the originals of all Documents provided to us as copies;

(b) the genuineness of all signatures, seals, chops, duty stamp or marking on all the Documents;

(c) each party to a Document is an existing legal entity under the laws of the country of its incorporation, with full legal personality and is able lawfully, and each has full capacity, to enter into such Document, and that each signature on behalf of each party thereto is that of a person authorised to execute the same;

(d) all Documents as reviewed by us are true, accurate and complete, and to the extent that any Document is dated on or before the date of this letter, that such Document remains accurate as at the date of this letter and has not been rescinded or modified or supplemented to in any way;

(e) no party to any of the Documents has entered into any Document in consequence of bad faith or fraud, coercion, duress, misrepresentation or undue influence or on the basis of a mistake of fact or law or believing any Document to be fundamentally different in substance or in kind from what it is;

(f) the minute book and statutory registers of the Company provided to us for examination are true and complete and the board resolutions and shareholders resolutions set out in the minute book of the

Company have not been rescinded or modified and they remain in full force and effect and that no other resolution or action has been taken which could affect the validity of the board resolutions or shareholders' resolutions;

(g) the correctness of all facts and information stated or given in all Documents; and

(h) no foreign law affects our opinion set out in paragraph 5 herein.

The making of the above assumptions does not imply that we have made any enquiry to verify any assumption (other than as expressly stated in this letter). No assumption specified above is limited by reference to any other assumption.

Qualifications

7. Our opinion set out in paragraph 5 herein is subject to the following qualifications:

(a) The term "enforceable" as used in this letter means that the obligations assumed by the Company under any agreement are of a type which in general terms are capable of being enforced by the Singapore courts. It does not mean that the obligations under any agreement will necessary be enforced exactly in accordance with their terms, in particular:

(i) the validity, performance and enforcement of the relevant agreement may be limited by statutes of limitation, lapse of time, waiver and by laws relating to bankruptcy, insolvency, re-organisation, liquidation, moratorium arrangements or similar laws affecting creditors' rights generally and claims may be or become subject to set off or counter claim of third parties;

(ii) where obligations are required to be performed in a jurisdiction outside Singapore, they may not be enforceable in Singapore to the extent that performance would be illegal or contrary to public policy under the laws of that jurisdiction;

(iii) enforcement may be limited by general principles of equity, for instance, equitable remedies such as injunction and specific performance are, in general, discretionary remedies under Singapore law and may not be available where damages are considered to be an adequate and appropriate remedy;

(iv) the enforcement of the obligations of the parties may be limited by the provisions of Singapore law applicable to agreements held to have been frustrated by events happening after their execution;

(v) enforcement proceedings are subject to the general jurisdiction of the court in regard to awards of costs, even as against a successful party;

(vi) any provision in any of the relevant agreement providing for the severance of any provision which is illegal, invalid or unenforceable may not be binding under the laws of Singapore as it depends on the nature of the illegality, invalidity or unenforceability in question which issue would be determined by a Singapore court at its discretion;

(vii) a Singapore court may refuse to give effect to clauses in any of the relevant agreements in respect of the costs of unsuccessful litigation brought in a Singapore court or where the court itself made an order for costs;

(viii) in appropriate circumstances and at the court's discretion, the courts of Singapore may render judgments in foreign currencies (such judgments may, however, have to be converted into local currencies for enforcement purposes);

(ix) the courts of Singapore may refuse to accept jurisdiction or stay proceedings in certain circumstances (for example, if the matter concerned is res judicata, if litigation is pending in another forum on the same matter or if another forum is more convenient);

(x) where party to any of the agreements is vested with a discretion or may determine a matter in its opinion, Singapore law may require such discretion to be exercised reasonably or that such an opinion is based upon reasonable grounds;

(xi) an obligation to pay an amount may be unenforceable if the amount is held to constitute a penalty;

(xii) we have assumed that the choice of the laws of Singapore in the respective agreements is bona fide and not in contravention of public policy. The choice of law governing any agreement will only be recognised and upheld by the Singapore courts provided that the same is bona fide and there being no reasons for avoiding it for reason of contravention of public policy. A choice of law clause may also not be upheld if it was made with the express purpose of avoiding the law of a jurisdiction with which the relevant agreement has the most substantial connection and which, if in the absence of the stated choice of law would have invalidated the relevant agreement or been inconsistent with it;

(xiii) the failure to exercise a right may be held by a Singapore court to operate as a waiver of that right notwithstanding any provision to the contrary in any of the agreement;

(xiv) the effectiveness of any provisions exculpating a party from liability or duty otherwise owed may be limited by law;

(xv) our opinion in paragraph 5 herein is subject to any limitation on the legality, validity, enforceability or binding nature of the Documents resulting from:

(aa) any amendment, waiver, variation or discharge, whether effected by a further or supplemental agreement, side letter or other document or medium, arrangement, course of dealings or otherwise (whether or not evidenced in writing) which may affect such agreements or other matters not expressly disclosed by or apparent on the face of those agreement; or

(bb) the possibility that an on demand obligation may not be enforceable as such in circumstances where fraud has occurred; and

(xvi) the terms and conditions of the relevant agreements may be amended, revised, varied and/or supplemented orally or by course of conduct notwithstanding any provisions to the contrary.

(b) Save as otherwise expressly stated in this letter, we express no opinion on the accuracy and completeness of any statements or warranties of fact set out in any agreement, as to which statements or warranties we have not independently verified.

(c) Save as otherwise expressly stated in this letter, we also express no opinion as to the ability of the relevant parties to any of the agreements to observe and comply with their respective obligations thereunder.

Benefit of Opinion

8. We are furnishing this letter to you solely for your benefit in connection with the Proposed Listing and is not to be relied upon by any other person, firm or entity or in respect of any other matter except that it may be provided to any Malaysian governmental authority, the Securities Commission of Malaysia or Bursa Malaysia Securities Berhad, if so required, in connection with the Proposed Listing only.

Yours faithfully

Shook Lin & Bok

SHOOK LIN & BOK LLP

競天公誠律師事務所

JINGTIAN & GONGCHENG

ATTORNEYS AT LAW

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电话: (86-10) 5809-1000 传真: (86-10) 5809-1100

20 September 2010

To: The Board of Directors
China Ouhua Winery Holdings Limited (the "Company")
1 Robinson Road,
#17-00AIA Tower,
Singapore 048542

Dear Sirs,

EXPERT'S REPORT ON THE POLICIES ON FOREIGN INVESTMENTS OF THE PEOPLE'S REPUBLIC OF CHINA ("PRC", FOR THE PURPOSE OF THIS REPORT, EXCLUDING HONG KONG SPECIAL ADMINISTRATIVE REGION OF PRC, MACAO SPECIAL ADMINISTRATIVE REGION OF PRC AND TAIWAN PROVINCE) IN CONNECTION WITH THE PROPOSED ADMISSION OF THE COMPANY ON THE OFFICIAL LIST OF BURSA MALAYSIA SECURITIES BERHAD ("BURSA SECURITIES") AND THE LISTING OF AND QUOTATION FOR ITS ENTIRE ISSUED AND PAID-UP SHARE CAPITAL ON THE MAIN MARKET OF BURSA SECURITIES ("LISTING")

Jingtian & Gongcheng (hereinafter known as "**Our Firm**" or "**We**") is a law firm legally registered in the PRC. Our Firm is duly qualified to practice PRC law and is authorized by the PRC Ministry of Justice to practice and to issue legal opinions in relation to laws of the PRC, and such qualification and authorization have not been revoked, suspended, restricted or limited in any manner whatsoever. Accordingly, Our Firm is duly qualified and authorized to issue this Expert's Report ("**Report**").

We have been requested by the Company to provide an export report on Yantai Fazenda Ouhua Winery Co., Ltd. (烟台欧华庄园葡萄酿酒有限公司) ("**Ouhua PRC**") on the policies on foreign investments (including taxation, foreign exchange control) and repatriation of profits as well as expected timeframe in which profits are to be repatriated under the laws of PRC ("**PRC Laws**").

This Report has been prepared for inclusion in the prospectus for the purpose of the Listing.

1. Foreign Investment Policies in the PRC

The three major Chinese government policies concerning foreign investment in China are outlined in the "Provisions on Guiding the Orientation of Foreign Investment', the "Catalogue of Industries for Guiding Foreign Investment (Amended in 2007) as well as the "Catalogue of Priority Industries for Foreign Investment in the Central-Western Region (Amended in 2008). These provisions classify investment projects into encouraged, permitted, restricted and prohibited categories. In general, projects engaged in the high-tech, agriculture, forestry, telecommunications, and export oriented sectors will be strongly encouraged and further supported by government agencies from financial and tax respects.

Foreign investment enterprises ("**FIEs**") can take many forms such as wholly foreign owned enterprise （"**WFOE**"）, Sino-foreign equity joint venture ("**EJV**") or Sino-foreign co-operative joint venture.

1.1 EJV

EJVs are governed by the Law of the PRC on Sino-foreign Equity Joint Venture Enterprises promulgated on 1 July 1979, and amended on 4 April 1990 and 15 March 2001 respectively ("**EJV Law**") and its Implementation Rules promulgated on 20 September 1983, and amended on 15 January 1986 and 22 July 2001 respectively ("**Implementation Rules**").

Under the EJV Law, foreign companies, enterprises, other commercial organizations and individuals, subject to the approval of the Chinese government are permitted to arrange within the territory of the PRC joint ventures with Chinese companies, enterprises and other commercial organizations based on the principles of equality and mutual benefit.

(a) Capitalization

The total amount of investment (including loans) of a joint venture refers to the sum of construction funds and the production working capitals needed for the EJV's production scale as stipulated in the contract and the articles of association of the EJV.

The registered capital refers to the sum of capital registered with the registration and administration government agency for the establishment of the EJV, which shall be the total amount subscribed by all parties to the EJV.

(b) Forms and timing of capital injection

Please refer to Paragraph 5 "Capital Injection to FIEs" hereof for details.

(c) Approval

Under the Implementation Rules, the approving authority must approve or not approve the application for establishment within three months from receiving such application. In practice, however, this period can be shortened substantially.

(d) Registration

EJVs which have been approved and issued with a formal certificate of approval must attend to registration procedure with the State Administration for Industry and Commerce ("**SAIC**") or its local branch offices within one month from receiving such approval. The date on which its business license is issued shall be regarded as the date of the establishment of an EJV.

(e) Management

For an EJV, the board of directors is the highest authority. A board of directors should comprise at least three directors who are appointed by the EJV parties with reference to, but not necessarily identical to, the proportion of each party's capital contribution. A chairman of the board is appointed by consultation between the parties.

The board of directors appoints a general manager and several deputy general managers. The general manager is responsible for managing the daily operations of the EJV.

(f) Legal status

All EJVs are limited liability companies with the right to own and use property, to carry out management and production independently and to sue and be sued. The liability of each EJV party is limited to its subscribed registered capital.

(g) Liquidation

Liquidation shall be conducted upon announcement of the dissolution of an EJV. A liquidation commission shall be set up, which shall be responsible for the matters of liquidation. EJV shall be liable to its debts with all of its assets. The remaining property after the clearance of debts shall be distributed among parties to the joint venture according to the proportion of each party's paid up capital unless otherwise provided by agreement, contract and articles of association of the EJV. Upon the approval by the State Administration of Foreign Exchange ("**SAFE**"), the amount of Renminbi that belongs to foreign investors may be used to purchase foreign exchange and remit the same outside China.

(h) Decrease in registered capital

An EJV shall not reduce its registered capital during the term of the joint venture. If it is needed to reduce the registered capital because the total amount of investment and the production and business scale, etc, have changed, the approval from the approving authority must be obtained.

Any reduction of the registered capital of an EJV shall be approved by a meeting of the board of directors and submitted to the approving authority for approval. Registration procedures for changes shall be dealt with at the registration and administration office. If an EJV finds it necessary to reduce its registered capital, it must work out balance sheets and checklists of properties.

The EJV shall, within ten days after the decision of reducing registered capital, notify the creditors and make a public announcement on a newspaper within 30 days. The creditors shall, within 30 days after receiving the notice or within 45 days after the issuance of the public announcement if it fails to receive the notice, be entitled to demand the EJV to pay off the debts or to provide respective guaranties.

The registered capital of the EJV after reducing its registered capital shall not be lower than the minimum amount required by laws.

1.2 WFOE

WFOEs are governed by the Law of the PRC Concerning Enterprises with Sole Foreign Investments, which was promulgated on 12 April 1986 and amended on 31 October 2000, and its implementation Regulations promulgated on 12 December 1990 which was amended on 12 April 2001(collectively the "**Foreign Enterprises Law**")

(a) Procedures for establishments of a WFOE

The establishment of a WFOE will have to be approved by the Ministry of Commerce ("**MOFCOM**") (or its delegated authorities). If two or more foreign investors jointly apply for the establishment of a WFOE, a copy of the contracts between the parties must also be submitted to MOFCOM (or its delegated authorities) for its approval and record. A WFOE must also obtain a business licence from SAIC (or its delegated authorities) before it can commence business.

(b) Nature

A WFOE is a limited liability company under the Foreign Enterprises Law. It is a legal person which may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. A foreign investor may make its contributions by instalments and the registered capital must be contributed within the period as approved by MOFCOM (or its delegated authorities) in accordance with relevant regulations.

(c) Profit distribution

The Foreign Enterprises Law provides that after payment of taxes, a WFOE must make contributions to a reserve fund and an employee bonus and welfare fund. The allocation ratio for the employee bonus and welfare fund may be determined by the enterprise. At least 10.0% of the after tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50.0% of an enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

Subject to compliance with relevant exchange rules and regulations, a WFOE may remit out of the PRC profits that are lawfully earned in the PRC.

2. Repatriation of Profits and Dividend

The after tax dividends which the foreign invested enterprises are permitted to declare consists of the amounts after the accumulated losses incurred in the previous years and the deductions required by law (such as employee bonus and welfare fund, reserve fund, enterprise expansion fund) have been deducted. The allocation ratios for the reserve fund, employee bonus and welfare fund and enterprise expansion fund are determined by the EJV's board of directors. Dividends not distributed in the previous year may be distributed together with those of the current year. The FIE's articles of association regulate the declaration of dividend. Such declaration of dividend usually requires the approval of the FIE's board of directors. The FIE's articles of association will also set out the quorum required for such approval.

FIEs whose registered capital has not been fully paid up as provided by the articles of association are not allowed to remit profits abroad. Profits distributed in accordance with the proportion of paid up registered capital can be remitted abroad based on the approval document issued by the original approving authority approving the establishment of the FIEs and the documents required by regulations of SAFE.

Repatriation of the dividends declared requires submission to, inspections and examination of relevant documents by designated banks. The examination is merely administrative provided all the requisite documents are complete and in order (e.g., written board resolution authorizing such distribution/repatriation, audited annual report, tax returns, foreign exchange registration certificate, capital verification report and other documents required by SAFE). Dividends will be converted into foreign exchange for repatriation out of PRC by making withdrawals from their foreign exchange accounts or purchasing the necessary foreign exchange at designated foreign exchange banks.

Under the PRC Laws, FIEs are not allowed to provide loan or advance to its foreign investors if such loan or advances are remitted abroad in foreign exchange.

3. Taxation

3.1 Income tax on FIEs

There was no standardized enterprise income tax law which applied to all forms of enterprises in PRC before the National People's Congress of the PRC ("**NPC**") promulgated the PRC Corporate Income Tax Law on 16 March 2007 which became effect on 1 January 2008.

The former applicable income tax laws, regulations, notices and decisions (collectively referred to as "**Old Foreign Enterprises Tax Law**") related to foreign investment enterprises and their investors before 1 January 2008 were as follows:-

(a) Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises adopted by the NPC on 9 April 1991;

(b) Implementing Rules of the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises promulgated by the State Council, which came into effect on 1 July 1991;

(c) Notice Relating to taxes Applicable to Foreign Investment Enterprises/Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares promulgated by State Tax Bureau on 21 July 1993;

(d) Notice on Some Policy Questions Concerning Individual Income Tax issued by Ministry of Finance and the State Tax Bureau on 13 May 1994;

(e) Notice on Relevant Policies Concerning the Reduction of Income Tax on

Interest and Other Income of Foreign Enterprises Derived from Sources in China issued by the State Council, which came into effect on 1 January 2000;

(f) The third amendments to the Income Tax Law Applicable to Individuals of the PRC promulgated by Standing Committee of NPC on 27 October 2005.

According to the Old Foreign Enterprises Tax Law, foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises established in the territory of the PRC) are required to pay a national income tax at a rate of 30.0% of their taxable income and a local income tax at a rate of 3.0% of their taxable income.

A foreign investment enterprise engaged in production having a period of operation of not less than ten years shall be exempted from income tax for the first two profit-making years and a 50.0% reduction in the income tax payable for the next three years.

Foreign investment enterprises established in special economic zones, foreign enterprises having an establishment in special economic zones engaged in production or business operations and foreign investment enterprises engaged in production in economic and technological zones may pay income tax at a reduced rate of 15.0%. Foreign investment enterprises engaged in production established in coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located may pay income taxes at a reduced rate of 24.0%. A reduced income tax rate of 15.0% may apply to an enterprise located in such regions which is engaged in energy, communication, harbour, wharf or other projects encouraged by the State. Losses incurred in a tax year may be carried forward for not more than five years. The people's governments of provinces, autonomous regions and municipalities directly under the central government may grant exemptions from or reduced local income tax for a foreign investment enterprise engaged in an industry or a project encouraged by the State.

On 16 March 2007, NPC promulgated the new Enterprise Income Tax Law which became effective on 1 January 2008. On 28 November 2007, the Implemental Regulations of the Enterprise Income Tax Law was promulgated by the State Council and became effective on 1 January 2008.

According to the new Enterprise Income Tax Law and its implemental regulations, a standardized enterprise income tax is applied to all PRC resident enterprises (including FIEs) and the tax rate is 25.0%, which means the aforesaid tax preferential treatment on the FIEs in accordance with the Old Foreign Enterprises

Tax Law is terminated.

On 26 December 2007, the State Council promulgated Notice on the Implementation of Enterprise Income Tax Transitional Preferential Policy (关于实施企业所得税过渡优惠政策的通知). According to which, with effect from January 1st, 2008, enterprises established before 16 March 2007 and which enjoy the preferential tax treatment of a two-year tax exemption, followed by a three-year 50.0% reduced tax rate or a five-year tax exemption, followed by a five-year 50.0% reduced tax rate, will continue to enjoy such preferential tax treatment until the expiry of the aforesaid respective periods. In addition, the previous 15.0% preferential tax rate enjoyed by certain enterprises will gradually be increased from this current preferential tax rate to the unified 25.0% tax rate within five years commencing from 1 January 2008. Enterprises which previously enjoy the 24.0% preferential tax rate will be imposed with the unified 25.0% tax rate with effect from 1 January 2008. Further, the tax preferential treatments applicable to enterprises within the designated western region in the PRC will continue to be in force. However, regarding those enterprises that have not enjoyed the aforesaid preferential policy due to them not being profit-making, the preferential period shall commence from 1 January 2008.

3.2 Value added tax

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax promulgated by the State Council came into effect on 1 January 1994, which was amended on 10 November 2008. Under these regulations and the Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Value added tax payable in the PRC is charged on an aggregated basis at a rate of 13.0 or 7.0% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17.0% on the charges for the taxable services provided but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

3.3 Business tax

The Provisional Regulations of the PRC Concerning Business Tax adopted by the State Council on 13 December 1993 and revised on 5 November 2008. Under these regulations and the newly amended Implementing Rules of the Provisional

Regulations of the PRC Concerning Business Tax,,businesses that provide services (including entertainment businesses), assign intangible assets or sell immovable property are liable to business tax at a rate ranging from 3.0% to 20.0% of the charges for the services provided, intangible assets assigned or immovable property sold, as the case may be. The formula for calculation of the amount of tax payable is set forth below:

Amount of tax payable = amount of business x tax rate

The amount of tax payable shall be calculated in RMB. Taxpayers that settle their amounts of business income in foreign exchange shall convert the amounts into RMB at the foreign exchange market rate.

3.4 Consumption tax

On 13 December 1993, the State Council promulgated the Provisional Regulations on the Consumption Tax of PRC, which became effect from 1 January 1994 and was revised on 5 November 2008. According to which, any entity or individual that manufactures, subcontract the processing of or imports wine shall be taxpayers of consumption tax and shall pay consumption tax at a rate of 10% of sales amount.

3.5 Tax on dividends from PRC enterprise with foreign investment

According to the Old Foreign Enterprises Tax Law, income such as rental, interest and royalty from the PRC derived by a foreign enterprise which has no establishment in the PRC or has establishment but the income has no relationship with such establishment is subject to a 10.0% withholding tax, subject to reduction as provided by any applicable double taxation treaty, unless the relevant income is specifically exempted from tax under the Applicable Foreign Enterprises Tax Law. The dividends derived by a foreign investor from a PRC enterprise with foreign investment are exempted from PRC withholding tax according to the Applicable Foreign Enterprises Tax Law. With the effectiveness of new Enterprise Income Tax Law since 1 January 2008, dividends derived by a foreign enterprise, which has no establishment in the PRC or has establishment but the dividends have no relationship with such establishment, from a PRC enterprise with foreign investment shall pay income tax at the rate of 20.0%.

In addition, according to the Implemental Regulations of the Enterprise Income Tax Law, the aforesaid dividend tax on foreign enterprise which has no establishment in the PRC or has establishment but the dividends have no relationship with such establishment was reduced to 10.0%

Further, according to the Agreement between the Government of the People's

Republic of China and the Government of the Republic of Singapore for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (中华人民共和国政府和新加坡共和国政府关于对所得避免双重征税和防止偷漏税的协定) executed on 11 July 2007 and became effective on 1 January 2008, where the foreign enterprise is a resident of Singapore, the applicable income tax rate of this foreign enterprise shall not exceed 5.0% (if it holds directly at least 25.0% of the capital of the PRC enterprise) or 10.0% (in all other cases) of the gross amount of the dividends.

3.6 Income tax on Non-Resident Enterprises' Equity Transfer Income

Capital gains realized by shareholders from sales of shares in the PRC are subject to PRC income tax. Pursuant to the Circular of the State Administration of Taxation on Strengthening Administration of Enterprise Income Tax on Non-Resident Enterprises' Equity Transfer Income (关于加强非居民企业股权转让所得企业所得税管理的通知) effective on 1 January 2008 ("**Circular 698**"), when a foreign investor (the actual controlling party) transfers a Chinese resident enterprise equity indirectly, if the actual tax rate is lower than 12.5% in the country (region) does not levy income tax to its resident on overseas income, then the enterprise needs to provide the documents in accordance with the Circular 698 to the local tax authority where the Chinese resident enterprise registered with within 30 days after the signing of the equity transfer contract.

Pursuant to the Circular of the Ministry of Finance and the State Administration of Taxation on Several Issues regarding Corporate Income Tax Treatment of Corporate Restructuring Transactions (财政部、国家税务总局关于企业重组业务企业所得税处理若干问题的通知) effective on 1 January 2008 ("**Circular 59**"), enterprises engaged in cross-border equity transfer may benefit from the special tax treatment provided that they satisfy the criteria set forth in the Circular 59.

3.7 Custom duties

According to the Custom Law of the PRC, the consignee of the imports, the consignor of exports and the owner of the imports and the exports are the persons obligated to pay customs duties (generally speaking, exports are not subject to custom duties). The Customs is the authorities in charge of the collection of customs duties.

The customs duties in the PRC mainly fall under ad valorem duties, i.e. the price of import / export ccommodities is the basis for the calculation of the duties. When calculating the customs duties, import / export commodities shall be classified under appropriate tax items in accordance with the category provisions of the Customs Import and Export Tariff and shall be subject to tax levies pursuant to relevant tax rates.

Under the laws of the PRC, raw materials, supplementary materials, parts, components, accessories and packing materials imported for processing and assembling finished products for foreign parties or for manufacturing products for export shall be exempt from import duties pursuant to the actual amount of goods processed for exports; or import duties may be levied upfront on import materials and parts and subsequently refunded pursuant to the actual amount of goods processed for export.

To encourage the introduction of foreign investments, as of 1992, the PRC exercised exemption and reduction of customs duties on the import of machinery, equipment, parts and other materials within the total investment of foreign investment companies. But after the adjustment of policies as of 1 April 1996, such exemption and reduction has been terminated, while the foreign investment companies incorporated before then can still continue to enjoy such preferential treatment within the grace period.

As from 1 January 1998, according to the Notice of the State Council regarding the Adjustment of Taxation Policy of Import Equipment, in respect of the foreign investment projects that fall under Encouraging Category and Restricted B Category of the Industrial Guidance Catalogue of Foreign Investment and also involve the transfer of technology, the equipment imported for its own use within the total investment can be exempt from the customs duties, except for the commodities listed in the Catalogue of the Non-tax-exemption Import Commodities of Foreign Investment Projects.

4. Foreign Exchange Control

Major reforms have been introduced on the foreign exchange control system of the PRC since 1993.

The People's Bank of China ("**PBOC**"), with the authorisation of the State Council, issued on 28 December 1993 the Notice on the Further Reform of the Foreign Exchange Control System(中国人民银行关于进一步改革外汇管理体制的通知) and on 26 March 1994 the Provisional Regulations on the Settlement, Sale and Payment of Foreign Exchange (结汇、售汇及付汇管理暂行规定) which came into effect on 1 April 1994 respectively. On 29 January 1996, the State Council promulgated the PRC Foreign Exchange Administration Regulations (中华人民共和国外汇管理条例) which took effect on 1 April 1996 and revised on 14 January 1997 and 1 August 2008. On 20 June 1996, the PBOC issued the Administration Regulations on the Settlement, Sale and Payment of Foreign Exchange (结汇、售汇及付汇管理规定), which took effect on 1 July 1996. On 25 October 1998, the People's Bank of China and the State Administration for Foreign Exchange issued a Joint Announcement on Abolishment of Foreign Exchange Swap Business which stated that from 1 December 1998, all foreign exchange transactions for FIEs may only be conducted through authorised banks.

These regulations contain detailed provisions regulating the holding, sale and purchase of foreign exchange by individuals, enterprises, economic bodies and social organisations in the PRC.

On 21 July 2005, the Public Annoucement of the PBOC on Reforming the RMB Exchange Rate Regime (**"the Announcement"**) (完善人民币汇率形成机制改革有关事宜公告) was promulgated by PBOC. Under the new regulations, the previous dual exchange rate system for Renminbi was abolished and a unified floating exchange rate system based largely on supply and demand with reference to a basket of currencies, giving more flexibility as compared with the former system in which the RMB was pegged to the US dollar was introduced. The People's Bank of China, having regard to the trading prices between Renminbi and major foreign currencies on the inter-bank foreign exchange market, publishes on each bank business day the Renminbi exchange rates against major foreign currencies. In general, all organisations and individuals within the PRC, including foreign investment enterprises, are required to remit their foreign exchange earnings to the PRC. In relation to PRC enterprises, their recurrent foreign exchange earnings are generally required to be sold to designated banks unless specifically approved otherwise. Foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises), on the other hand, are permitted to retain certain percentage of their recurrent foreign exchange earnings and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks. Capital foreign exchange earnings must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

In accordance with the New Foreign Exchange Administration Regulations of PRC promulgated on 5 August 2008, all organizations and individuals, includes FIEs, within the PRC can remit their foreign exchange earnings back to the PRC or deposit them abroad. The terms and conditions for such remittance / deposit are prescribed by the SAFE or its delegated authorities in accordance with the PRC's international balance of payments and foreign exchange management needs. In relation to PRC enterprises, their foreign exchange earnings under current account can be retained or exchanged through financial institutions that have foreign exchange settlement, sale and payment operations. Before retaining the foreign exchange income under capital account or selling it to any designated financial institution, the approval of the SAFE or its delegated authorities shall be obtained, unless it is otherwise provided by the state.

At present, control on the purchase of foreign exchange is being relaxed. Enterprises which require foreign exchange for their current activities such as trading activities and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents without the need for any prior approvals of the State Administration of Foreign Exchange.

In addition, where an enterprise requires any foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as the distribution of profits by a foreign investment enterprise to its foreign investment party, then, subject to the due payment of tax on such dividends the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks, and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks upon the presentation of the resolutions of the board of directors on the profit distribution plan of that enterprise.

Despite the relaxation of foreign exchange control over current account transaction, the approval or registration procedure of the foreign exchange administration authority is still required before a PRC enterprise may borrow a loan in foreign currency or provide any foreign exchange guarantee or make any investment outside of the PRC or engage in business of distribution and trading for securities and derivative products outside PRC, registration is still required from SAFE (or its designated authorities). Further, the approval from the relevant authorities may be required before registration can be made effective with SAFE (or its designated authorities).

When conducting actual foreign exchange transactions, the designated banks may, based on the exchange rate published by the People's Bank of China and subject to certain limits, freely determine the applicable exchange rate.

The China Foreign Exchange Trading Centre ("**CFETC**") was formally established and came into operation in April 1994. CFETC has set up a computerised network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can trade in foreign exchange and settle their foreign currency obligations. Prior to 1 December, 1998, enterprises with foreign investment may at their own choice enter into exchange transactions through Swap Centre or through designated PRC banks. From 1 December, 1998 onwards, exchange transactions will have to be conducted through designated banks. Swap Centres became restricted to conducting foreign exchange transactions between authorised banks and inter-bank lending between PRC banks.

The PRC has also established a system to regulate return investment via overseas special purpose companies. According to the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (国家外汇管理局关于境内居民通过境外特殊

目的公司融资及返程投资外汇管理有关问题的通知) which became effective on 1 November 2005, a domestic resident shall, before establishing or controlling an overseas special purpose company (the "**SPC**"), bring the prescriptive materials to the local branch of SAFE (the "**SAFE Branch**") to apply for going through the procedures for foreign exchange registration of overseas investments, SAFE Branch shall, after examining and checking the materials to be inerrant, affix the special seal for foreign exchange business for capital account transactions on the "Certificate of Foreign Exchange Registration of Overseas Investments" or the "Form of Foreign Exchange Registration of Overseas Investments of the Domestic Individual Resident". Where a domestic resident contributes the assets or stock rights of a domestic enterprise it owns into a SPC, or engages in stock right financing abroad after contributing assets or stock rights into a SPC, it shall go through the procedures for modification of foreign exchange registration of overseas investments with regard to the net asset equities of the SPC it holds. After a SPC accomplishes overseas financing, the domestic resident may, according to the plan on use of funds as stated in the business plans or the prospectus, transfer the funds which ought to be arranged for use inside PRC into PRC. A domestic resident may, after accomplishing the procedures for foreign exchange registration of overseas investments or for modification thereof in accordance with the legal provisions, pay the profits, dividends, liquidation expenses, stock right assignment expenses, capital decrease expenses, etc. to the SPC. Where a SPC meets with a major capital modification event such as capital increase or decrease, stock right assignment or exchange, merger or division, investment with long-term stock rights or credits, provision of guaranty to a foreign party, etc., and is not involved in return investment (the "Major Events"), the domestic resident shall, within 30 days as of the major event, apply to the SAFE Branch for going through the procedures for modification or filing of the foreign exchange registration of the overseas investments.

5. Capital Injection to FIEs

Under the current applicable PRC Laws, capital contribution may take a variety of forms, including cash, machinery, equipment, land use rights and intellectual property rights, such as proprietary technology, trademarks and other industrial property rights.

Regulations jointly issued by the MOFTEC (now known as the Ministry of Commerce) and the SAIC in January 1988 provide that the joint venture contract must set forth a schedule for contributions of registered capital. Under these regulations, registered capital may be contributed in one lump sum, in which case it must be contributed within six months following the issuance of the business licence or in installments, in which case the first installment must be at least 15% of each party's total subscribed registered capital and must be contributed within 90 days following the date of issuance of the business license.

After each party has paid up its capital contribution, the EJV shall appoint an accountant registered in the PRC to verify the contribution and an investment certificate will be issued to each party as evidence of its ownership of the share of the EJV's registered capital.

When the foreign investors have fully paid up the registered capital of the FIE, the investors may apply to the authorities to increase the registered capital of the FIE and make contribution to the increased registered capital.

In addition to the above, foreign investors of FIE may provide shareholder's loan to the FIE, the parties should enter into written loan agreement and the loan agreement should be filed with the local SAFE. The shareholder's loan of a FIE should not exceed the difference between the registered capital and the total investment amount of the FIE.

6. Conclusions

(a) The Company can invest capital into China by contribution to the outstanding registered capital of Ouhua PRC, shareholder's loan to Ouhua PRC or establish new FIEs and make contribution to the registered capital of the new FIEs.

(b) No laws in PRC would apply to hinder the flow of the capital from the Company to Ouhua PRC except that if the payment is made by the way of capital contribution, there should be outstanding registered capital in Ouhua PRC. If the payment Is made by the way of shareholder's loan to Ouhua PRC, the loan amount should not exceed the difference between the registered capital and the total investment amount of Ouhua PRC; and if the payment is made by way of contribution to the registered capital of new FIEs, the incorporation of the new FIEs should be approved by the relevant PRC authorities and registered with the SAIC or its local branch offices.

(c) Dividends distributed abroad from Ouhua PRC to its shareholder, namely the Company should be subject to no more than 5% withholding tax in PRC, provided the Company is a certified tax resident in Singapore.

(d) No laws in PRC would apply to hinder the payment of dividends and profits by Ouhua PRC to their shareholder, namely the Company.

Yours faithfully,

竞天公诚

Jingtian & Gongcheng

競天公誠律師事務所
JINGTIAN & GONGCHENG
ATTORNEYS AT LAW
中国北京市朝阳区建国路 77 号华贸中心 3 号写字楼 34 层 邮政编码 100025
电话: (86-10) 5809-1000 传真: (86-10) 5809-1100

20 September 2010

To: The Board of Directors
China Ouhua Winery Holdings Limited (the "Company")
1 Robinson Road,
#17-00AIA Tower,
Singapore 048542

Dear Sirs,

LEGAL OPINION ON YANTAI FAZENDA OUHUA WINERY CO., LTD. (烟台欧华庄园葡萄酿酒有限公司) ("OUHUA PRC") ON THE OWNERSHIP OF TITLE TO THE SECURITIES/ASSETS IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC", FOR THE PURPOSE OF THIS REPORT, EXCLUDING HONG KONG SPECIAL ADMINISTRATIVE REGION OF PRC, MACAO SPECIAL ADMINISTRATIVE REGION OF PRC AND TAIWAN PROVINCE) AND THE ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS UNDER THE RELEVANT LAWS OF PRC IN RELATION TO THE PROPOSED LISTING OF THE COMPANY ON THE MAIN MARKET OF BURSA MALAYSIA SECURITIES BERHAD ("PROPOSED LISTING")

1. Introduction

1.1 We have acted as legal advisers for the Company in respect of the PRC Laws (defined below in paragraph 4.1) for its Proposed Listing. We are duly qualified to practice law within the PRC and such qualification has not been revoked, suspended, restricted or limited in any manner whatsoever. Accordingly, we are duly qualified to issue this legal opinion (the "**Legal Opinion**").

1.2 We have been requested by the Company to provide a legal opinion on Ouhua PRC on the ownership of title to securities/assets in the PRC and the enforceability of agreements, representations and undertakings under the relevant laws of the PRC for the purposes of the Proposed Listing.

1.3 In this regard, we understand that this Legal Opinion has been prepared for inclusion in the Prospectus in relation to the Proposed Listing ("**Prospectus**").

2. Assumption

2.1 For the purpose of issuing this Legal Opinion, Our Firm has referred to the originals and duplicates of the relevant documents and/or facts and information furnished by or on behalf of the Company or Ouhua PRC in China in relation to (a) the establishment and existence of Ouhua PRC; (b) the Proposed Listing; and (c) other documents, materials, agreements and instruments set forth in **Appendix I** (the "**Documents**").

2.2 In addition, Our Firm has made the necessary inquiries and consultations (verbally and in writing) with all the PRC governmental authorities, departments, bodies and bureaus as we consider necessary, advisable or desirable and nothing has come to our attention that gives us any reason to doubt the truthfulness of such inquires and consultations.

2.3 For purposes of rendering this Legal Opinion, Our Firm has assumed:

(a) the genuineness of all signatures, seals, chops, dates and the correct identity and legal capacity and authority of all signatories, seals, chops and corporate officers and the due execution and authority of all signatories, seals, chops and corporate officers and the due execution and validity of the Documents in accordance with all applicable law;

(b) the authenticity, completeness and factual accuracy of the Documents presented as originals and the conformity with the originals of the Documents presented to us as copies;

(c) the capacities, powers and authorities of and due execution and delivery by the parties (except for the parties established or incorporated under PRC laws in the case of corporate entities) and PRC nationals (in the case of individuals);

(d) that the execution and performance of the Documents by the parties thereto will not breach the laws of all applicable jurisdictions (other than PRC Laws);

(e) the accuracy and completeness of all searches conducted by our agents and the continuing correctness of such searches from the date of the relevant search until the present;

(f) every document reviewed by us has been properly stamped, registered and filed (where necessary), and all other procedures that are necessary to perform in order to make the document admissible in evidence has been carried out and within the time limits prescribed by applicable law and regulations;

(g) for each document to which a corporation is a party, that party had been and at all relevant times remained duly incorporated or established and had at all relevant times the necessary corporate power, all corporate authorizations had been validly obtained, each such document was validly executed and was entered into for that party's respective corporate benefit and that party was solvent when it did so;

(h) the accuracy and correctness of the statements, any representations or oral information made by the shareholder(s), director(s), officer(s), employee(s), licence(s), agent(s), representation(s) or authorized person(s) of the Company or Ouhua PRC;

(i) except as otherwise stated, all material information in the files of the Company or Ouhua PRC within the knowledge of its officers and directors has been made available to us;

(j) that the Document submitted remains unamended and in full force and effect;

(k) that all licences and other approvals (other than those required by PRC laws or regulations) necessary for the carrying on of the existing business of Ouhua PRC have been obtained and are valid and subsisting;

(l) the truthfulness of the intention of the parties as reflected and/or implied from the Documents; and

(m) that the Documents are in the form that were presented to us up to the date of this Legal Opinion and that none of the Documents has been revoked, amended, varied or supplemented.

Where important facts were not independently established to us, we have relied on certificates issued by government agencies and representatives of the Company or Ouhua PRC with proper authority and upon representations, made in or pursuant to the Documents.

2.4 This Legal Opinion is rendered on the basis of the PRC Laws effective as of the date hereof. There is no assurance that any of such laws will not be changed, amended or replaced in the immediate future or in the longer term with or without retrospective effect and any such changes, amendments or replacements may be made by the central or local legislative, administrative and judicial authorities of the PRC and may become effective immediately on promulgation. We do not purport to be expert on and do not purport to be generally familiar with or qualified to express opinions based on any laws other than the laws of the PRC and accordingly express or imply no opinion herein based upon any laws other than the PRC Laws.

3. Opinion

Based on the foregoing and subject to the further assumptions and qualifications set forth below, we are of the opinion that::

3.1 Ouhua PRC, as an equity joint venture, has been duly incorporated and established, is validly existing and is in good standing under the PRC Laws. Ouhua PRC has the status of an independent enterprise legal person under PRC Laws. All approvals and/or waivers required under the PRC Laws for the establishment and maintenance of the enterprise legal person of Ouhua PRC have been validly issued and obtained and are in full force and effect as at the date hereof. The Company is the legal and beneficial owner of 95% of the registered capital of Ouhua PRC. The approved registered capital currently stands at USD9 million. To date, the total contributed capital of Ouhua PRC is USD9,000,000 and the Company has contributed USD8,550,000 representing 95% of the total contributed capital.

3.2 Ouhua PRC has legal and beneficial title to all its material assets free and clear of any security interest, mortgage, pledge or other similar claim or encumbrances.

3.3 Ouhua PRC has the necessary corporate power and authority to enter into and perform their respective obligations under the agreements to which they are a party as set out in the Section II, Appendix I to this Legal Opinion (the "**Agreements**"). The execution and delivery of the Agreements by Ouhua PRC and the performance by Ouhua PRC of its obligations thereunder will not violate the articles of association of Ouhua PRC nor any PRC Laws.

3.4 The Agreements are governed by and interpreted in accordance with the PRC Laws. We have not found any unusual terms or any other terms that may increase extra risk or liability to Ouhua PRC in the Agreements. The Agreements are valid, legally binding and thus enforceable according to the PRC Laws. The execution, delivery and performance by the parties under the Agreements will not violate any law of general application in the PRC. Other than the approval, registration and filing required by the relevant PRC Laws for the transfer of the trademarks and/or trademark application rights and the transfer of 5% equity interests in Ouhua PRC contemplated under the agreements set forth in Section II, Part C hereof, no further consent, authorization, license or approval of, nor registration or filing with, any governmental or public bodies or authorities or courts in PRC is required under PRC Laws in connection with the execution, delivery, legality, validity, enforceability or admissibility in evidence of the contracts or the performance by the parties of their obligations under the Agreements.

3.5 The terms of and the representations and undertakings given and/or made by the counter-parties in the Agreements are enforceable against them under the PRC Laws.

3.6 The choice of the laws of PRC as the governing law in the Agreements is a valid choice of law.

3.7 There are no governmental or regulatory consents, approvals, authorisations or orders which are required in the PRC to enable the Company to carry out or perform any of the matters listed below:-

(a) listing on the Main Market of Bursa Securities; and

(b) carry out the Listing Scheme as set out in Section 5.5.2 of the Prospectus;

3.8 Other than the foreign exchange registration by Mr. Wang Chao required by Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles issued by SAFE on 21 October 2005, there are no registrations, filings or similar formalities required in the PRC in respect of 3.7 (a) and (b) above.

4. Qualification

4.1 This Legal Opinion is limited to the laws of PRC in force at the date hereof in respect of the matters in paragraph 1 above ("**PRC Laws**"), and we express no opinion on any other matter.

4.2 This Legal Opinion is given on the basis that it will be governed by and construed in accordance with the laws of PRC.

4.3 We express no opinion as to any laws, rules and regulations other than the laws of PRC.

4.4 We have not made any investigations of, nor do we express or imply any opinion as to any laws, rules and regulations of any other jurisdiction and we have assumed that there is nothing in any other law that affects our opinion.

5. Law

This Legal Opinion is governed by and shall be construed in accordance with the PRC Laws.

6. Confidentiality and reliance

This Legal Opinion is addressed to you solely for your benefit and the benefit of your legal advisors in connection with the Proposed Listing only and may not be disclosed or quoted to or relied upon by any other person, without our prior written consent in each specific case. Notwithstanding the foregoing, this letter may be included in the Prospectus on the basis that it is for disclosure purposes only and may not be relied upon by any party other than you.

Yours faithfully,

Zhao Yang (赵洋)
Position: Partner
Jingtian & Gongcheng, Attorneys at Law

Appendix I

Section I List of Relevant Documents

1. Approval Document with serial No. 烟芝外经资 [2002]569 号 dated 5 December 2002 issued by the Zhifu Foreign Trade and Economic Cooperation Bureau (芝罘区对外贸易经济合作局) approving the joint venture contract and the articles of association

2. Approval Document with serial No. 烟外经资 [2002]1509 号 dated 5 December 2002 issued by the Yantai City Foreign Trade and Economic Cooperation Bureau (烟台市对外贸易经济合作局) approving the joint venture contract and the articles of association

3. Original Joint Venture Contract of Ouhua PRC: dated 16 November 2002 between the initial investors for the establishment of the Ouhua PRC

4. Original Articles of Association of Ouhua PRC: dated 20 November 2002

5. Approval Certificate with serial No. 外经贸鲁府烟字[2002]2132 号 dated 5 December 2002 issued by Shandong Provincial Government

6. Original Business Licence issued by Yantai City Administration for Industry and Commerce:

   (i) Date of Business Licence: 6 December 2002
   (ii) Serial No.: 企合鲁烟总副字第 005573 号-1/1
   (iii) Term of the Ouhua PRC: From 6 December 2002 to 5 December 2014

7. Pre-approval Document on company name with serial No. 烟工商名称预核外企字 2002 第 3220 号 issued by Yantai City Administration for Industry and Commerce dated 10 October 2002

8. Resolution of the board dated 12 March 2009 approving the transfer of equity interests and extension of operation term of Ouhua PRC from 12 years to 50 years

9. Approval letter with serial no. 烟芝外经贸字[2009]35 号 dated 20 March 2009 issued by Zhifu Foreign Trade and Economic Cooperation Bureau

10. Amendment to Articles of Association dated 12 March 2009

11. Amendment to Joint Venture Contract dated 14 March 2009

12. Capital increase agreement (增资协议书) entered into between China Ouhua Winery Holdings Pte. Ltd. and Yantai Ouhua Winery Co., Ltd. (烟台欧华酒业有限公司) ("Yantai Ouhua") dated 16 March 2009

13. Resolution of the board dated 12 March 2009 approving the capital increase

14. Approval letter with serial no.烟芝发改审[2009]15 号 dated 15 April 2009 issued by Zhifu Development and Reform Bureau approving the capital increase

15. Approval letter with serial no.烟芝外经贸字[2009]37 号 dated 24 March 2009 issued by Zhifu Foreign Trade and Economic Cooperation Bureau

16. Business licence renewed by the Yantai City Administration for Industry and Commerce, which showed the paid-up capital of Ouhua PRC at USD600,000 dated 7 July 2003

17. Capital Verification Report with serial no.山华会外验字[2009]050 号 certifying that as of 27 September 2009, the paid-up capital of Ouhua PRC was USD2,338,495.86, which was rendered by Shandong Huabin Certified Public Accounts (山东华彬会计师事务所) dated 28 September 2009

18. New business licence by the Yantai Administration for Industry and Commerce dated 29 September 2009, which was showing the paid-up capital of Ouhua PRC is USD2,338,500

19. Certificate of valuation (价值鉴定证书) issued by Entry-Exit Inspection and Quarantine of the PRC dated 10 April 2003, certifying that the fair market price of the ten (台) machinery equipment which is to be injected into Ouhua PRC as registered capital is worth at USD150,000 on the base day, 21 October 2002

20. Asset valuation report with serial No. 国信会评报字[2002]2004 号 for the purpose of capital injection by Yantai Ouhua in Ouhua PRC rendered by Shandong Guoxin Public Certified Accounts Co., Ltd. (山东国信会计师事务所有限公司) dated 29 November 2002

21. Assets appraisal report (资产评估报告书) with serial no. 山博评报字[2008]第 47 号 rendered by Shandong Bolaishi Assets Appraisal Co., Ltd. (山东博莱资产评估有限公司) dated 22 February 2009

22. Approval Certificate with serial No. 外经贸鲁府烟字[2002]2132 号 issued by Shandong Provincial Government dated 24 March 2009

23. Approval letter with serial no. 烟芝外经贸字[2009]53 号 dated 12 May 2009 issued by Zhifu Foreign Trade and Economic Cooperation Bureau approving the postponement of capital increase

24. Capital Verification Report with serial no.山华会外验字[2009]050 号 rendered by

Shandong Huabin Certified Public Accounts (山东华彬会计师事务所) dated 28 September 2009, certifying that as of 27 September 2009, the paid-up capital was USD2,338,495.86

25. Business licence dated 24 March 2009

26. Assets appraisal report (资产评估报告书) with serial no. 山博评报字[2008]第 47 号 by Shandong Bolaishi Assets Appraisal Co., Ltd. (山东博莱资产评估有限公司) dated 22 February 2009

27. Equity transfer agreement (股权转让协议书) between the Group of Hualian Commercial Building S.L. on 13 March 2009 and China Ouhua Winery Holdings Pte. Ltd.

28. House Lease Agreement entered into between Yantai Ouhua and Ouhua PRC dated 10 December 2004

29. Building Ownership Certificate (房屋所有权证) with serial No. 烟房权证芝（集）字第 601004 issued by Yantai Administration for Building dated 27 August 2008

30. Other Rights Registration Certificate (他项权利登记证) with serial No.烟房芝（集）他字第 61504 号 issued by Yantai Administration for Building dated 17 September 2008

31. Land Ownership Certificate with serial No. 烟国用(2008)第 100864 号 issued by Yantai City Government dated 28 August 2008

32. Other Rights Registration Certificate (他项权利登记证) with serial No. 烟芝他项第(2008)第 1129 号 issued by Yantai Administration for Land Resources dated 17 September 2008

33. Building Ownership Certificate (房屋所有权证) issued by Yantai Administration for Building dated 30 June 1999

34. Confirmation letter from Zhifu Land Resources Bureau dated 15 January 2009 confirming the Huangwu Town Government (黄务镇政府) owns the land on which the buildings are erected and the nature of such land is state-owned assign land (国有划拨地)

35. Building Lease Contract (房屋租赁合同) entered into between the economic committee of Huangwu Street Office (黄务街道办事处) (previously known as Huangwu Town Government) and Ouhua PRC dated 1 November 2003

36. Confirmation letter from the Zhifu Buildings Administration Bureau confirming the Huangwu Street Office's ownership and approving such house lease dated 28 April

2009

37. Land lease agreements (土地租赁合同书) entered into between Penglai City Liujiagou Town Government and Ouhua PRC dated 1 January 2006, pursuant to which, the Ouhua PRC leases a land of around 1,500 mu (亩)

38. Supplemental agreement to the land lease agreements entered into between Penglai City Liujiagou Town Government, the committee of the villagers of Haitou Village, and the committee of the villagers of Xuli Village and Ouhua PRC dated 23 August 2009

39. Land lease agreements (土地租赁合同书) entered into between Penglai City Xiaomenjia Town Government and Ouhua PRC dated 5 March 2006, pursuant to which, Ouhua PRC leases a land of around 4,000 mu (亩)

40. Supplemental agreement to the land lease agreements entered into between Penglai City Xiaomenjia Town Government, the committee of the villagers of Xilvjiagou Village, and the committee of the villagers of Huiwen Village and Ouhua PRC dated 23 August 2009

41. Confirmation letter rendered by the committee of the villagers of Xilvjiagou Village, Xiaomenjia Town, Penglai City and the committee of the villagers of Huiwen Village, Xiaomenjia Town, Penglai City (蓬莱市小门家镇会文村、西吕家沟村村民委员会) dated 3 February 2009, confirming that the land lease agreement dated 5 March 2006 has obtained the prior consent from 2/3 above villagers representative and such committees of the villagers agree all clauses therein and signed thereon

42. Confirmation letter rendered by the committee of the villagers of Haitou Village, Liujiagou Town, Penglai City and the committee of the villagers of Xuli Village, Liujiagou Town, Penglai City (蓬莱市刘家沟镇海头村、墟里村村民委员会) dated 19 January 2009, confirming that the land lease agreement dated 5 March 2006 has obtained the prior consent from 2/3 above villagers representative and such committees of the villagers agree all clauses therein and signed thereon

43. Appointment letters showing the abovementioned persons were appointed as directors of the Board dated 12 March 2009

44. Appointment letter by the Board appointing Wang Chao as the general manager of Ouhua PRC: 12 March 2009

45. Filing Registration for Enterprises with Foreign Investment (外商投资企业备案登记证) issued by Yantai Custom with serial No.烟关 2002 字 3706937252 号 in 2002

46. Standard form of the labour contracts

47. Confirmation Letter from the Zhifu Social Insurance Office of Yantai City dated 4 December 2008, according to which, Ouhua PRC has taken part in the social insurances including medical insurance, insurances of pension, employment injury and unemployment for all its employees and duly and fully paid up all premiums and has never been penalized by it

48. Confirmation Letter collectively issued by the Zhifu Division of Yantai Local Taxation Bureau (烟台市地方税务局国际税务管理分局) and the Zhifu Division of Yantai City State Taxation Bureau (烟台市芝罘区国税局) dated 4 December 2008, confirming that the Ouhua PRC has, since its establishment, duly and fully paid all taxes and never been penalized by it

49. Trademark licensing contract dated 20 June 2008 entered into between Ouhua PRC and Li Rong International Investment Stock Limited (力荣国际投资股份有限公司) ("Li Rong") regarding ten trademarks (Serial No.6785837, 6785836, 6785835, 6785834, 6785833, 6785832, 6785831, 6785830, 6785829 and 6785828), in Class 33

50. Transfer agreement for registered trademark with Li Rong International Investment Stock Limited in connection with the foregoing ten trademarks dated 3 February 2009

51. Three trademark licensing contracts dated 24 November 2008 entered into between Ouhua PRC and Yantai Ouhua regarding three logos of "Fazenda Ouhua", "欧华庄园" and "欧华 Ouhua" (Serial No.3889347, 3889348， 1486479), in Class 33

52. Notice of Filing Trademark Licencing Contract for registration with serial no. 2008 许 17591HZ rendered by the Trademark Bureau, State Administration for Industry and Commerce dated 13 March 2009

53. Notice of Filing Trademark Licencing Contract for registration with serial no. 2008 许 17590HZ rendered by the Trademark Bureau, State Administration for Industry and Commerce dated 13 March 2009

54. Notice of Filing Trademark Licencing Contract for registration with serial no. 2008 许 17589HZ rendered by the Trademark Bureau, State Administration for Industry and Commerce dated 13 March 2009

55. Trademark certificates (Serial No.3889347, 3889348， 1486479)

56. Credit loan agreement entered into between Ouhua PRC and Yantai Branch of China Merchants Bank dated 12 September 2008

57. Confirmation letter rendered by Environmental Protection Bureau of Yantai City dated 12 October 2009 (1)

58. Confirmation letter rendered by Environmental Protection Bureau of Yantai City dated 12 October 2009 (2)

59. Approval document with serial No.烟芝工组[2009]3 号 issued by the General Trade Union of Zhifu District, Yantai City dated 11 February 2009

60. Certificate of CN Domain Name (ohuawine.cn) issued by Xiamen Sanwu Internet Technologies Company by shares, of which the registration date 15 February 2008 and expiration date is 14 February 2011

61. Certificate of CN Domain Name (ohuawine.com.cn) issued by Xiamen Sanwu Internet Technologies Company by shares, of which the registration date 15 February 2008 and expiration date is 14 February 2011

62. Certificate of Global Top Level Domain Name (ohuawine.com) issued by Xiamen Sanwu Internet Technologies Company by shares, of which the registration date 15 February 2008 and expiration date is 14 February 2011

63. Capital Verification Report with serial no.山华会外验字[2009]055 号 rendered by Shandong Huabin Certified Public Accounts (山东华彬会计师事务所) dated 5 November 2009

64. Business licence dated 19 November 2009

65. Trademark transfer agreements entered into between Li Rong and Ouhua PRC dated 16 November 2009

66. Trademark transfer agreements entered into between Yantai Ouhua and Ouhua PRC dated 16 November 2009

67. Organization Code Certificate issued by Yantai Supervision Bureau of Quality and Technique with serial no. 74565114 – X dated 7 February 2007

68. Tax Registration For Enterprise With Foreign Investment jointly issued by Yantai City State Taxation Bureau and Yantai City Local Taxation Bureau with serial no.芝国税字 37060274565114X 号 dated 8 November 2006

69. Foreign Exchange Registration Certificate (has been replaced by an IC card) issued by Yantai Branch, State Administration of Foreign Exchange with serial no. 370600030104 dated 2 June 2003

70. Customs Registration Certificate issued by Yantai Custom with serial no. 3706937252 dated 12 December 2002

71. Certificate of Registration on Social Insurance issued by Zhifu Social Insurance Office of Yantai City with serial no. 社险鲁字 0602L2673 dated 4 December 2008

72. Financial Registration Certificate for Enterprises with Foreign Investment issued by Zhifu District Finance Bureau, Yantai City with serial no. 3706020180 dated 9 June 2003

73. Filing Registration Certificate for Self-processing Phytosanitary Unit issued by Yantai Entry-Exit Inspection and Quarantine Bureau with serial no. 3703602882 dated 29 February 2008

74. National Industrial Products Manufacture Permit issued by General Administration of Quality Supervision, Inspection and Quarantine of the PRC with serial no. QS3706 1502 0145 dated 7 April 2009

75. Food Hygienic Permit issued by Yantai City Health Bureau with serial no. 鲁卫食证字 2007 第 370600-000328 号 dated 12 June 2007

76. Hygienic Registration Certificate issued by Certification and Accreditation Administration of PRC with serial no. 3700/12091 dated 28 April 2007

77. Undertaking letter dated 3 December 2009, pursuant to which Yantai Ouhua undertakes to indemnify any loss, damage or costs caused to Ouhua PRC and/or any third party as a result of using the relevant trademarks.

78. Undertaking letter dated 4 December 2009, pursuant to which Li Rong undertakes to indemnify any loss, damage or costs caused to Ouhua PRC and/or any third party as a result of using the relevant trademarks.

79. Call option agreement dated 27 November 2009 entered into among Yantai Ouhua, Ouhua PRC and the Company to acquire the remaining 5% equity interest held by Yantai Ouhua at a purchase consideration to be determined by an independent valuer, subject to terms and conditions of the call option agreement

80. Filing Certificate for Enterprise of Exported Food Production issued by the Shandong Entry & Exit Inspection and Quarantine Bureau dated 20 May 2010

81. Capital Verification Report with serial no.山华会外验字[2010]035 号 issued by Shandong Huabin Certified Public Accounts (山东华彬会计师事务所有限公司) dated 2 July 2010, certifying that as of 30 June 2010, the paid-up capital of Ouhua PRC was USD6,044,863.42

82. Capital Verification Report with serial no.山华会外验字[2010]043 号 issued by Shandong Huabin Certified Public Accounts (山东华彬会计师事务所有限公司) dated

30 July 2010, certifying that as of 29 July 2010, the paid-up capital of Ouhua PRC was USD8,400,000

83. New business licence dated 30 July 2010 issued by Yantai Administration for Industry and Commerce reflects Ouhua PRC's paid up capital as USD 9million.

Section II. Subsisting Agreements and Contracts

A. Sales Agency Agreement[1]

	Subject matter	Parties to contract	Date of contract	Duration of Contract	General Nature of Contract	Material Terms of the Contract	Consideration and mode of satisfaction of consideration
1	Purchase and sales Agreement (Wine)	Guangzhou Langcunyeshi Winery Co., Ltd. (广州市朗村叶氏葡萄酒有限公司)	30 December 2009	1 year from 1 January 2010 to 31 December 2010	Provincial Sales Agency Agreement for Guangdong Province	Guangzhou Langcunyeshi Winery Co., Ltd. shall purchase from Ouhua PRC and sell, with consent of Ouhua PRC, commodities in Guangdong, and avoid the marketing channel to selling	RMB30 million and the payment is subject to each order / ongoing

[1] In addition to the material terms listed above, the sales agency agreements typically includes the following terms or information:

(a) the sales agency appointments are not explicitly stated as exclusive, but are only stated as special agency (特约经销商);

(b) if the sales agency sells beyond the agreed region, Ouhua PRC may have the right to terminate the right of purchase and sell (购销权) and claim for reputation losses and other losses, including expenses, legal fees and litigation costs by Ouhua PRC on investigating such selling before the agreed region and economic losses and losses of reputation incurred to a third party;

(c) the sales agency undertakes that it shall not infringe the intellectual property rights of company or a third party, the designs, patterns, technology secret and other materials provided by Ouhua PRC belong to it exclusively, the sales agency shall not copy, leak, advertise or use, unless for purpose of performing the agreement;

(d) the parties thereto prohibited any direct or indirect property or commercial interest in the other party held by employees or other relevant staff hired by one party; each party prohibited any salary, bonus, expenses or otherwise compensated to employees or other relevant staff hired by one party derived from the other party;

(e) each party prohibited its employees or other staff to request for or offer to the other party unfair commercial interest in any form or more special commercial treatment;

compensation for breach of contract is 20% of the sales sum (购销额), any party who does not comply with provisions of laws and regulations and cause a third party losses shall indemnify the non-defaulting party.

	Subject matter	Parties to contract	Date of contract	Duration of Contract	General Nature of Contract	Material Terms of the Contract	Consideration and mode of satisfaction of consideration
						beyond the agreed region; the target sales volume is at RMB30 million within one year	
2	Purchase and sales agreement (Wine)	Shanghai Shancunguoyuan Trading Co., Ltd. (上海山村果园贸易有限公司)	26 December 2009	1 year from 1 January 2010 to 31 December 2010	Provincial Sales Agency Agreement for Shanghai City	Shanghai Shancunguoyuan Trading Co., Ltd. shall purchase from Ouhua PRCand sell, with consent of Ouhua PRC, commodities in Shanghai, and avoid the marketing channel to selling beyond the agreed region; the target sales volume is at RMB30 million within one year	RMB30 million and the payment is subject to each order / ongoing
3	Purchase and sales agreement (Wine)	Fujian Ouhua Winery Trading Co., Ltd. (福建省欧华酒业贸易有限公司)	30 December 2009	1 year from 1 January 2010 to 31 December 2010	Provincial Sales Agency Agreement for Fujian Province	Fujian Ouhua Winery Trading Co., Ltd. shall purchase from Ouhua PRC and sell, with consent of Ouhua PRC, commodities in Fujian, and avoid the marketing channel to selling beyond the agreed region; the target sales volume is at RMB200 million within one year	RMB200 million and the payment is subject to each order / ongoing
4	Purchase and sales agreement (Wine)	Beijing Fazenda Ouhua Wine Sales Co., Ltd. (北京欧华庄园葡萄酒营销有限公司)	31 December 2009	1 year from 1 January 2010 to 31 December 2010	Provincial Sales Agency Agreement for Beijing City	Beijing Fazenda Ouhua Wine Sales Co., Ltd. shall purchase from Ouhua PRC and sell, with consent of Ouhua PRC, commodities in Beijing, and avoid the marketing channel to selling beyond the agreed	RMB40 million and the payment is subject to each order / ongoing

	Subject matter	Parties to contract	Date of contract	Duration of Contract	General Nature of Contract	Material Terms of the Contract	Consideration and mode of satisfaction of consideration
						region; the target sales volume is at RMB40 million within one year	
5	Purchase and sales agreement (Wine)	Yiwu Ouhua Winery Co., Ltd. (义乌市欧华酒业有限公司)	6 January 2010	1 year from 1 January 2010 to 31 December 2010	Provincial Sales Agency Agreement for Zhejiang Province	Yiwu Ouhua Winery Co., Ltd. shall purchase from Ouhua PRC and sell, with consent of Ouhua PRC, commodities in Zhejiang, and avoid the marketing channel to selling beyond the agreed region; the target sales volume is at RMB25 million within one year	RMB25 million and the payment is subject to each order / ongoing
6	Purchase and sales agreement (Wine)	Shangrao Xinzhou Fazenda Ouhua Brand Alcohol Shop (上饶市信州区欧华庄园名烟名酒店)	30 December 2009	1 year from 1 January 2010 to 31 December 2010	Provincial Sales Agency Agreement for Jiangxi Province	Shangrao Xinzhou Fazenda Ouhua Brand Alcohol Shop shall purchase from Ouhua PRC and sell, with consent of Ouhua PRC, commodities in Jiangxi, and avoid the marketing channel to selling beyond the agreed region; the target sales volume is at RMB6 million within one year	RMB6 million and the payment is subject to each order / ongoing
7	Purchase and sales agreement (Wine)	Nanjing Fazenda Ouhua Winery Co., Ltd. (南京欧华庄园酒业有限责任公司)	29 December 2009	1 year from 1 January 2010 to 31 December 2010	Provincial Sales Agency Agreement for Jiangsu Province	Nanjing Fazenda Ouhua Winery Co., Ltd. shall purchase from Ouhua PRC and sell, with consent of Ouhua PRC, commodities in Jiangsu, and avoid the marketing channel to selling beyond the agreed region; the	RMB30 million and the payment is subject to each order / ongoing

	Subject matter	Parties to contract	Date of contract	Duration of Contract	General Nature of Contract	Material Terms of the Contract	Consideration and mode of satisfaction of consideration
						target sales volume is at RMB30 million within one year	
8	Purchase and sales agreement (Wine)	Qingdao Ouhua Trading Co., Ltd. (青岛欧华商贸有限公司)	26 December 2009	1 August 2010 to 31 December 2010	Sales Agency Agreement for Qingdao City	Qingdao Ouhua Trading Co., Ltd. shall purchase from Ouhua PRC and sell, with consent of Ouhua PRC, commodities in Qingdao City, and avoid the marketing channel to selling beyond the agreed region; the target sales volume is at RMB10 million within the prescribed period	RMB10 million and the payment is subject to each order / ongoing
9	Purchase and sales agreement (Wine)	Shijiazhuang Ouhuatianyuan Trading Co., Ltd. (石家庄欧华天缘商贸有限公司)	30 December 2009	1 year from 1 January 2010 to 31 December 2010	Provincial Sales Agency Agreement for Hebei Province	Shijiazhuang Ouhuatianyuan Trading Co., Ltd. shall purchase from Ouhua PRC and sell, with consent of Ouhua PRC, commodities in Hebei, and avoid the marketing channel to selling beyond the agreed region; the target sales volume is at RMB22 million within one year	RMB22 million and the payment is subject to each order / ongoing
10	Purchase and sales agreement (Wine)	Changchun Ouhua Winery Trading Co., Ltd. (长春市欧华酒业贸易有限公司)	30 December 2009	1 year from 1 January 2010 to 31 December 2010	Provincial Sales Agency Agreement for Jilin Province	Changchun Ouhua Winery Trading Co., Ltd. shall purchase from Ouhua PRC and sell, with consent of Ouhua PRC, commodities in Jilin, and avoid the marketing channel to selling beyond the agreed region; the target sales	RMB8 million and the payment is subject to each order / ongoing

APPENDIX E OPINION FROM JINGTIAN & GONGCHENG ON FOREIGN INVESTMENT POLICY, TAXATION, FOREIGN EXCHANGE CONTROL AND REPATRIATION OF PROFITS OUT OF PRC, OWNERSHIP OF TITLE TO EQUITY INTEREST/ASSETS IN PRC, ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS UNDER THE LAW OF PRC (CONT'D)

	Subject matter	Parties to contract	Date of contract	Duration of Contract	General Nature of Contract	Material Terms of the Contract	Consideration and mode of satisfaction of consideration
						volume is at RMB8 million within one year	
11	Purchase and sales agreement (Wine)	Shenyang Ouhua Winery Alcohol Commercial Firm (沈阳市欧华酒类商行)	29 December 2009	1 year from 1 January 2010 to 31 December 2010	Provincial Sales Agency Agreement for Liaoning Province	Shenyang Ouhua Winery Alcohol Commercial Firm shall purchase from Ouhua PRC and sell, with consent of Ouhua PRC, commodities in Liaoning, and avoid the marketing channel to selling beyond the agreed region; the target sales volume is at RMB16 million within one year	RMB16 million and the payment is subject to each order / ongoing
12	Purchase and sales agreement (Wine)	Chengdu Wuhou Alcohol Trading Co., Ltd. (成都武侯酒类贸易有限责任公司)	31 December 2009	1 year from 1 January 2010 to 31 December 2010	Provincial Sales Agency Agreement for Sichuan Province	Chengdu Wuhou Alcohol Trading Co., Ltd. shall purchase from Ouhua PRC and sell, with consent of Ouhua PRC, commodities in Sichuan, and avoid the marketing channel to selling beyond the agreed region; the target sales volume is at RMB45 million within one year	RMB45 million and the payment is subject to each order / ongoing
13	Purchase and sales agreement (Wine)	Boxing County Boxing Hotel Co., Ltd. (博兴县博兴宾馆有限公司)	19 December 2009	1 year from 1 January 2010 to 31 December 2010	Sales Agency Agreement for Binzhou City	Boxing County Boxing Hotel Co., Ltd. shall purchase from Ouhua PRC and sell, with consent of Ouhua PRC, commodities in Binzhou City, and avoid the marketing channel to selling beyond the agreed region; the target sales	RMB3 million and the payment is subject to each order / ongoing

APPENDIX E OPINION FROM JINGTIAN & GONGCHENG ON FOREIGN INVESTMENT POLICY, TAXATION, FOREIGN EXCHANGE CONTROL AND REPATRIATION OF PROFITS OUT OF PRC, OWNERSHIP OF TITLE TO EQUITY INTEREST/ASSETS IN PRC, ENFORCEABILITY OF AGREEMENTS, REPRESENTATIONS AND UNDERTAKINGS UNDER THE LAW OF PRC (CONT'D)

	Subject matter	Parties to contract	Date of contract	Duration of Contract	General Nature of Contract	Material Terms of the Contract	Consideration and mode of satisfaction of consideration
						volume is at RMB3 million within one year	

B. Purchase Contract

	Subject matter	Parties to contract	Date of contract	Duration of Contract	General Nature of Contract	Material Terms of the Contract	Consideration and mode of satisfaction of consideration
1	Products Purchase and Sales Contract (Wine Juice)	Ji'an Meide Fazenda Winery Co., Ltd. (集安美的庄园酒业有限公司)	2 June 2010	Not applicable	Purchase Contract	Purchase 270 tons of wine juice and goods shall be delivered within 30 days of the contract	RMB 3.024 million payment shall be made within one month after checking of goods up to standard / Performance finished
2	Products Purchase and Sales Contract (Wine bottles)	Yantai Changyu Glass Products Co., Ltd. (烟台长裕玻璃制品有限公司)	12 January 2010	Not applicable	Purchase Contract	Purchase of a series of wine bottles, goods shall be delivered to the warehouse of Ouhua PRC by vehicles	RMB717,861, cash on delivery / Performance finished
3	Products Purchase and Sales Contract (Wine bottles)	Yantai Changyu Glass Products Co., Ltd. (烟台长裕玻璃制品有限公司)	27 May 2010	Not applicable	Purchase Contract	Purchase of a series of wine bottles, goods shall be delivered to the warehouse of Ouhua PRC by vehicles	RMB411,154 cash on delivery / Performance finished
4	Products Purchase and Sales Contract (Wine Juice)	Shanghai Fenghui Trading Co., Ltd. (上海丰辉贸易有限公司)	17 February 2010	Not applicable	Purchase Contract	Purchase of 900 tons of imported dry wine juice, delivery within 30 days of contract, goods shall be used after checking	RMB 21.78 million, payment shall be made within one month of delivery / Performance finished
5	Products Purchase and Sales Contract (Wine Juice)	Shanghai Yunjie Trading Co., Ltd. (上海允杰贸易有限公司)	18 Janaury 2010	Not applicable	Purchase Contract	Purchase of 360 tons of imported dry wine juice, delivery within 30 days of contract	RMB9 million, payment on the next month of delivery / Performance finished
6	Products Purchase and Sales Contract (Package)	Yantai Tailong Package Products Co., Ltd. (烟台泰隆包装制品有限公司)	4 January 2010	Not applicable	Purchase Contract	Purchase of a series of packages, delivery within 30 days of contract	RMB370,400, payment on the delivery / Performance finished

C. Other Contracts

1. A Trademark Transfer Agreement dated 16 November.2009 between Yantai Ouhua and Ouhua PRC for the transfer of three (3) registered trademarks and all rights in one (1) trademark application in the jurisdiction of PRC by Yantai Ouhua to Ouhua PRC. No consideration is payable by Ouhua PRC to Yantai Ouhua for the said transfers.

2. A Trademark Application Right Transfer Agreement dated 16 November 2009 between Li Rong and Ouhua PRC for the transfer of all rights in ten (10) trademark applications filed in the jurisdiction of PRC by Li Rong to Ouhua PRC for an aggregate consideration sum of RMB 100,000.

3. Call option agreement dated 27 November 2009 entered into among Yantai Ouhua, Ouhua PRC and the Company to acquire the remaining 5% equity interest held by Yantai Ouhua at a purchase consideration to be determined by an independent valuer, subject to terms and conditions of the call option agreement.

Yantai Fazenda Ouhua Winery Co., Ltd.

Independent Auditors' Report on the Audited Financial Statements for the financial years ended 31 December 2007 and 2008

To the Members of Yantai Fazenda Ouhua Winery Co., Ltd

We have audited the accompanying financial statements of Yantai Fazenda Ouhua Winery Co., Ltd. (the "Company") set out on pages 3 to 41 which comprise the balance sheet of the Company as at 31 December 2007 and 2008, the income statement, statement of changes in equity and cash flow statement of the Company for the financial years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements of the Company present fairly, in all material respects, the financial position of the Company as at 31 December 2007 and 2008 and the results, changes in equity and cash flows of the Company for the financial years ended on those dates in accordance with International Financial Reporting Standards.

Other matters

This report has been prepared solely for inclusion in the Prospectus in connection with the proposed listing of China Ouhua Winery Holdings Limited's shares on the Bursa Malaysia Securities Berhad. China Ouhua Winery Holdings Limited became the holding company of the Company subsequent to 31 December 2008.

Ernst & Young LLP

Ernst & Young LLP
Public Accountants and Certified Public Accountants
Singapore
Partner in charge: Tan Peck Yen
2 December 2009

Yantai Fazenda Ouhua Winery Co., Ltd.

Income Statements for the financial years ended 31 December 2007 and 2008

(Amounts expressed in Renminbi)

	Note	2008	2007	2006
		Rmb'000	Rmb'000	Rmb'000
Revenue	4	301,517	178,736	95,047
Cost of sales		(135,033)	(83,182)	(55,151)
Gross profit		166,484	95,554	39,896
Other items of income				
Interest income	8	209	181	50
Other income		519	–	–
Other items of expense				
Marketing and distribution		(21,917)	(13,966)	(10,191)
Administrative expenses		(9,630)	(7,852)	(7,001)
Interest expense	8	(68)	–	–
Other expenses		(459)	(1,244)	–
Profit before tax	5	135,138	72,673	22,754
Income tax (expense)/credit	9	(16,278)	1,242	956
Net profit attributable to shareholders		118,860	73,915	23,710

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Yantai Fazenda Ouhua Winery Co., Ltd.

Balance Sheets at 31 December 2007 and 2008

(Amounts expressed in Renminbi)

	Note	2008	2007	2006
		Rmb'000	Rmb'000	Rmb'000
ASSETS				
Non-current assets				
Property, plant and equipment	10	37,784	36,143	33,720
Biological assets	11	77,661	62,295	28,020
Prepayments	12	8,176	8,384	8,592
Deferred tax assets	13	3,402	2,198	956
		127,023	109,020	71,288
Current assets				
Inventories	14	24,730	19,031	24,454
Trade and other receivables	15	44,719	1,346	1,236
Advances to suppliers		382	–	–
Cash and cash equivalents	16	35,800	24,236	9,623
		105,631	44,613	35,313
TOTAL ASSETS		232,654	153,633	106,601
EQUITY AND LIABILITIES				
Current liabilities				
Income tax payable		6,202	–	–
Short term bank loans	17	5,000	–	–
Trade and other payables	18	14,212	48,231	77,084
Dividend payable	18	18,000	–	–
Other liabilities	19	2,653	4,022	2,052
		46,067	52,253	79,136
NET CURRENT ASSETS/ (LIABILITIES)		59,564	(7,640)	(43,823)
TOTAL LIABILITIES		46,067	52,253	79,136
NET ASSETS		186,587	101,380	27,465
Share capital	20	4,980	4,980	4,980
Reserve funds	21	20,968	20,968	5,315
Accumulated profits/(losses)		160,639	75,432	17,170
TOTAL EQUITY		186,587	101,380	27,465
TOTAL EQUITY AND LIABILITIES		232,654	153,633	106,601

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Yantai Fazenda Ouhua Winery Co., Ltd.

Statement of Changes in Equity
for the financial years ended 31 December 2007 and 2008

(Amounts expressed in Renminbi)

	Share capital (Note 20)	Reserve funds (Note 21)	Accumulated profits	Total equity
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Year ended 31 December 2006				
At 1 January 2006	4,980	–	(1,225)	3,755
Profit for the year, representing total recognised income for the year	–	–	23,710	23,710
Appropriation to reserve funds	–	5,315	(5,315)	–
At 31 December 2006	4,980	5,315	17,170	27,465
Year ended 31 December 2007				
At 1 January 2007	4,980	5,315	17,170	27,465
Profit for the year, representing total recognised income for the year	–	–	73,915	73,915
Appropriation to reserve funds	–	15,653	(15,653)	–
At 31 December 2007	4,980	20,968	75,432	101,380
Year ended 31 December 2008				
At 1 January 2008	4,980	20,968	75,432	101,380
Profit for the year, representing total recognised income for the year	–	–	118,860	118,860
Dividends declared (Note 22)	–	–	(33,653)	(33,653)
At 31 December 2008	4,980	20,968	160,639	186,587

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Yantai Fazenda Ouhua Winery Co., Ltd.

Cash Flow Statement for the financial years ended 31 December 2007 and 2008

(Amounts expressed in Renminbi)

	Note	2008	2007	2006
		Rmb'000	Rmb'000	Rmb'000
Profit before tax		135,138	72,673	22,754
Adjustments:				
Amortisation of prepayments		208	208	208
Depreciation of property, plant and equipment		5,277	4,845	4,320
Interest expense		68	–	–
Interest income		(209)	(181)	(50)
Write-off of property, plant and equipment		–	1,244	–
Operating profit before working capital changes		140,482	78,789	27,232
Decrease (increase) in:				
Inventories		(5,699)	5,423	(15,785)
Trade and other receivables		(43,373)	(110)	906
Advances to suppliers		(382)	–	–
Increase (decrease) in:				
Trade and other payables		7,231	(9,153)	14,181
Other liabilities		(1,789)	1,970	1,753
Cash flows generated from operations		96,470	76,919	28,287
Interest income received		209	181	50
Interest expense paid		(68)	–	–
Income taxes paid		(11,280)	–	–
Net cash flows generated from operating activities		85,331	77,100	28,337
Cash flows used in investing activities				
Purchase of property, plant and equipment (Note A)		(6,498)	(8,512)	(5,606)
Purchase of/additions to biological assets		(15,366)	(34,275)	(28,020)
Prepayments for crop compensation		–	–	(8,800)
Net cash flows used in investing activities		(21,864)	(42,787)	(42,426)
Cash flows from financing activities				
Proceeds from short term bank loans		5,000	–	–
Dividends paid		(15,653)	–	–
(Repayments to) Advances from a director		(41,250)	(19,700)	22,500
Net cash flows used in financing activities		(51,903)	(19,700)	22,500

Yantai Fazenda Ouhua Winery Co., Ltd.

Cash Flow Statement for the financial years ended 31 December 2007 and 2008

(Amounts expressed in Renminbi)

	Note	2008	2007	2006
		Rmb'000	Rmb'000	Rmb'000
Net increase in cash and cash equivalents		11,564	14,613	8,411
Cash and cash equivalents at beginning of financial year		24,236	9,623	1,212
Cash and cash equivalents at end of financial year	18	35,800	24,236	9,623

A. Property, plant and equipment

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Current year additions to property, plant and equipment	6,918	8,512	5,606
Less: Payable to creditors	(420)	–	–
Net cash outflow for purchase of property, plant and equipment	6,498	8,512	5,606

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Yantai Fazenda Ouhua Winery Co., Ltd.

Notes to the Financial statements
For the financial years ended 31 December 2007 and 2008

1. Corporate information

1.1 *The Company*

Yantai Fazenda Ouhua Winery Co., Ltd. (the "Company") was incorporated as an Equity Joint Venture company, in the People's Republic of China.

The registered office and principal place of business of the Company is located at No. 3, North Wolong Road, Yantai City, Shandong Province, the People's Republic of China.

The principal activity of the Company is that of production of varieties of wine and sales of its self produced wine.

2. Significant accounting policies

2.1 *Basis of preparation*

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The Company's principal operations are conducted in the PRC and thus the financial statements are prepared in Renminbi (Rmb), being the functional and presentation currency of the Company. All values are rounded to the nearest thousand (Rmb'000) except when otherwise indicated.

2.2 *Changes in accounting policies*

The accounting policies have been consistently applied by the Company during the financial years ended 31 December 2007 and 2008, except as follows:

(a) *Adoption of new and revised IFRS and IFRIC Interpretations*

On 1 January 2007 and 2008, the Company adopted the new and revised IFRS and IFRIC Interpretations mandatory for annual periods beginning on or after 1 January 2007 and 2008. The adoption of these new and revised IFRS and IFRIC Interpretations did not have an impact on the financial position and results of the Company.

Yantai Fazenda Ouhua Winery Co., Ltd.

Notes to the Financial statements
For the financial years ended 31 December 2007 and 2008

2. Significant accounting policies (cont'd)

2.2 ***Changes in accounting policies (cont'd)***

(b) *New IFRS/Revised IAS/IFRIC not yet effective*

The Company has not applied the following IFRS, IAS and IFRIC that have been issued but are only effective for annual financial periods as stated:

		Effective for annual periods beginning on or after
IAS 1	Presentation of Financial Statements – Revised presentation	1 January 2009
IAS 1	Presentation of Financial Statements - Amendments relating to Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IAS 23	Borrowing Costs	1 January 2009
IAS 27	Consolidated and Separate Financial Statements – Amendments relating to Cost of an Investment on First-Time Adoption	1 January 2009
IAS 32	Financial Instruments: Presentation – Amendments relating to Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IAS 39	Financial Instruments: Recognition and measurement – Amendments relating to Eligible Hedged Items	1 July 2009
IFRS 1	First-time Adoption of Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption	1 January 2009
	Amendments to IFRS 1 – Additional Exemptions for First-time Adopters	1 January 2010
IFRS 2	Share-based payment – Amendment relating to vesting conditions and cancellations	1 January 2009
	Amendments to IFRS 2 – Group Cash-settled Share-based Payment Transactions	1 January 2010
IFRS 3	Business Combinations (Revised)	1 July 2009
IFRS 7	Financial Instruments: Disclosures – Amendments enhancing disclosures about fair value and liquidity risk	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (Revised)	1 July 2009
IFRIC 9 and IAS 39	Amendments to IFRIC 9 and IAS 39 - Embedded Derivatives	30 June 2009
IFRIC 13	Customer Loyalty Programme	1 July 2008

Yantai Fazenda Ouhua Winery Co., Ltd.

Notes to the Financial statements
For the financial years ended 31 December 2007 and 2008

2. Significant accounting policies (cont'd)

2.2 *Changes in accounting policies (cont'd)*

(b) *New IFRS/Revised IAS/IFRIC not yet effective (cont'd)*

		Effective for annual periods beginning on or after
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedge of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 17	Distribution of Non-Cash Assets to Owners	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009
Various IFRS	Improvements to IFRS issued in 2008	1 January 2009
Various IFRS	Improvements to IFRS issued in 2009	1 January 2010

The directors expect that the adoption of the above pronouncements will have no material impact to the financial statements in the period of initial application, except for IAS 1, IAS 23 and IFRS 8 as indicated below.

IAS 1 *Presentation of Financial Statements - Revised Presentation*

The revised IAS 1 requires owner and non-owner changes in equity to be presented separately. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line item. In addition, the revised standard introduces the statement of comprehensive income: it presents all items of income and expense, either in one single statement, or in two linked statements. The Company has adopted the single statement format.

IAS 23 *Borrowing Costs*

The IASB issued an amendment to IAS 23 in April 2007. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions of the amended IAS 23, the Company has adopted the standard on a prospective basis. No changes will be made for borrowing costs incurred during the financial years ended 31 December 2007 and 2008 that have been expensed.

IFRS 8 *Operating Segments*

IFRS 8 requires entities to disclose segment information based on the information reviewed by the entity's chief operating decision maker. This standard on segment disclosure does not have any significant impact on the financial position or financial performance of the Company when implemented in 2009.

2. Significant accounting policies (cont'd)

2.3 *Functional and foreign currency*

(a) *Functional currency*

The Company's principal operations are conducted in the PRC. The management has determined the currency of the primary economic environment in which the Company operates, that is, functional currency, to be Renminbi ("Rmb"). Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in Rmb.

(b) *Foreign currency transactions*

Transactions in foreign currencies are measured in Rmb and are recorded on initial recognition in Rmb at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the respective balance sheet dates. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the income statement.

2.4 *Related party*

An entity or individual is considered a related party of the Company for the purposes of the financial statements if:

(a) directly, or indirectly through one or more intermediaries, the party:

  (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
  (ii) has an interest in the entity that gives it significant influence over the entity; or
  (iii) has joint control over the entity;

(b) the party is an associate (as defined in IAS 28 Investments in Associates) of the entity;

(c) the party is a joint venture in which the entity is a venturer (see IAS 31 Interests in Joint Ventures);

(d) the party is a member of the key management personnel of the entity or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

2. Significant accounting policies (cont'd)

2.5 *Biological assets*

(a) *Vineyards*

Biological assets consist of immature grape vines. The grape vines have an average life of 20 years. Prior to the vineyards having attained a sustainable yield of grapes from their harvest, they are deemed as immature. As market determined prices or values are not readily available for grape vines in its present condition and for which alternative estimates of fair value are determined to be clearly unreliable, the biological assets are stated at cost less accumulated depreciation and impairment.

Costs include all costs of purchase and other costs in bringing the vineyards to their present location and condition. They include purchase of seedlings and vineyard maintenance costs.

Once immature vines commence bearing crop which is harvested (but prior to having attained a sustainable yield or industry productivity), the cost of the biological assets is expensed on the basis of yield achieved as a proportion of anticipated yield of a mature vine.

Once the fair value of the vines becomes reliably measurable, the grape vines are measured at their fair value less estimated point-of-sale costs at point of harvest. Gains or losses arising on initial recognition of grape vines at fair value less estimated point-of-sale costs is dealt with in the income statement when it arises. Subsequent to initial recognition, changes in fair value are recognised in the income statement.

Grapes are initially measured at their fair values less estimated point-of-sale costs at the time of harvest. The fair value of grapes is determined by reference to market prices for grapes in the local area, at the time of harvests. At the time of harvest, such measurement of the grapes is recorded as inventory and the gain on initial recognition of grapes is recognised in the income statement.

(b) *Prepayments*

Prepayments relate to crop compensation costs paid to previous lessees of the land on which the Company's vineyards reside. Prepayments are amortised in the income statement on a straight-line basis over the lease term of the vineyards, which ranges from 30 to 50 years.

2. Significant accounting policies (cont'd)

2.6 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation of an asset begins when it is available for use and is computed on a straight-line basis to write off the cost of property, plant and equipment over the estimated useful life of the assets as follows:

	Years
Renovations	5-10
Plant and machinery	10
Office equipment	5
Motor vehicles	5
Vineyard land preparation costs & fixtures	10

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

2. Significant accounting policies (cont'd)

2.7 *Impairment of non-financial assets*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is required, the Company makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount.

Impairment losses are recognised in the income statement.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the income statement.

2.8 *Financial assets*

Financial assets are recognised on the balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

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

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in equity is recognised in the income statement.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, that is, the date that the Company 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 concerned.

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For the financial years ended 31 December 2007 and 2008

2. Significant accounting policies (cont'd)

2.8 ***Financial assets (cont'd)***

Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, and through the amortisation process.

2.9 ***Cash and cash equivalents***

Cash and cash equivalents comprise cash and bank balances and unpledged bank deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and short term deposits carried in the balance sheets are classified and accounted for as loans and receivables. The accounting policy for this category of financial assets is as disclosed in Note 2.8.

2.10 ***Impairment of financial assets***

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

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

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

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

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

2. Significant accounting policies (cont'd)

2.11 *Inventories*

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

- Raw materials – purchase cost on a weighted average basis
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.12 *Provisions*

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.13 *Financial liabilities*

Financial liabilities are recognised on the balance sheet when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transaction costs.

Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective interest method, except for derivatives, which are measured at fair value.

A financial liability is derecognised when the obligation under the liability is extinguished. For financial liabilities other than derivatives, gains and losses are recognised in the income statement when the liabilities are derecognised, and through the amortisation process. Any gains or losses arising from changes in the fair value of derivatives are recognised in the income statement. Net gains or losses on derivatives include exchange differences.

2. Significant accounting policies (cont'd)

2.14 *Borrowing costs*

Borrowing costs are recognised in the income statement as incurred except to the extent that they are capitalised. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are ready for their intended use or sale.

2.15 *Operating leases*

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.16 *Employee benefits*

Defined contribution plans - pension benefits

The Company is required to provide certain staff pension benefits to its employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the Company's employees.

Pension contributions are recognised as an expense in the period in which the related services are performed.

2.17 *Revenue*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

(a) *Sale of goods*

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customers. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) *Interest income*

Interest income is recognised using the effective interest method.

2. Significant accounting policies (cont'd)

2.18 *Income taxes*

(a) *Current tax*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

(b) *Deferred tax*

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

Deferred income tax liabilities are recognised for all temporary differences, except:

- Where the deferred income 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 accounting profit nor taxable profit or loss;

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the Company and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference 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 accounting profit nor taxable profit or loss;

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only 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.

2. Significant accounting policies (cont'd)

2.18 *Income taxes (cont'd)*

(b) *Deferred tax (cont'd)*

The carrying amount of deferred income tax asset is reviewed at each balance sheet date 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 each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

(c) *Value-added-tax ("VAT")*

The Company's sales of goods in the PRC are subjected to VAT at the applicable tax rate of 17% for PRC domestic sales. Input tax on purchases can be deducted from output VAT. The net VAT receivable or payable is included in "Other receivables" or "Other payables". The Company's export sales are not subjected to VAT.

Revenues, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.19 ***Share capital and share issue expenses***

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to such capital contributions are deducted against share capital.

2. Significant accounting policies (cont'd)

2.20 *Segment reporting*

A business segment is a distinguishable component of the Company that is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the Company th at is engaged in providing products or serv ices within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

2.21 *Contingencies*

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Company.

Contingent liabilities and assets are not recognised on the balance sheet of the Company.

3. Significant accounting judgements and estimates

The preparation of the Company's financial statements 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 at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 *Judgements made in applying accounting policies*

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

(a) *Income taxes*

The Company has exposure to income taxes in the PRC. Significant judgement is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Company's income tax payable at 31 December 2008 and 2007 was Rmb 6,202,000 and Nil respectively (2006: Nil).

3. Significant accounting judgements and estimates (cont'd)

3.1 ***Judgements made in applying accounting policies (cont'd)***

(b) *Biological assets*

The directors have determined that market determined prices or values are not readily available for grape vines in its present condition and for which alternative estimates of fair value are determined to be clearly unreliable. It is the first time that the land is used to plant the vines (previously such land was used for the cultivation of other crops), coupled with the management having no prior relevant experience in the cultivation of grapes. Therefore, the directors are of the opinion that prior to the vineyards having attained a sustainable yield of grapes from their harvest, the projected future cashflows from harvesting of grapes over the estimated useful life cannot be reliably ascertained. Accordingly, the biological assets are stated at cost less accumulated depreciation and impairment. Judgement has been exercised based on the conditions of the grape vines in determining that the net realisable value will exceed cost less accumulated depreciation and thus, no impairment in biological assets is necessary as at the balance sheet date. The carrying amount of the biological assets as at 31 December 2008 and 2007 was Rmb 77,661,000 and Rmb 62,295,000 respectively (2006: Rmb 28,020,000).

3.2 ***Key sources of estimation uncertainty***

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of production plant and machinery

The cost of production plant and machinery is depreciated on a straight-line basis over the estimated useful life of the assets. Management estimates the useful life of the production plant and machinery to be 10 years and residual value to be 10% of cost. This is a common life expectancy applied in the manufacturing industry. The carrying amount of the Company's production plant and machinery as at 31 December 2008 and 2007 was approximately Rmb 16,416,000 and Rmb 18,988,000 respectively (2006: Rmb 23,425,000).

Changes in the expected level of usage and technological developments could impact the economic useful life of the production plant and machinery; therefore future depreciation charges could be revised. A 5% difference in the expected useful lives of the production plant and machinery from management's estimates would not result in any significant variance in profit for the respective years.

4. Revenue

Revenue represents sales of goods net of discounts and value-added-tax ("VAT").

5. Profit before tax

This is determined after charging the following items:

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Amortisation of long-term prepayments	208	208	208
Depreciation of property, plant and equipment	5,277	4,845	4,320
Distributor promotional expenses	6,163	2,520	1,358
Write-off of property, plant and equipment	–	1,244	–
Employee compensation* (Note 6)	10,896	8,914	7,073
Foreign exchange loss, net	3	6	1
Operating lease expense – buildings	1,620	1,620	1,620
Operating lease expense – vineyard	3,300	3,300	3,300

* Includes directors' remuneration and remuneration of key management personnel as disclosed in Note 7.

6. Employee compensation

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Salaries, wages and bonuses	9,436	7,789	6,085
Employer's contribution to defined contribution plans	1,173	927	833
Welfare expense	253	170	130
Labour union expense	34	28	25
	10,896	8,914	7,073

7. Related party transactions

During the financial years ended 31 December 2007 and 2008, the Company had the following transactions with related parties, on terms agreed between the respective parties:

(a) ***Compensation of key management personnel***

In addition, related party transactions with key management personnel are as follows:

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Salaries and other short term employee benefits, representing total compensation to key management personnel	1,860	1,138	1,092
Comprises amounts paid to:			
Directors	502	669	669
Other key management personnel	1,358	469	423
	1,860	1,138	1,092

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

(b) ***Rental***

	2008	2007	2006
Rental of office building from a related party, in which a director, Mr Wang Chao, has an interest	720	720	720

(c) ***Collateral for loans***

As at 31 December 2008, a related party of the Company has pledged the property rights of the aforementioned office building to secure short term bank loans of the Company as disclosed in Note 17.

(d) ***Sales to Distributor***

	2008	2007	2006
Sales to a distributor in which a director, Mr Wang Chao, has deemed interest	37,773	2,671	1,492
Trade receivable due from the distributor	5,711	–	–
Advance payment from the distributor	–	59	20

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8. Interest income/(expense)

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Interest income from loans and receivables:			
- bank balances	209	181	50
Interest expense on:			
- short term bank loans	(68)	–	–

9. Income tax expense/(credit)

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Current income tax			
- Current year income tax expense	17,482	–	–
Deferred income tax credit			
- Origination of temporary differences	(1,204)	(1,242)	(956)
Income tax expense/(credit) recognised in the income statement	16,278	(1,242)	(956)

A reconciliation between tax expense and the product of profit before tax multiplied by the applicable tax rate for the financial years ended 31 December 2007 and 2008 is as follows:

	2008	2007	2006
Profit before tax	135,138	72,673	22,754
Tax at the applicable domestic tax rates	33,785	19,622	6,144
Tax effects of:			
- Tax relief	–	(21,467)	(7,179)
- Partial tax exemption	(17,492)	–	–
- Expenses not deductible for tax purposes	10	336	3
- Origination of temporary differences	(25)	267	76
- Deferred tax asset not recognised	–	–	–
Income tax expense/(credit) recognised in the income statement	16,278	(1,242)	(956)

9. Income tax expense/(credit) (cont'd)

Based on the Income Tax Law of the PRC for Enterprises with Foreign Investment, the Company is entitled to exemption from PRC Enterprise Income Tax ("EIT") and local income tax for two years commencing from its first profit-making year of operation and a 50% relief from PRC EIT for the following three years. As the Company is engaged in the manufacturing business established in a coastal area, it is entitled to a reduced EIT rate of 24%. The Company is exempted from the local income tax rate of 3%. The Company is exempted from tax for the financial years ended 31 December 2006 and 2007 as its first profitable year commenced from 2006.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New CIT") was approved and became effective on 1 January 2008. The New CIT introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Based on the implementation and administrative rules and regulations relating to the New CIT and Income Tax Law of the PRC for Enterprises with Foreign Investment, the Company is subjected to an income tax rate of 12.5% for the financial year ended 31 December 2008.

10. Property, plant and equipment

	Renovations	Plant and machinery	Office equipment	Motor vehicles	Vineyard land preparation costs and fixtures	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Cost						
At 1 January 2006	7,500	35,464	182	151	–	43,297
Additions	–	16	20	–	5,570	5,606
At 31 December 2006	7,500	35,480	202	151	5,570	48,903
Additions	–	–	2	–	8,510	8,512
At 31 December 2007	7,500	35,480	204	151	14,080	57,415
Additions	5,700	420	798	–	–	6,918
At 31 December 2008	13,200	35,900	1,002	151	14,080	64,333
Accumulated depreciation						
At 1 January 2006	(1,875)	(8,863)	(86)	(39)	–	(10,863)
Depreciation charge for the year	(750)	(3,192)	(36)	(27)	(315)	(4,320)
At 31 December 2006	(2,625)	(12,055)	(122)	(66)	(315)	(15,183)
Depreciation charge for the year	(750)	(3,193)	(37)	(27)	(838)	(4,845)
Impairment	–	(1,244)	–	–	–	(1,244)
At 31 December 2007	(3,375)	(16,492)	(159)	(93)	(1,153)	(21,272)
Depreciation charge for the year	(845)	(2,992)	(17)	(15)	(1,408)	(5,277)
At 31 December 2008	(4,220)	(19,484)	(176)	(108)	(2,561)	(26,549)
Net carrying amount						
At 31 December 2006	4,875	23,425	80	85	5,255	33,720
At 31 December 2007	4,125	18,988	45	58	12,927	36,143
At 31 December 2008	8,980	16,416	826	43	11,519	37,784

In FY2007, the Company wrote down the entire carrying amount of plant and machinery relating to a production line which ceased to be used. An impairment loss of Rmb1,244,000, representing the full amount of write down, was recognised in "Other expenses" line item of the income statement for the financial year ended 31 December 2007.

11. Biological assets

	2008 Rmb'000	2007 Rmb'000	2006 Rmb'000
Immature planted vineyards, at cost:			
At 1 January	62,295	28,020	–
Additions	15,366	34,275	28,020
At 31 December	77,661	62,295	28,020

The Company held approximately 3,302,000 grape vines planted on 2 separate plots of land aggregating approximately 367 hectares of land. The grapes were planted in 2006 and 2007. The grape vines are immature plants which have not been harvested as of 31 December 2008.

The Company is exposed to financial risks in respect of agricultural activity. The agricultural activity of the Company consists of the management of the vineyards to produce grapes for use in the production of wine. The primary risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of grape vines and on harvesting grapes, and ultimately receiving cash from the sale of wine to third parties. The Company has not attained a sustainable annual yield of grapes from its vineyards and only about 1,000 tonnes (representing approximately one-third of estimated total yield upon maturity of the vineyards) were harvested for the first time in September 2009. Accordingly, the growth of the vines is deemed to be in their early stage and there exists high level of uncertainty with regards to the future outcome of their growth. This is affected by, inter alia, weather, biological properties of the vines planted, livability, disease, management of the vineyards, pollution etc.

The Company's strategy to manage this financial risk is to actively review and manage its working capital requirements as well as continue to enhance its relationship with the farmers/suppliers from whom it has been purchasing grapes/grape juice for production of wine.

12. Prepayments

	Rmb'000
Cost	
At 1 January 2006	–
Additions	8,800
At 31 December 2006, 31 December 2007 and 31 December 2008	8,800
Accumulated amortisation	
At 1 January 2006	–
Amortisation charge for the year	(208)
At 31 December 2006	(208)
Amortisation charge for the year	(208)
At 31 December 2007	(416)
Amortisation charge for the year	(208)
At 31 December 2008	(624)
Net carrying amount	
At 31 December 2006	8,592
At 31 December 2007	8,384
At 31 December 2008	8,176

Prepayments relate to crop compensation costs paid to the previous lessees of the land on which the Company's vineyards reside.

13. Deferred tax

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Deferred tax assets:			
Differences in the operating lease expense	2,475	1,650	825
Differences in the amortisation of prepayment	156	104	52
Differences in the carrying amount of property, plant and equipment	771	444	79
	3,402	2,198	956

Movement in the deferred tax assets during the financial year is as follows:

Deferred tax assets			
At 1 January	2,198	956	–
Credit to income statement (Note 9)	1,204	1,242	956
Total	3,402	2,198	956

14. Inventories

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Balance sheet:			
Raw materials	568	776	826
Work-in-progress	23,793	18,237	23,602
Finished goods	369	18	26
Total inventories at lower of cost and net realisable value	24,730	19,031	24,454
Income statement:			
Inventories recognised as an expense in cost of sales	96,291	57,621	38,556

During the financial years ended 31 December 2007 and 2008, there has been no inventory written off or allowance for inventory obsolescence.

15. Trade and other receivables

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Trade receivables	44,353	1,346	1,236
Deposits	366	–	–
Total trade and other receivables	44,719	1,346	1,236
Add: Cash and bank balances (Note 16)	35,800	24,236	9,623
Total loans and receivables	80,519	25,582	10,859

During the financial years ended 31 December 2007 and 2008, there have been no trade receivables written off or allowance for doubtful trade receivables.

(i) ***Trade receivables***

Trade receivables are non-interest bearing and are normally settled on 30 to 90 days' terms. They are recognised at their original invoiced amounts which represent their fair values on initial recognition.

As at 31 December 2007 and 2008, there are no trade receivables that are past due but not impaired.

16. Cash and cash equivalents

Cash and cash equivalents included in the consolidated cash flow statements comprise the following balance sheet amounts:

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Cash and bank balances	35,800	24,236	9,623

Cash and bank balances have an effective interest rate of 0.72% per annum to 0.81% per annum and 0.36% per annum to 0.72% per annum for the financial years ended 31 December 2007 and 2008 respectively and are denominated in Rmb.

Yantai Fazenda Ouhua Winery Co., Ltd.

Notes to the Financial statements
For the financial years ended 31 December 2007 and 2008

17. Short term bank loans

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Secured loans from bank:			
China Merchants Bank[1]	3,000	–	–
China Merchants Bank[1]	2,000	–	–
	5,000	–	–

[1] These two short term bank loans bear interest at a floating rate of 1.2 times of the People's Bank of China's prime lending rate and are secured by certain property rights of a related party as disclosed in Note 7 (c). The interest rate during the financial year ended 31 December 2008 was between 5.8% per annum to 7.5% per annum.

The maturity dates of all short term bank loans are within twelve months from the financial year end.

18. Trade and other payables/dividend payable

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Trade payables	5,567	1,741	644
VAT and other operating tax payables	8,554	5,184	2,015
Other payables	91	56	24
Accrual for additions to biological assets	–	–	13,451
Due to director (non-trade)	–	41,250	60,950
Total trade and other payables	14,212	48,231	77,084
Add:			
- Other liabilities (Note 19)	2,653	4,022	2,052
- Loans and borrowings (Note 17)	5,000	–	–
- Dividend payable	18,000	–	–
Total financial liabilities carried at amortised cost	39,865	52,253	79,136

Trade payables and other payables

These amounts are non-interest bearing. Trade payables are normally settled on 60 days term while other payables have an average term of one month.

Due to director (non-trade)

Amount due to a director is a non-trade balance and is non-interest bearing, unsecured and repayable on demand.

19. Other liabilities

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Accrued operating expenses	2,514	1,469	862
Advances from customers	139	2,553	1,190
	2,653	4,022	2,052

20. Share capital

	2008		2007		2006	
	Currency	Rmb equivalent	Currency	Rmb equivalent	Currency	Rmb equivalent
Registered and Paid-in capital:						
Yantai Ouhua Winery Co., Ltd.	USD450,000	3,735,000	USD450,000	3,735,000	USD450,000	3,735,000
The Group of Hualian Commercial Building (Spain) S. L.	USD150,000	1,245,000	USD150,000	1,245,000	USD150,000	1,245,000
		4,980,000		4,980,000		4,980,000

Shandong Guoxin Certified Public Accountants Co., Ltd, a firm of certified public accountants in the PRC, have verified the above capital contributions, and issued the capital verification report.

Included in the above are capital contributions amounting to Rmb 2,000,000 in cash and Rmb 2,980,000 in fixed assets.

21. Reserve funds

In accordance with the relevant laws and regulations of the PRC, companies in the PRC are required to set aside an enterprise expansion reserve fund and a general reserve fund by way of appropriation from their statutory net profit, as reported in the PRC statutory financial statements, at a rate to be determined by the board of directors of the Company. The board of directors of the Company have decided that 10% of the statutory net profit, as reported in the PRC statutory financial statements of the Company, be appropriated each year to each of the enterprise expansion reserve fund and general reserve fund respectively.

The reserves may be used to offset accumulated losses or increase the registered capital of the Company, subject to approval from the PRC authorities and are not available for dividend distribution to the shareholders.

22. Dividends

During the financial year ended 31 December 2008 and 2007, the Company declared dividends amounting to Rmb 33,653,000 and Nil respectively (2006: Nil).

23. Segment information

Reporting format

The primary segment reporting format is determined to be business segments as the Company's risks and rates of return are affected predominantly by differences in the products produced. The operating businesses are organised and managed separately according to the nature of the products produced, with each segment representing a strategic business unit that offers different products and serves different markets.

Primary reporting format – business segments

The Company's primary format for reporting segment information is business segments, with each segment representing a product line. The Company's business segment is organised into two business segments, namely:

(i) White wine ("WW")

The White wine segment relates to the business of producing white wines from Chardonnay, Riesling, Sauvignon Blanc, and Pinot Blanc grape varietals grown on the Company's vineyards, grapes sourced from grape growers from areas neighbouring the Company's vineyards as well as wines purchased for production.

(ii) Red wine ("RW")

The Red wine segment relates to the business of producing red wines from Cabernet Sauvignon, Pinot Noir, Shiraz, Merlot grape varietals, grown on the Company's vineyards, grapes sourced from grape growers from areas neighbouring the Company's vineyards, as well as wines purchased for production.

Secondary reporting format – Geographical segments

There is no geographical segment information provided as the Company operates mainly in the PRC with export sales constituting 0.2% and 0.6% of total sales for the financial year ended 31 December 2008 and 2007 respectively (2006: Nil).

Yantai Fazenda Ouhua Winery Co., Ltd.

Notes to the Financial statements
For the financial years ended 31 December 2007 and 2008

23. Segment information (cont'd)

Allocation basis and transfer pricing

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other operating income and expenses, financial income and expenses and income tax expense.

There is no inter-segment transfer for the financial years ended 31 December 2007 and 2008.

Company assets and liabilities cannot be directly attributable to individual segments as it is impractical to allocate them to the segments. Accordingly, it is not meaningful to disclose assets, liabilities and capital expenditure by business segments.

Business segments

The following table presents revenue, results and other information regarding the Company's business segments for the financial years ended 31 December 2007 and 2008:

	WW	**RW**	**Total**
	Rmb'000	Rmb'000	Rmb'000
31 December 2006			
Revenue			
Sales to external customers	17,135	77,912	95,047
Results			
Segment gross profit	7,220	32,676	39,896
Unallocated expenses, net			(17,192)
Interest income			50
Profit before tax			22,754
Income tax credit			956
Net profit attributable to shareholders			23,710
Other segment information			
Amortisation of long-term prepayments			208
Depreciation of property, plant and equipment			4,320

Yantai Fazenda Ouhua Winery Co., Ltd.

Notes to the Financial statements
For the financial years ended 31 December 2007 and 2008

23. Segment information (cont'd)

	WW Rmb'000	RW Rmb'000	Total Rmb'000
31 December 2007			
Revenue			
Sales to external customers	25,049	153,687	178,736
Results			
Segment gross profit	12,612	82,942	95,554
Unallocated expenses, net			(23,062)
Interest income			181
Profit before tax			72,673
Income tax credit			1,242
Net profit attributable to shareholders			73,915
Other segment information			
Amortisation of long-term prepayments			208
Depreciation of property, plant and equipment			4,845
Impairment of plant and machinery			1,244

	WW Rmb'000	RW Rmb'000	Total Rmb'000
31 December 2008			
Revenue			
Sales to external customers	30,508	271,009	301,517
Results			
Segment gross profit	19,350	147,134	166,484
Unallocated expenses, net			(31,487)
Interest income			209
Interest expense			(68)
Profit before tax			135,138
Income tax			(16,278)
Net profit attributable to shareholders			118,860
Other segment information			
Amortisation of long-term prepayment			208
Depreciation of property, plant and equipment			5,277

24. Commitments

The Company has operating lease agreements for its office and factory buildings and vineyards in the PRC. Lease terms do not contain restrictions on the Company's activities concerning dividends, additional debt or further leasing. Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Not later than 1 year	5,010	4,920	4,920
1 year through 5 years	20,869	20,538	20,217
More than 5 years	178,677	183,018	188,259
	204,556	208,476	213,396

25. Financial risk management objectives and policies

The Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The board of directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Finance Controller. It is, and has been throughout the years under review, the Company's policy that no derivatives shall be undertaken. The Company does not apply hedge accounting.

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

(a) ***Credit risk***

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Company minimises credit risk by dealing exclusively with high credit rating counterparties.

The Company's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Company trades only with recognised and creditworthy third parties. The Company subjects new customers to credit verification procedures and obtains advanced payments instead of granting credit. In addition, receivables balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

Exposure to credit risk

At the balance sheet date, the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets as disclosed in Note 15.

25. Financial risk management objectives and policies (cont'd)

Credit risk concentration profile

At the balance sheet date, approximately 61% (2007: 25% and 2006: 39%) of the Company's trade receivables were due from 5 major customers located in the PRC.

Financial assets that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Company. Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

There are no financial assets that are either past due or impaired.

(b) ***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Company's liquidity risk management policy is to maintain sufficient liquid financial assets and stand-by credit facilities with different banks. In addition, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

The financial liabilities of the Company at the respective balance sheet date will mature in less than one year based on the carrying amount reflected in the financial statements.

The table below summarises the maturity profile of the Company's financial liabilities at the balance sheet date based on contractual undiscounted payments.

		Within 1 year	
	2008	**2007**	**2006**
	Rmb'000	Rmb'000	Rmb'000
Loans and borrowings	5,078	–	–
Trade and other payables	14,212	48,231	77,084
Other liabilities	2,653	4,022	2,052
Dividends payable	18,000	–	–
	39,943	52,253	79,136

25. Financial risk management objectives and policies (cont'd)

(c) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk arises primarily from cash at bank and short term bank loans at floating rates for the financial years ended 31 December 2007 and 2008. The Company obtains additional financing through bank borrowings at floating rate of 1.2 times of the People's Bank of China's prime lending rate in the financial year ended 31 December 2008. The Company's policy is to obtain the most favourable interest rates available.

Surplus funds are placed with reputable banks.

Information relating to the Company's interest rate exposure is also disclosed in Notes 16 and 17.

	2008	**2007**	**2006**
	Rmb'000	Rmb'000	Rmb'000
Floating rate			
Cash at bank	35,681	24,213	9,597
Short term bank loans	5,000	–	–

Sensitivity analysis for interest rate risk

At 31 December 2008, if Rmb interest rates had been 100 basis points (2007 and 2006: 100 basis points) lower/higher with all other variables held constant, the Company's profit after tax would have been Rmb 307,000 (2007: Rmb 242,000 and 2006: Rmb 96,000) lower/higher, arising mainly as a result of lower/higher interest income/expense on cash at bank and short term bank loans.

(d) *Foreign currency risk*

Currently, the PRC government imposes control over foreign currencies. Rmb, the official currency in China, is not freely convertible. Enterprises operating in PRC can enter into exchange transactions through People's Bank of China or other authorised financial institutions.

Payments for imported materials or services, which is outside of the PRC, are subject to availability of foreign currencies which depends on the foreign currency denominated earnings of the enterprises, or exchanges of Rmb for foreign currency must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchase of imported materials and remittance of earnings. While conversion of Rmb into foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

As at 31 December 2007 and 2008, sensitivity analysis for foreign currency risk is not applicable as the Company maintains minimal balances in foreign currency and thus has minimal exposure to foreign currency risk.

26. Fair value of financial instruments

Determination of fair value

Management has determined that the carrying amounts of cash and short term deposits, current trade and other receivables, current trade and other payables, short term bank loans, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.

The carrying amounts of these financial assets and liabilities are a reasonable approximation of fair values, either due to their short term nature or that they are floating rate instruments that are repriced to market interest rates on or near the balance sheet date.

During the financial years under review, no amount has been recognised in the income statement in relation to the change in fair value of financial assets or financial liabilities estimated using a valuation technique.

27. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company 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 during the financial years ended 31 December 2007 and 2008.

As disclosed in Note 21, the Company is required by relevant laws and regulations of the PRC to contribute to and maintain non-distributable reserve funds whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with for the financial years ended 31 December 2007 and 2008.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company includes within net debt, short term bank loans, trade payables, other payables and accruals, amount due to a director, less cash and cash equivalents. Capital includes equity attributable to the equity holders less the abovementioned restricted reserve funds.

27. Capital management (cont'd)

	2008	2007	2006
	Rmb'000	Rmb'000	Rmb'000
Short term bank loans	5,000	–	–
Trade and other payables	14,212	48,231	77,084
Dividend payable	18,000	–	–
Other liabilities	2,653	4,022	2,052
Total debt	39,865	52,253	79,136
Less: Cash and cash equivalents	(35,800)	(24,236)	(9,623)
Net debt	4,065	28,017	69,513
Equity attributable to the then equity holders	186,587	101,380	27,465
Less: Reserve funds	(20,968)	(20,968)	(5,315)
Total capital	165,619	80,412	22,150
Capital and net debt	169,684	108,429	91,663
Gearing ratio	2%	26%	76%

28. Events after balance sheet date

Subsequent to 31 December 2008,

(i) On 27 September 2009, the 25% interest in the Company held by Hualian was transferred to China Ouhua Winery Holdings Pte Ltd ("China Ouhua").

(ii) Pursuant to a Capital Increase Agreement dated 16 March 2009 entered into between China Ouhua and Yantai Ouhua Winery Co., Ltd ("YO Winery"), China Ouhua shall invest an aggregate sum of USD8.4 million in cash into the Company for an additional 70% equity interests in the Company ("Capital Injection").

As at the date of the financial statements, China Ouhua has contributed approximately USD3.7 million to the registered capital of the Company. Accordingly, the paid in capital of the Company increased from USD0.6 million to approximately USD4.3 million.

In accordance with the Capital Increase Agreement and pursuant to the Company Law of the PRC, China Ouhua has up to 24 March 2011 to contribute the remaining USD4.7 million to the registered capital of the Company.

Subsequent to the transfer of equity interest from Hualian and the Capital Injection, China Ouhua became the legal and beneficial owner of 95% of the registered capital of the Company.

29. Authorisation of financial statements

The audited financial statements for the financial years ended 31 December 2007 and 2008 were authorised for issue in accordance with a resolution of the directors on 2 December 2009.

China Ouhua Winery Holdings Limited and its Subsidiary

Independent Auditors' Report
For the financial year ended 31 December 2009

To the members of China Ouhua Winery Holdings Limited

We have audited the accompanying financial statements of China Ouhua Winery Holdings Limited (the "Company") and its subsidiary (collectively, the "Group") set out on pages 4 to 50, which comprise the statements of financial position of the Group and the Company as at 31 December 2009, the consolidated statement of changes in equity, consolidated statement of comprehensive income and consolidated statement of cash flows of the Group for the financial year ended 31 December 2009; the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Company for the financial period from 12 January 2009 to 31 December 2009, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

China Ouhua Winery Holdings Limited and its Subsidiary

Independent Auditors' Report
For the financial year ended 31 December 2009

Opinion

In our opinion, the accompanying financial statements of the Group and the Company present fairly, in all material respects, the financial position of the Group and the Company as at 31 December 2009 and the results, changes in equity and cash flows of the Group for the financial year ended 31 December 2009 and the results, changes in equity and cash flows of the Company for the financial period from 12 January 2009 to 31 December 2009 in accordance with International Financial Reporting Standards.

Other matters

This report has been prepared solely for inclusion in the Prospectus in connection with the proposed listing of the Company's shares on the Bursa Malaysia Securities Berhad.

Ernst & Young LLP

Ernst & Young LLP

Public Accountants and
Certified Public Accountants
Singapore

Partner in charge: Tan Peck Yen

8 April 2010

China Ouhua Winery Holdings Limited and its Subsidiary

Statements of Comprehensive Income
for the financial year ended 31 December 2009

(Amounts expressed in Renminbi)

	Note	Group 2009 Rmb'000	Group 2008 Rmb'000	Company 2009 Rmb'000
Revenue	4	375,530	301,517	–
Cost of sales		(168,024)	(135,033)	–
Gross profit		207,506	166,484	–
Other items of income				
Interest income	5	123	209	–
Other income	6	6,621	519	2,171
Other items of expense				
Marketing and distribution		(34,063)	(21,917)	–
Administrative expenses		(13,484)	(9,630)	(29)
Interest expense	5	(2,545)	(68)	(2,354)
Other expenses		(5,564)	(459)	(5,564)
Profit/(loss) before tax	7	158,594	135,138	(5,776)
Income tax expense	10	(25,821)	(20,325)	–
Profit/(loss) after tax		132,773	114,813	(5,776)
Other comprehensive loss:				
Foreign currency translation		(141)	–	(70)
Total comprehensive income for the year		132,632	114,813	(5,846)
Profit attributable to:				
Owners of the parent		125,500	108,870	(5,776)
Non-controlling interests		7,273	5,943	–
		132,773	114,813	(5,776)
Total comprehensive income attributable to:				
Owners of the parent		125,359	108,870	(5,846)
Non-controlling interests		7,273	5,943	–
		132,632	114,813	(5,846)
Earnings per share from Group's net profit attributable to shareholders				
Basic (Rmb cents)	11	33.36	2,177.40	
Diluted (Rmb cents)	11	33.17	2,177.40	

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

China Ouhua Winery Holdings Limited and its Subsidiary

Statements of Financial Position as at 31 December 2009

(Amounts expressed in Renminbi)

	Note	Group 31.12.2009	Group 31.12.2008	Company 31.12.2009
ASSETS				
Non-current assets				
Property, plant and equipment	12	40,456	37,784	–
Biological assets	13	88,069	77,661	–
Prepayments	14	7,968	8,176	–
Investment in subsidiary	15	–	–	26,392
Deferred tax assets	16	4,899	3,402	–
		141,392	127,023	26,392
Current assets				
Inventories	17	44,788	24,730	–
Trade and other receivables	18	84,431	44,719	–
Advances to suppliers		–	382	–
Prepayments	19	1,373	–	1,373
Cash and cash equivalents	20	45,567	35,800	747
		176,159	105,631	2,120
Total assets		317,551	232,654	28,512
EQUITY AND LIABILITIES				
Current liabilities				
Income tax payable		7,015	6,202	–
Trade and other payables	21	21,230	14,212	6,474
Dividend payables		–	18,000	–
Other liabilities	22	3,311	2,653	–
Short term bank loans	23	–	5,000	–
Convertible notes	24	14,818	–	14,818
Derivative financial instruments	24	10,496	–	10,496
		56,870	46,067	31,788
Net current assets/(liabilities)		119,289	59,564	(29,668)
Non-current liability				
Deferred tax liabilities	16	10,957	4,047	–
Total liabilities		67,827	50,114	31,788
Net assets/(liabilities)		249,724	182,540	(3,276)
Equity attributable to owners of the parent				
Share capital	25	–*	–*	–*
Other reserves	26	22,570	21,164	2,500
Retained earnings/(accumulated losses)		210,414	148,560	(5,776)
		232,984	169,724	(3,276)
Non-controlling interests		16,740	12,816	–
Total equity		249,724	182,540	(3,276)

* Amount less than Rmb 1,000.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

China Ouhua Winery Holdings Limited and its Subsidiary
Statements of Changes in Equity for the financial year ended 31 December 2009

(Amounts expressed in Renminbi)

	Attributable to equity holders of the Company								
	Share capital (Note 25)	Reserve funds (Note 26)	Merger Reserve (Note 26)	Foreign currency translation reserves (Note 26)	Equity Contributions (Note 26)	Retained earnings	Total	Non-controlling interests	Total equity
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Group									
At 1 January 2008	–	19,920	1,244	–	–	71,660	92,824	8,556	101,380
Profit for the year	–	–	–	–	–	108,870	108,870	5,943	114,813
Dividends declared (Note 27)	–	–	–	–	–	(31,970)	(31,970)	(1,683)	(33,653)
At 31 December 2008 and 1 January 2009	–	19,920	1,244	–	–	148,560	169,724	12,816	182,540
At 12 January 2009 (on incorporation of the Company)	–*	–	–	–	–	–	–*	–	–*
Profit for the year	–	–	–	–	–	125,500	125,500	7,273	132,773
Other comprehensive loss for the year	–	–	–	(141)	–	–	(141)	–	(141)
Total comprehensive income for the year	–	–	–	(141)	–	125,500	125,359	7,273	132,632
Dividends declared (Note 27)	–	–	–	–	–	(63,646)	(63,646)	(3,349)	(66,995)
Put option written by a shareholder to convertible note holders (Note 24)	–	–	–	–	1,547	–	1,547	–	1,547
Purchase consideration of equity interest in subsidiary waived by a major shareholder (Note 15)	–	–	–	–	1,023	–	1,023	–	1,023
Adjustment arising from Restructuring Exercise	–	–	(1,244)	221	–	–	(1,023)	–	(1,023)
At 31 December 2009	–*	19,920	–	80	2,570	210,414	232,984	16,740	249,724

* The Company was incorporated with an initial paid-up capital of SGD1 (RMB5) which was subsequently increased to SGD 100 (RMB474) via the issuance of shares for SGD99 in cash.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

China Ouhua Winery Holdings Limited and its Subsidiary

Statements of Changes in Equity for the financial period from 12 January 2009 (Date of Incorporation) to 31 December 2009

(Amounts expressed in Renminbi)

	Share capital (Note 25)	Foreign currency translation reserves (Note 26)	Equity Contributions (Note 26)	Accumulated losses	Total equity
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Company					
At 12 January 2009 (date of incorporation)	–*	–	–	–	–
Loss for the period	–	–	–	(5,776)	(5,776)
Other comprehensive loss for the period	–	(70)	–	–	(70)
Total comprehensive loss for the period	–	(70)	–	(5,776)	(5,846)
Purchase consideration of equity interest in subsidiary waived by a major shareholder (Note 15)	–	–	1,023	–	1,023
Put option written by a shareholder to convertible note holders (Note 24)	–	–	1,547	–	1,547
At 31 December 2009	–*	(70)	2,570	(5,776)	(3,276)

* The Company was incorporated with an initial paid-up capital of SGD1 (RMB5) which was subsequently increased to SGD 100 (RMB474) via the issuance of shares for SGD99 in cash.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

China Ouhua Winery Holdings Limited and its Subsidiary
Statements of Cash Flows
for the financial year ended 31 December 2009

(Amounts expressed in Renminbi)

	Note	Group 2009 Rmb'000	Group 2008 Rmb'000	Company 2009 Rmb'000
Cash flows from operating activities				
Profit/(loss) before tax		158,594	135,138	(5,776)
Adjustments:				
Amortisation of prepayments		208	208	–
Depreciation of property, plant and equipment		6,958	5,277	–
Depreciation of biological assets		1,417	–	–
Gains arising from initial recognition of harvested grapes		(4,450)	–	–
Interest expense		2,545	68	2,354
Interest income		(123)	(209)	–
Fair value gain on derivative financial instrument		(2,171)	–	(2,171)
Unrealised exchange loss		(141)	–	(70)
Operating profit/(loss) before working capital changes		162,837	140,482	(5,663)
Decrease/(increase) in:				
Inventories		(15,608)	(5,699)	–
Trade and other receivables		(39,712)	(43,373)	–
Advances to suppliers		382	(382)	–
Prepayments		(1,373)	–	(1,373)
Increase/(decrease) in:				
Trade and other payables		7,018	7,231	6,474
Other liabilities		658	(1,789)	–
Cash flows generated from/(used in) operations		114,202	96,470	(562)
Interest income received		123	209	–
Interest expense paid		(191)	(68)	–
Income taxes paid		(19,595)	(11,280)	–
Net cash flows generated from/(used in) operating activities		94,539	85,331	(562)
Cash flows used in investing activities				
Cash outflow on acquisition of a subsidiary		–	–	(25,369)
Purchase of property, plant and equipment (Note A)		(9,630)	(6,498)	–
Additions to biological assets		(11,825)	(15,366)	–
Net cash flows used in investing activities		(21,455)	(21,864)	(25,369)
Cash flows from financing activities				
Proceeds from issue of share capital		–*	–	–*
Repayment of short term bank loans		(5,000)	5,000	–
Dividends paid		(84,995)	(15,653)	–
Repayments to a director		–	(41,250)	–
Proceeds from issuance of convertible notes		26,678	–	26,678
Net cash flows (used in)/generated from financing activities		(63,317)	(51,903)	26,678
Net increase in cash and cash equivalents		9,767	11,564	747
Cash and cash equivalents at beginning of financial year		35,800	24,236	–
Cash and cash equivalents at end of financial year	20	45,567	35,800	747

China Ouhua Winery Holdings Limited and its Subsidiary

Statements of Cash Flows
for the financial year ended 31 December 2009

(Amounts expressed in Renminbi)

A. Property, plant and equipment

	Note	Group 2009 Rmb'000	Group 2008 Rmb'000
Current year additions to property, plant and equipment	12	9,630	6,918
Less: Payable to creditors		–	(420)
Net cash outflow for purchase of property, plant and equipment		9,630	6,498

* Amount less than Rmb 1,000.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

China Ouhua Winery Holdings Limited and its Subsidiary

Notes to the Financial Statements – 31 December 2009

(Amounts expressed in Renminbi)

1. Corporate information

1.1 *The Company*

The Company was incorporated as China Ouhua Winery Holdings Pte. Ltd, a private company limited by shares, in Singapore on 12 January 2009. On 30 October 2009, the Company was registered in Malaysia as a foreign company. The Company was subsequently converted into a public limited company on 24 November 2009 and changed its name to China Ouhua Winery Holdings Limited.

The Company has two registered offices, one located in Singapore and the other located in Malaysia. The registered office of the Company in Singapore is at 1 Robinson Road, #17-00, AIA Tower, Singapore 048542; while the registered office in Malaysia is at Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia.

The principal activity of the Company is investment holding. The principal activity of the subsidiary is that of production of varieties of wine and sales of its self produced wine.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The consolidated financial statements of the Group and financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The Company's functional currency is Singapore Dollars (SGD or S$). The financial statements are presented in Renminbi (Rmb), which is the functional currency of the operating subsidiary, Yantai Fazenda Ouhua Winery Co., Ltd ("Yantai Fazenda Ouhua").

2.2 *Changes in accounting policies*

(a) *Adoption of new and revised IFRS and IFRIC Interpretations*

On 1 January 2009, the Group adopted the new and revised IFRS and IFRIC Interpretations mandatory for annual periods beginning on or after 1 January 2009. The adoption of these new and revised IFRS and IFRIC Interpretations did not have an impact on the financial position and results of the Group.

The Group early adopted Amendments to IFRS 8, Operating segments which is mandatory for annual financial periods beginning on or after 1 January 2010.

Principal effect of adopting IFRS 8 Operating Segments and Amendments to IFRS, Operating Segments:

(Amounts expressed in Renminbi)

2.2 ***Changes in accounting policies (cont'd)***

(a) *Adoption of new and revised IFRS and IFRIC Interpretations (cont'd)*

IFRS 8 requires disclosure of information of the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Group. In addition, IFRS 8 and amendments to IFRS 8 require disclosure of a measure of total assets and liabilities for each reportable segment only if such amounts are regularly provided to the Group's chief operating decision marker. Accordingly, segment assets and liabilities have not been presented.

(b) *New IFRS/Revised IAS/IFRIC not yet effective*

The Company has not adopted the following IFRS, IAS and IFRIC that have been issued but are only effective for annual financial periods as stated:

Reference		**Description**	**Effective for annual periods beginning on or after**
IFRS 1	:	Amendments to IFRS 1 – Additional Exemptions for First-time Adopters	1 January 2010
IFRS 2	:	Amendments to IFRS 2 – Group Cash-settled Share-based Payment Transactions	1 January 2010
IFRS 3	:	Business Combinations (Revised)	1 July 2009
IFRS 5	:	Amendments to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations	1 July 2009
IFRS 9	:	Financial Instruments	1 January 2013
IAS 24	:	Related Party Disclosures (Revised)	1 January 2011
IAS 27	:	Consolidated and Separate Financial Statements (Revised)	1 July 2009
IAS 32	:	Financial Instruments: Presentation – Classification of Rights Issues	1 February 2010
IAS 39	:	Financial Instruments: Recognition and measurement – Amendments relating to Eligible Hedged Items	1 July 2009
IFRIC 9 and IAS 39	:	Amendments to IFRIC 9 and IAS 39 – Embedded Derivatives	30 June 2009
IFRIC 14 and IAS 19	:	The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction	1 January 2011
IFRIC 17	:	Distribution of Non-Cash Assets to Owners	1 July 2009

(Amounts expressed in Renminbi)

2.2 *Changes in accounting policies (cont'd)*

(b) *New IFRS/Revised IAS/IFRIC not yet effective (cont'd)*

Reference		Description	Effective for annual periods beginning on or after
IFRIC 18	:	Transfers of Assets from Customers	1 July 2009
IFRIC 19	:	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Various IFRS	:	Improvements to IFRS issued in 2009	1 July 2009
Various IFRS	:	Improvements to IFRS issued in 2009	1 January 2010

The directors expect that the adoption of the above pronouncements will have no material impact to the financial statements in the period of initial application, except that the Group is currently assessing the possible impact of the adoption of IFRS 9 on its financial statements.

2.3 *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiary for the entire financial year and as at the statement of financial position date. The financial statements of the subsidiary are prepared for the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

The Company acquired the subsidiary pursuant to the Group Restructuring as described in Note 15. As the two entities are entities under common control, the consolidated financial statements are prepared using the pooling of interest method.

Business combination involving entities under common control are accounted for by applying the pooling-of-interest method. The assets and liabilities of the combining entities are reflected at their carrying amounts. Any difference between the consideration paid and the share capital of the "acquired" entity is reflected within equity as merger reserve. The consolidated statement of comprehensive income reflects the results of the combining entities for the full year, irrespective of when the combination takes place.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.3 ***Basis of consolidation (cont'd)***

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

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

2.4 ***Foreign currency***

The Group's consolidated financial statements are presented in Renminbi (Rmb). The Company and its subsidiary have determined SGD and Rmb to be their respective functional currency and items included in the financial statements of the Company and its subsidiary is measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company and its subsidiary in their respective functional currency at rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the statement of comprehensive income with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the statement of comprehensive income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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 is determined.

(Amounts expressed in Renminbi)

2. Summary of significant accounting policies (cont'd)

2.5 ***Related party***

An entity or individual is considered a related party of the Group for the purposes of the financial statements if:

(a) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
(ii) has an interest in the entity that gives it significant influence over the entity; or
(iii) has joint control over the entity;

(b) the party is an associate (as defined in IAS 28 Investments in Associates) of the entity;

(c) the party is a joint venture in which the entity is a venturer (see IAS 31 Interests in Joint Ventures);

(d) the party is a member of the key management personnel of the entity or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

2.6 ***Biological assets***

(a) *Vineyards*

Biological assets consist of immature grape vines. The grape vines have an average life of 20 years. Prior to the vineyards having attained a sustainable yield of grapes from their harvest, they are deemed as immature. As market determined prices or values are not readily available for grape vines in its present condition and for which alternative estimates of fair value are determined to be clearly unreliable, the biological assets are stated at cost less accumulated depreciation and impairment.

Costs include all costs of purchase and other costs in bringing the vineyards to their present location and condition. They include purchase of seedlings and vineyard maintenance costs.

Once immature vines commence bearing crop which is harvested (but prior to having attained a sustainable yield or industry productivity), the cost of the biological assets is expensed on the basis of yield achieved as a proportion of anticipated yield of a mature vine.

2. Summary of significant accounting policies (cont'd)

2.6 *Biological assets (cont'd)*

(a) *Vineyards (cont'd)*

Once the fair value of the vines becomes reliably measurable, the grape vines are measured at their fair value less estimated point-of-sale costs at point of harvest. Gains or losses arising on initial recognition of grape vines at fair value less estimated point-of-sale costs is dealt with in the statement of comprehensive income when it arises. Subsequent to initial recognition, changes in fair value are recognised in the statement of comprehensive income.

Grapes are initially measured at their fair values less estimated point-of-sale costs at the time of harvest. The fair value of grapes is determined by reference to market prices for grapes in the local area, at the time of harvests. At the time of harvest, such measurement of the grapes is recorded as inventory and the gain on initial recognition of grapes is recognised in the statement of comprehensive income.

(b) *Prepayments*

Prepayments relate to crop compensation costs paid to previous lessees of the land on which the Group's vineyards reside. Prepayments are amortised in the statement of comprehensive income on a straight-line basis over the lease term of the vineyards, which ranges from 30 to 50 years.

2.7 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation of an asset begins when it is available for use and is computed on a straight-line basis to write off the cost of property, plant and equipment over the estimated useful life of the assets as follows:

	Years
Furniture and fixtures (at specialty stores)	5
Renovations	5-10
Plant and machinery	10
Office equipment	5
Motor vehicles	5
Vineyard land preparation costs and fixtures	10

China Ouhua Winery Holdings Limited and its Subsidiary

Notes to the Financial Statements – 31 December 2009

(Amounts expressed in Renminbi)

2. Summary of significant accounting policies (cont'd)

2.7 ***Property, plant and equipment (cont'd)***

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income in the year the asset is derecognised.

2.8 ***Impairment of non-financial assets***

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount.
Impairment losses are recognised in the statement of comprehensive income.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the statement of comprehensive income.

2.9 ***Subsidiary***

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investment in subsidiary is accounted for at cost less impairment losses.

2. Summary of significant accounting policies (cont'd)

2.10 *Financial assets*

Financial assets are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

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

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in equity is recognised in the statement of comprehensive income.

All regular way purchases and sales of financial assets are recognised or derecognised 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 year generally established by regulation or convention in the marketplace concerned.

Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, and through the amortisation process.

2.11 ***Cash and cash equivalents***

Cash and cash equivalents comprise cash and bank balances and unpledged bank deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and short term deposits carried in the statement of financial position are classified and accounted for as loans and receivables. The accounting policy for this category of financial assets is as disclosed in Note 2.10.

2. Summary of significant accounting policies (cont'd)

2.12 *Impairment of financial assets*

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

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

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

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

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

2.13 *Inventories*

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

- Raw materials – purchase cost on a weighted average basis
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

China Ouhua Winery Holdings Limited and its Subsidiary

Notes to the Financial Statements – 31 December 2009

(Amounts expressed in Renminbi)

2. Summary of significant accounting policies (cont'd)

2.14 ***Provisions***

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.15 ***Financial liabilities***

Financial liabilities are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transaction costs.

Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective interest method, except for derivatives, which are measured at fair value.

A financial liability is derecognised when the obligation under the liability is extinguished. For financial liabilities other than derivatives, gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised, and through the amortisation process. Any gains or losses arising from changes in the fair value of derivatives are recognised in the statement of comprehensive income. Net gains or losses on derivatives include exchange differences.

2.16 ***Borrowing costs***

Borrowing costs are recognised in the statement of comprehensive income as incurred except to the extent that they are capitalised. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are ready for their intended use or sale.

(Amounts expressed in Renminbi)

2. Summary of significant accounting policies (cont'd)

2.17 ***Convertible notes***

The convertible notes are hybrid financial instruments with a host debt component and an embedded derivative component, which are required to be accounted for separately on inception of the convertible notes. On inception of the convertible notes, embedded derivative components are recognised at fair values. The initial carrying amount of the host debt component is the residual of the gross proceeds after separating the embedded derivatives. The host debt component is categorised and accounted for as "financial liability measured at amortised cost" while the embedded derivative component is categorised and accounted for as "financial liability at fair value through profit or loss". The Group's accounting policies for financial liabilities are stated in Note 2.15. Embedded derivative relating to issuance of put option written by a shareholder to convertible note holders is recognised as equity contribution in equity.

2.18 ***Operating leases***

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.19 ***Employee benefits***

Defined contribution plans - pension benefits

The Group is required to provide certain staff pension benefits to its employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the Group's employees.

Pension contributions are recognised as an expense in the year in which the related services are performed.

2.20 ***Revenue***

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

(a) *Sale of goods*

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customers. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) *Interest income*

Interest income is recognised using the effective interest method.

2.21 ***Income taxes***

(a) *Current tax*

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

(b) *Deferred tax*

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

Deferred income tax liabilities are recognised for all temporary differences, except:

- Where the deferred income 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 accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference 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 accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only 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.

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Notes to the Financial Statements – 31 December 2009

(Amounts expressed in Renminbi)

2. Summary of significant accounting policies (cont'd)

2.21 ***Income taxes (cont'd)***

The carrying amount of deferred income tax asset is reviewed at each statement of financial position date 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 each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

(c) *Value-added-tax ("VAT")*

The Group's sales of goods in the PRC are subjected to VAT at the applicable tax rate of 17% for PRC domestic sales. Input tax on purchases can be deducted from output VAT. The net VAT receivable or payable is included in "Other receivables" or "Other payables". The Group's export sales are not subjected to VAT.

Revenues, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.22 ***Share capital and share issue expenses***

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to such capital contributions are deducted against share capital.

2.23 ***Segment reporting***

For management purposes, the Group is organised into operating segments based on its products. The management of the Group regularly reviews the segment results in order to allocate resources to the segments and to assess the segment's performance. Additional disclosures on each of these segments are shown in Note 28, including the factors used to identify the reportable segments and the measurement basis of segment information.

China Ouhua Winery Holdings Limited and its Subsidiary

Notes to the Financial Statements – 31 December 2009

(Amounts expressed in Renminbi)

2. Summary of significant accounting policies (cont'd)

2.24 *Contingencies*

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the statement of financial position of the Group.

3. Significant accounting judgements and estimates

The preparation of the Group's financial statements 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 at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 *Judgements made in applying accounting policies*

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

(a) *Income taxes*

The Group has exposure to income taxes in the PRC. Significant judgement is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made. The carrying amount of the Group's income tax payable at 31 December 2009 was Rmb 7,015,000 (2008: Rmb 6,202,000).

3. Significant accounting judgements and estimates (cont'd)

3.1 *Judgements made in applying accounting policies (cont'd)*

(b) *Biological assets*

The directors have determined that market determined prices or values are not readily available for grape vines in its present condition and for which alternative estimates of fair value are determined to be clearly unreliable. It is the first time that the land is used to plant the vines (previously such land was used for the cultivation of other crops), coupled with the management having no prior relevant experience in the cultivation of grapes. Therefore, the directors are of the opinion that prior to the vineyards having attained a sustainable yield of grapes from their harvest, the projected future cash flows from harvesting of grapes over the estimated useful life cannot be reliably ascertained. Accordingly, the biological assets are stated at cost less accumulated depreciation and impairment. Judgement has been exercised based on the conditions of the grape vines in determining that the net realisable value will exceed cost less accumulated depreciation and thus, no impairment in biological assets is necessary as at the statement of financial position date. The carrying amount of the biological assets as at 31 December 2009 was Rmb 88,069,000 (2008: Rmb 77,661,000).

3.2 *Key sources of estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of production plant and machinery

The cost of production plant and machinery is depreciated on a straight-line basis over the estimated useful life of the assets. Management estimates the useful life of the production plant and machinery to be 10 years and residual value to be 10% of cost. This is a common life expectancy applied in the manufacturing industry. The carrying amount of the Group's production plant and machinery as at 31 December 2009 was approximately Rmb 13,386,000 (2008: Rmb 16,416,000).

Changes in the expected level of usage and technological developments could impact the economic useful life of the production plant and machinery; therefore future depreciation charges could be revised. A 5% difference in the expected useful lives of the production plant and machinery from management's estimates would not result in any significant variance in profit for the year.

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Notes to the Financial Statements – 31 December 2009

(Amounts expressed in Renminbi)

4. Revenue

Revenue represents sales of goods net of discounts and value-added-tax ("VAT").

5. Interest income/(expense)

	Group		Company
	2009	2008	2009
	Rmb'000	Rmb'000	Rmb'000
Interest income from loans and receivables:			
- bank balances	123	209	–
Interest expense on:			
- short term bank loans	(191)	(68)	–
- convertible notes (accretion of interest)	(2,354)	–	(2,354)
	(2,545)	(68)	(2,354)

6. Other income

	Group		Company
	2009	2008	2009
	Rmb'000	Rmb'000	Rmb'000
Gain arising from initial recognition of harvested grapes (Note a)	4,450	–	–
Fair value gain on derivative financial instruments (Note 24)	2,171	–	2,171
Others	–	519	–
	6,621	519	2,171

Note a: This relates to gain arising from the initial recognition of grapes at the point of harvest measured at their fair value less estimated point-of-sale costs.

(Amounts expressed in Renminbi)

7. Profit/(loss) before tax

This is determined after charging the following items:

	Note	Group 2009	Group 2008	Company 2009
		Rmb'000	Rmb'000	Rmb'000
Amortisation of long-term prepayments	14	208	208	–
Depreciation of property, plant and equipment	12	6,958	5,277	–
Depreciation of biological assets	13	1,417	–	–
Distributor promotional expenses		10,262	6,163	–
Employee compensation*	8	12,274	10,896	24
Expenses in relation to proposed listing of the Company		5,564	–	5,564
Foreign exchange loss, net		53	3	–
Operating lease expense – buildings		1,710	1,620	–
Operating lease expense – vineyard		3,300	3,300	–

* Includes directors' remuneration and remuneration of key management personnel as disclosed in Note 9.

8. Employee compensation

	Group 2009	Group 2008	Company 2009
	Rmb'000	Rmb'000	Rmb'000
Salaries, wages and bonuses	10,507	9,436	24
Employer's contribution to defined contribution plans	1,368	1,173	–
Welfare expense	363	253	–
Labour union expense	36	34	–
	12,274	10,896	24

China Ouhua Winery Holdings Limited and its Subsidiary

Notes to the Financial Statements – 31 December 2009

(Amounts expressed in Renminbi)

9. Related party transactions

During the financial year ended 31 December 2008 and 2009, the Group had the following transactions with related parties, on terms agreed between the respective parties:

(a) ***Compensation of key management personnel***

Related party transactions with key management personnel are as follows:

	Group		Company
	2009	**2008**	**2009**
	Rmb'000	Rmb'000	Rmb'000
Salaries and other short term employee benefits, representing total compensation to key management personnel	1,830	1,860	–
Comprises amounts paid to:			
Directors	735	502	–
Other key management personnel	1,095	1,358	–
	1,830	1,860	–

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

(b) ***Rental***

Rental of office building from a related party, in which a director, Mr Wang Chao, has an interest	720	720	–

(c) ***Collateral for loans***

As at 31 December 2008, a related party of the Group has pledged the property rights of the aforementioned office building to secure short term bank loans of the Group as disclosed in Note 23.

(d) ***Sales to Distributor***

Sales to a Distributor in which a director, Mr Wang Chao, has deemed interest	29,664	37,773	–
Trade receivable due from the distributor	–	5,711	–

During the year, the director's deemed interests in the Distributor were disposed off, and the distributor ceased to be a related party of the Group.

(Amounts expressed in Renminbi)

10. Income tax expense

	Group		Company
	2009	**2008**	**2009**
	Rmb'000	Rmb'000	Rmb'000
Current income tax			
- Current year income tax expense	20,408	17,482	–
Deferred income tax			
- Origination of temporary differences	5,413	2,843	–
Income tax expense recognised in the statement of comprehensive income	25,821	20,325	–

A reconciliation between tax expense and the product of profit/(loss) before tax multiplied by the applicable tax rate for the financial year ended 31 December 2008 and 2009 is as follows:

Profit/(loss) before tax	158,594	135,138	(5,776)
Tax at the applicable domestic tax rates	40,111	33,785	(982)
Tax effects of:			
- Partial tax exemption	(21,701)	(17,492)	–
- Income not subjected for tax purposes	(369)	–	(369)
- Expenses not deductible for tax purposes	1,361	10	1,351
- Origination of temporary differences	(168)	(25)	–
- Withholding tax on unremitted earnings of subsidiary	6,910	4,047	–
- Others	(323)	–	–
Income tax expense recognised in the statement of comprehensive income	25,821	20,325	–

According to the New Corporate Income Tax Law starting from 1 January 2008, companies in PRC are entitled to PRC corporate income tax ("CIT") rate of 25%. According to the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, the subsidiary in the PRC is entitled to exemption from CIT for the first two years commencing from the first profit-making year after offsetting all tax losses carried forward, and a 50% reduction for the three years thereafter. Yantai Fazenda Ouhua, a PRC subsidiary of the Group, is in its fourth (2008: third) profit-making year for the financial year ended 31 December 2009 and benefits from the 50% reduction.

Temporary difference relating to investment in subsidiary

At the statement of financial position date, deferred tax liability of Rmb 10,957,000 (2008: Rmb 4,047,000) has been recognised for taxes that would be payable on the undistributed earnings of Yantai Fazenda Ouhua.

Deferred income tax related to other comprehensive income

The deferred income tax related to other comprehensive income is Rmb Nil (2008: Rmb Nil).

11. Earnings per share

Earnings per share is calculated by dividing the Group's net profit attributable to ordinary equity holders of the parent for the financial year by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is calculated by dividing the Group's net profit attributable to ordinary equity holders of the parent for the financial year (after adjusting for interest expense on convertible notes) by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The dilutive potential ordinary shares relate to the convertible notes that are convertible into ordinary shares of the Company based on a discount of 40% to the share price of the Company at initial public offering. The diluted potential shares are based on the estimated number of shares expected to be issued from conversion of the convertible notes to ordinary shares upon listing of the Company.

The following reflects the profit and loss and share data used in the computation of basic and diluted loss per share for the year ended 31 December 2008 and 2009:

	Group	
	2009	2008
	Rmb'000	Rmb'000
Profit for the year attributable to ordinary equity holders of the parent used in computation of basic earnings per share	125,500	108,870
Add back: Interest expense on convertible notes	2,354	–
Profit for the year attributable to ordinary equity holders of the parent used in computation of diluted earnings per share	127,854	108,870
	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares for the calculation of basic earnings per share	376,250	5,000
Effects of dilution:		
Convertible notes	9,250	–
Weighted average number of ordinary shares for the calculation of diluted earnings per share	385,500	5,000
	Rmb	Rmb
Earnings per share from Group's net profit attributable to ordinary equity holders of the parent (cents per share)		
Basic	33.36	2,177.40
Diluted	33.17	2,177.40

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(Amounts expressed in Renminbi)

12. Property, plant and equipment

	Furniture and fittings (at specialty stores)	Renovations	Plant and machinery	Office equipment	Motor vehicles	Vineyard land preparation costs and fixtures	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Group							
Cost:							
At 1 January 2008	–	7,500	35,480	204	151	14,080	57,415
Additions	–	5,700	420	798	–	–	6,918
At 31 December 2008 and 1 January 2009	–	13,200	35,900	1,002	151	14,080	64,333
Additions	9,630	–	–	–	–	–	9,630
At 31 December 2009	9,630	13,200	35,900	1,002	151	14,080	73,963
Accumulated depreciation:							
At 1 January 2008	–	(3,375)	(16,492)	(159)	(93)	(1,153)	(21,272)
Depreciation charge for the year	–	(845)	(2,992)	(17)	(15)	(1,408)	(5,277)
At 31 December 2008 and 1 January 2009	–	(4,220)	(19,484)	(176)	(108)	(2,561)	(26,549)
Depreciation charge for the year	(468)	(1,890)	(3,030)	(148)	(14)	(1,408)	(6,958)
At 31 December 2009	(468)	(6,110)	(22,514)	(324)	(122)	(3,969)	(33,507)
Net carrying amount:							
At 31 December 2008	–	8,980	16,416	826	43	11,519	37,784
At 31 December 2009	9,162	7,090	13,386	678	29	10,111	40,456

(Amounts expressed in Renminbi)

13. Biological assets

	Group	
	31.12.2009	31.12.2008
	Rmb'000	Rmb'000
Immature planted vineyards:		
At cost:		
At 1 January	77,661	62,295
Additions	11,825	15,366
At 31 December	89,486	77,661
Accumulated depreciation:		
At 1 January	–	–
Additions	(1,417)	–
At 31 December	(1,417)	–
Net carrying amount:		
At 31 December	88,069	77,661

The Group held approximately 3,302,000 grape vines planted on 2 separate plots of land aggregating approximately 367 hectares of land. The grape vines were planted in 2006 and 2007 respectively. The grape vines are immature plants which have not been fully harvested as of 31 December 2009.

The Group is exposed to financial risks in respect of agricultural activity. The agricultural activity of the Group consists of the management of the vineyards to produce grapes for use in the production of wine. The primary risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of grape vines and on harvesting grapes, and ultimately receiving cash from the sale of wine to third parties. The Group has not attained a sustainable annual yield of grapes from its vineyards and only about 1,000 tonnes (representing approximately one-quarter of estimated total yield upon maturity of the vineyards) were harvested for the first time in September 2009. Accordingly, the growth of the vines is deemed to be in their early stage and there exists high level of uncertainty with regards to the future outcome of their growth. This is affected by, inter alia, weather, biological properties of the vines planted, livability, disease, management of the vineyards, pollution etc..

The Group's strategy to manage this financial risk is to actively review and manage its working capital requirements as well as continue to enhance its relationship with the farmers/suppliers from whom it has been purchasing grapes/grape juice for production of wine.

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14. Prepayments, non-current

	Group	
	31.12.2009	**31.12.2008**
	Rmb'000	Rmb'000
Cost:		
At 1 January	8,800	8,800
Additions	–	–
At 31 December	8,800	8,800
Accumulated amortisation:		
At 1 January	(624)	(416)
Amortisation charge for the year	(208)	(208)
At 31 December	(832)	(624)
Net carrying amount:		
At 31 December	7,968	8,176

Prepayments relate to crop compensation costs paid to the previous lessees of the land on which the Group's vineyards reside.

15. Investment in subsidiary

	Company
	31.12.2009
	Rmb'000
Shares, at cost	26,392

Name	Country of Incorporation	Principal activities	Proportion (%) of ownership interest
Yantai Fazenda Ouhua [1]	People's Republic of China	Production of varieties of wine and sales of its self produced wines	95

[1] Audited by Shandong Hua Bin Certified Public Accountant Co., Ltd for PRC statutory audit purpose and audited by Ernst & Young LLP, Singapore for purposes of inclusion in the consolidated financial statements.

(Amounts expressed in Renminbi)

15. Investment in subsidiary (cont'd)

Prior to the Restructuring Exercise, Yantai Fazenda Ouhua was 25% owned by The Group of Hualian Commercial Building (Spain) S.L. ("Hualian") and 75% owned by Yantai Ouhua Winery Co., Ltd. ("YO Winery"). Mr Wang Chao, Executive Chairman and CEO, was the ultimate beneficial owner of Yantai Fazenda Ouhua, holding his interest through Hualian and YO Winery.

The Restructuring Exercise was carried out as follows:

(i) On 13 March 2009, the Company entered into an Equity Transfer Agreement with Hualian to acquire 25% equity interest in Yantai Fazenda Ouhua held by Hualian for a purchase consideration of approximately Rmb 1,022,700 (the "Acquisition Consideration").

Pursuant to a notice of assignment dated 18 November 2009, Hualian confirmed that on completion as at 27 September 2009, Hualian had assigned all of its rights to the Acquisition Consideration under the Equity Transfer Agreement to Mr Wang Chao, and confirmed that it had no further claim against the Company under the Equity Transfer Agreement for the Acquisition Consideration;

Pursuant to a deed of release and discharge dated 20 November 2009 entered into between Mr Wang Chao and the Company (the "Deed of Release and Discharge"), Mr Wang Chao confirmed that as at 27 September 2009, Mr Wang Chao had unconditionally discharged and released the Company from all obligations under the Equity Transfer Agreement to pay the Acquisition Consideration to Mr Wang Chao, and thereby unconditionally and irrevocably waived all of his rights whatsoever in relation thereto. This amount of Rmb 1,022,700 has been adjusted to equity contributions (purchase consideration of equity interest in subsidiary waived by a major shareholder) within equity at the Group/Company respectively (Note 26).

(ii) Pursuant to a Capital Increase Agreement dated 16 March 2009 entered into between the Company and YO Winery, the Company shall invest in aggregate sum of US$8,400,000 in cash into Yantai Fazenda Ouhua for an additional 70% equity interests in Yantai Fazenda Ouhua ("Capital Injection").

As at 31 December 2009, the Company has contributed approximately US$3,700,000 to the registered capital of Yantai Fazenda Ouhua. In accordance with the Capital Increase Agreement and pursuant to the Company Law of the PRC, the Company has up to 24 March 2011 to contribute the remaining US$4,700,000 to the registered capital of Yantai Fazenda Ouhua.

Subsequent to the acquisition of Yantai Fazenda Ouhua and the Capital Injection, the Company became the legal and beneficial owner of 95% of the registered capital of Yantai Fazenda Ouhua.

(iii) On 27 November 2009, the Company entered into a call option agreement with YO Winery to acquire the remaining 5% equity interest held by YO Winery. The purchase consideration is to be determined by an independent valuer. The call option is valid for a period of 2 years from the date of the listing of the Company on Bursa Malaysia Securities Berhad.

(Amounts expressed in Renminbi)

16. Deferred tax assets / liabilities

	Note	Group 31.12.2009 Rmb'000	Group 31.12.2008 Rmb'000
Deferred tax assets:			
Amortisation of prepayment		208	156
Differences in depreciation of property, plant and equipment for tax purposes		1,179	771
Differences in the amortisation of biological assets for tax purposes		3,654	2,475
Accruals		414	–
		5,455	3,402
Deferred tax liabilities:			
Differences in the income from harvest of grapes for tax purposes		556	–
Withholding tax on unremitted earnings of subsidiary		10,957	4,047
		11,513	4,047
Deferred tax liabilities, net		6,058	645
Presented as:			
Deferred tax assets		4,899	3,402
Deferred tax liabilities		(10,957)	(4,047)
Deferred tax liabilities, net		(6,058)	(645)

Movement in the deferred tax assets during the financial year is as follows:

	Note	31.12.2009 Rmb'000	31.12.2008 Rmb'000
Deferred tax liabilities, net			
At 1 January		(645)	2,198
Charge to statement of comprehensive income	10	(5,413)	(2,843)
At 31 December		(6,058)	(645)

(Amounts expressed in Renminbi)

17. Inventories

	Note	Group 31.12.2009 Rmb'000	Group 31.12.2008 Rmb'000
Statement of financial position:			
Raw materials		1,219	568
Work-in-progress		43,020	23,793
Finished goods		549	369
Total inventories at lower of cost and net realisable value		44,788	24,730
Statement of comprehensive income:			
Inventories recognised as an expense in cost of sales		122,017	96,291

During the financial year ended 31 December 2008 and 2009, there has been no inventory written off or allowance for inventory obsolescence.

18. Trade and other receivables

	Note	Group 31.12.2009 Rmb'000	Group 31.12.2008 Rmb'000	Company 31.12.2009 Rmb'000
Trade receivables		84,411	44,353	–
Deposits		20	366	–
Total trade and other receivables		84,431	44,719	–
Add: Cash and cash equivalents	20	45,567	35,800	747
Total loans and receivables		129,998	80,519	747

During the financial year ended 31 December 2008 and 2009, there have been no trade receivables written off or allowance for doubtful trade receivables.

Trade receivables

Trade receivables are non-interest bearing and are normally settled on 30 to 90 days' terms. They are recognised at their original invoiced amounts which represent their fair values on initial recognition.

As at 31 December 2008 and 2009, there are no trade receivables that are past due but not impaired.

(Amounts expressed in Renminbi)

19. Prepayments, current

Prepayments relate to expenses in relation to the proposed listing of the Company's shares on the Bursa Malaysia Securities Berhad. These are incremental costs directly attributable to the proposed listing of the Company.

20. Cash and cash equivalents

	Group		Company
	31.12.2009	31.12.2008	31.12.2009
	Rmb'000	Rmb'000	Rmb'000
Cash and bank balances	45,567	35,800	747

Cash and bank balances have an effective interest rate of 0.36% per annum to 0.72% per annum and 0.125% to 0.36% per annum for the financial year ended 31 December 2008 and 2009 respectively.

Cash and cash equivalents are denominated in the following currencies:

Renminbi	44,820	35,800	–
Singapore dollars	747	–	747
	45,567	35,800	747

21. Trade and other payables

		Group		Company
		31.12.2009	31.12.2008	31.12.2009
		Rmb'000	Rmb'000	Rmb'000
Trade payables		4,323	5,567	–
VAT and other operating tax payables		10,328	8,554	–
Other payables		105	91	–
Due to a corporate shareholder		6,474	–	6,474
Total trade and other payables		21,230	14,212	6,474
Add: Other liabilities				
- Other liabilities	22	3,311	2,653	–
- Short term bank loans	23	–	5,000	–
- Dividend payables		–	18,000	–
Total financial liabilities carried at amortised cost		24,541	39,865	6,474

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(Amounts expressed in Renminbi)

21. Trade and other payables (cont'd)

Trade payables and other payables

These amounts are non-interest bearing. Trade payables are normally settled on 60 days term while other payables have an average term of one month.

Due to a corporate shareholder (non-trade)

Amount due to a corporate shareholder is interest free, non-trade in nature, unsecured and repayable on demand.

22. Other liabilities

	Group	
	31.12.2009	**31.12.2008**
	Rmb'000	Rmb'000
Accrued operating expenses	3,311	2,514
Advances from customers	–	139
	3,311	2,653

23. Short term bank loans

	Group
	31.12.2008
	Rmb'000
Secured loans from bank:	
China Merchants Bank[1]	3,000
China Merchants Bank[1]	2,000
	5,000

[1] These two short term bank loans bear interest at a floating rate of 1.2 times of the People's Bank of China's prime lending rate and are secured by certain property rights of a related party as disclosed in Note 9 (c). The interest rate during the financial year ended 31 December 2008 was between 5.8% per annum to 7.5% per annum.

The maturity dates of all short term bank loans are within twelve months from the financial year end.

(Amounts expressed in Renminbi)

24. Convertible Notes

On 23 September 2009, the Company entered into a Note Purchase Agreement with certain Pre-IPO Investors (the "Investors"), to issue unsecured convertible promissory notes (the "Notes") amounting to a total of S$5.5 million. The Notes are convertible into ordinary shares of the Company at the discretion of the Investors at any time prior to the maturity of the Notes. The Notes are convertible into ordinary shares of the Company based on a discount of 40% to the share price of the Company at initial public offering. The Notes bears interest at 15% per annum in the event that they are not converted within 18 months from the date of issue or on the date of listing of the Company on the Bursa Malaysia Securities Berhad.

A put option was granted by the promoter/ a majority shareholder of the Company to the Investors. The Investors may, pursuant to the put option, sell their shares to the promoter/ a majority shareholder at 100% of the principal amount plus interest of 15% per annum. The fair value of the put option at the date the option was granted (i.e. 23 September 2009) is accounted for as equity contributions (put option written by a shareholder to convertible note holders) recorded within equity (Note 26).

The carrying amount of the liability component, embedded derivative component and put option at the statement of financial position date is derived as follows:

	Group and Company 31.12.2009 Rmb'000
Liability component	
Face value of convertible notes at initial recognition	26,678
Fair value of embedded derivative at initial recognition	(12,695)
Put option written by a shareholder to convertible note holders at initial recognition	(1,547)
Liability component at initial recognition	12,436
Translation difference	28
Accretion of interest	2,354
Liability component at the end of financial year	14,818
Embedded derivative component	
At initial recognition	12,695
Fair value gain on embedded derivative	(2,171)
Translation difference	(28)
Embedded derivative component at the end of financial year	10,496

25. Share capital

	Group and Company 31.12.2009		Group 31.12.2008	
	No. of shares	Rmb'000	No. of shares	Rmb'000
Issued and fully paid :				
At 1 January 2008 and 2009 or 12 January 2009 (date of incorporation)	1	*	1	*
Issue of shares	99	*	–	–
At 31 December	100	*	1	*
Upon share split by sub-dividing 1 share into 5,000,000 shares and as at 31 December 2008 and 2009	500,000,000	*	5,000,000	*

* Denote less than Rmb 1,000

The Company was incorporated in Singapore on 12 January 2009 with an initial issued and paid up share capital of S$1 comprising one ordinary share. Subsequently the share capital increased to S$100 via the issue of 99 shares for cash.

On 28 November 2009, the Company implemented a share split of 100 shares to 500,000,000 shares by sub-dividing one share into 5,000,000 shares of the Company.

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

26. Other reserves

	Group		Company
	31.12.2009	**31.12.2008**	**31.12.2009**
	Rmb'000	Rmb'000	Rmb'000
Merger reserve	–	1,244	–
Reserve funds	19,920	19,920	–
Foreign currency translation reserves	80	–	(70)
Equity contributions	2,570	–	2,570
	22,570	21,164	2,500

Merger Reserve

Merger reserve relates to the share capital of Yantai Fazenda Ouhua prior to the execution of the Group Restructuring Exercise whereby the Company acquired equity interests in Yantai Fazenda Ouhua.

Reserve funds

In accordance with the relevant laws and regulations of the PRC, companies in the PRC are required to set aside an enterprise expansion reserve fund and a general reserve fund by way of appropriation from their statutory net profit, as reported in the PRC statutory financial statements, at a rate to be determined by the board of directors of the Group. The board of directors of the Group have decided that 10% of the statutory net profit, as reported in the PRC statutory financial statements of the Group, be appropriated each year to each of the enterprise expansion reserve fund and general reserve fund respectively. There is no requirement for such appropriation of statutory net profit if the reserve funds meet 50% of the share capital.

The reserves may be used to offset accumulated losses or increase the registered capital of the Group, subject to approval from the PRC authorities and are not available for dividend distribution to the shareholders.

Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of the Company whose functional currency is different from that of the Group's presentation currency.

Equity Contributions

	Note	Group and Company
		31.12.2009
		Rmb'000
Purchase consideration of equity interest in subsidiary waived by a major shareholder	15(i)	1,023
Put option written by a shareholder to convertible note holders	24	1,547
		2,570

China Ouhua Winery Holdings Limited and its Subsidiary

Notes to the Financial Statements – 31 December 2009

(Amounts expressed in Renminbi)

27. Dividends

During the financial year ended 31 December 2009 and prior to the Restructuring Exercise, the Group's subsidiary declared dividends amounting to Rmb 66,995,000 (2008: Rmb 33,653,000). The dividends were paid to the then existing shareholders of the subsidiary, prior to the entity being restructured as a subsidiary of the Company.

28. Segment information

For management purposes, the Company has two reportable operating segments as follows:

(i) White wine ("WW")

The White wine segment relates to the business of producing white wines from Chardonnay, Riesling, Sauvignon Blanc, and Pinot Blancs grape varietals grown on the Company's vineyards, grapes sourced from grape growers from areas neighbouring the Company's vineyards as well as wines purchased for production.

(ii) Red wine ("RW")

The Red wine segment relates to the business of producing red wines from Cabernet Sauvignon, Pinot Noir, Shiraz, Merlot grape varietals, grown on the Company's vineyards, grapes sourced from grape growers from areas neighbouring the Company's vineyards, as well as wines purchased for production.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business unit separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the tables below, is measured differently from operating profit or loss in the financial statements.

There is no inter-segment transfer for the financial year ended 31 December 2008 and 2009.

China Ouhua Winery Holdings Limited and its Subsidiary

Notes to the Financial Statements – 31 December 2009

(Amounts expressed in Renminbi)

28. Segment information (cont'd)

The following table presents revenue, results and other information regarding the Group's operating segments for the financial year ended 31 December 2008 and 2009:

	WW Rmb'000	RW Rmb'000	Total Rmb'000
31 December 2008			
Revenue			
Sales to external customers	30,508	271,009	301,517
Results			
Segment gross profit	19,350	147,134	166,484
Unallocated expenses, net			(31,487)
Interest income			209
Interest expense			(68)
Profit before tax			135,138
Income tax expense			(20,325)
Net profit			114,813
Other segment information			
Amortisation of long-term prepayments			(208)
Depreciation of property, plant and equipment			(5,277)

31 December 2009	WW Rmb'000	RW Rmb'000	Total Rmb'000
Revenue			
Sales to external customers	41,939	333,591	375,530
Results			
Segment gross profit	26,044	181,462	207,506
Unallocated expenses, net			(46,490)
Interest income			123
Interest expense			(2,545)
Profit before tax			158,594
Income tax expense			(25,821)
Net profit			132,773

China Ouhua Winery Holdings Limited and its Subsidiary

Notes to the Financial Statements – 31 December 2009

(Amounts expressed in Renminbi)

28. Segment information (cont'd)

	WW Rmb'000	RW Rmb'000	Total Rmb'000
31 December 2009			
Other segment information			
Amortisation of long-term prepayments			(208)
Depreciation of property, plant and equipment			(6,958)
Depreciation of biological assets			(1,417)
Fair value gain on derivative financial instruments			2,171

Geographical information

Segmented information by geographical region is not applicable for the financial year ended 31 December 2008 and 2009 as the business operation of the Group is only carried out in the PRC.

Information about major customers

Four (2008: three) major customers who contributed 10% or more of the total revenue each for the financial year ended 31 December 2009 accounted for 61% of the Group's revenue (2008: 37%). Each of the major customers contributed Rmb 114,287,000 (2008: Rmb 38,119,000), Rmb 40,237,000 (2008: 37,773,000), Rmb 37,015,000 (Rmb 35,818,000) and Rmb 35,724,000 to the total Group's revenue for both the Group's operating segments (i.e. white wine and red wine).

29. Commitments

Operating lease commitments

The Group has operating lease agreements for its office and factory buildings and vineyards in the PRC. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing. Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	Group	
	31.12.2009 Rmb'000	**31.12.2008** Rmb'000
Not later than 1 year	5,046	5,010
1 year through 5 years	21,063	20,869
More than 5 years	172,437	178,677
	198,546	204,556

China Ouhua Winery Holdings Limited and its Subsidiary

Notes to the Financial Statements – 31 December 2009

(Amounts expressed in Renminbi)

30. Financial risk management objectives and policies

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The board of directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Financial Officer. It is the Group's policy that no derivatives shall be undertaken. The Group does not apply hedge accounting.

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

(a) ***Credit risk***

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. The Group subjects new customers to credit verification procedures and obtains advanced payments instead of granting credit. In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Exposure to credit risk

At the statement of financial position date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position as disclosed in Note 18.

Credit risk concentration profile

At the statement of financial position date, approximately 70% (2008: 61%) of the Group's trade receivables were due from the top 5 major customers located in the PRC.

Financial assets that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

There are no financial assets that are either past due or impaired.

(Amounts expressed in Renminbi)

30. Financial risk management objectives and policies (cont'd)

(b) *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's liquidity risk management policy is to maintain sufficient liquid financial assets and stand-by credit facilities with different banks. In addition, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The financial liabilities of the Group at the statement of financial position date will mature in less than one year based on the carrying amount reflected in the financial statements.

The table below summarises the maturity profile of the Group's financial assets and liabilities at the statement of financial position date based on contractual undiscounted payments.

	One year or less		
	Group		**Company**
	31.12.2009	**31.12.2008**	**31.12.2009**
	Rmb'000	Rmb'000	Rmb'000
Financial assets:			
Trade and other receivables	84,431	44,719	–
Cash and cash equivalents	45,567	35,800	747
Total undiscounted financial assets	129,998	80,519	747
Financial liabilities:			
Short term bank loans	–	5,078	–
Trade and other payables	21,230	14,212	6,474
Dividend payables	–	18,000	–
Other liabilities	3,311	2,653	–
Convertible notes	26,678	–	26,678
Total undiscounted financial liabilities	51,219	39,943	33,152
Total net undiscounted financial assets/(liabilities)	78,779	40,576	(32,405)

(Amounts expressed in Renminbi)

30. Financial risk management objectives and policies (cont'd)

(c) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from cash at bank and short term bank loans at floating rates for the financial year ended 31 December 2008 and 2009. The Group obtains additional financing through bank borrowings at floating rate of 1.1 times (2008: 1.2 times) of the People's Bank of China's prime lending rate in the financial year ended 31 December 2009. The Group's policy is to obtain the most favourable interest rates available.

Surplus funds are placed with reputable banks.

Information relating to the Group's interest rate exposure is also disclosed in Note 20.

	31.12.2009	**31.12.2008**
	Rmb'000	Rmb'000
Group		
Floating rate		
Cash at bank	45,549	35,681
Short term bank loans	–	5,000
Company		
Floating rate		
Cash at bank	747	–

Sensitivity analysis for interest rate risk

At 31 December 2009, if Rmb interest rates had been 100 basis points (2008: 100 basis points) lower/higher with all other variables held constant, the Group's profit after tax would have been Rmb 455,000 (2008: Rmb 307,000) lower/higher, arising mainly as a result of lower/higher interest income/expense on cash at bank and short term bank loans.

(d) *Foreign currency risk*

Currently, the PRC government imposes control over foreign currencies. Rmb, the official currency in China, is not freely convertible. Enterprises operating in PRC can enter into exchange transactions through People's Bank of China or other authorised financial institutions.

(Amounts expressed in Renminbi)

30. Financial risk management objectives and policies (cont'd)

(d) ***Foreign currency risk***

Payments for imported materials or services, which is outside of the PRC, are subject to availability of foreign currencies which depends on the foreign currency denominated earnings of the enterprises, or exchanges of Rmb for foreign currency must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchase of imported materials and remittance of earnings. While conversion of Rmb into foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

As at 31 December 2008 and 2009, sensitivity analysis for foreign currency risk is not applicable as the Group maintains minimal balances in foreign currency and thus has minimal exposure to foreign currency risk.

31. Fair value of financial instruments

A. ***Fair value of financial instruments that are carried at fair value***

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy:

	Note	Quoted prices in active markets (Level 1)	Significant other observable (Level 2)	Significant unobservable (Level 3)	Total
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Group and Company					
31.12.2009					
Financial liabilities:					
Derivatives					
- Embedded derivative component of convertible note	24	–	–	10,496	10,496
At 31 December 2009		–	–	10,496	10,496

Fair value hierarchy

The Group classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy have the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), and

(Amounts expressed in Renminbi)

31. Fair value of financial instruments (cont'd)

A. ***Fair value of financial instruments that are carried at fair value (cont'd)***

- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Determination of fair value

Derivatives (Note 24): The embedded derivative component of convertible notes is valued using a valuation technique which uses both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the successful listing of the Company on the Bursa Malaysia Securities Berhad and expected stock price volatility of the Company based on comparable companies within the industry.

Movements in Level 3 financial instruments measured at fair value

The following table presents the reconciliation for all financial instruments measured at fair value based on significant unobservable inputs (Level 3).

	Note	Derivatives - embedded derivative component of convertible notes
		Rmb'000
Group and Company		
31.12.2009		
At initial recognition	24	12,695
Total gains:		
- in statement of comprehensive income (presented in other income)		(2,171)
- in other comprehensive income		(28)
Closing balance		10,496
Total gains for the year included in statement of comprehensive income (presented in other income) for liabilities held at 31 December 2009		2,171

31. Fair value of financial instruments (cont'd)

A. ***Fair value of financial instruments that are carried at fair value (cont'd)***

Impact of changes to key assumptions on fair value of Level 3 financial instruments

Management is of the view that the key assumption affecting the fair value of the level 3 financial instruments refer to the IPO success rate.

For embedded derivative, the fair value had been determined using a valuation technique based on assumptions, including the Company's successful listing on the Bursa Malaysia Securities Berhad that are not supported by direct observable market data.

Had the IPO success rate been adjusted by 2.5% from management's estimates, the fair value of the embedded derivative component of convertible notes would differ by approximately Rmb 603,000 depending on whether such success rate increases or decreases. Such a variation is considered by the Group to be within a range of reasonably possible alternatives.

B. ***Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value***

Current trade and other receivables; trade and other payables, other liabilities and short term bank loans (Notes 18, 21, 22 and 23)

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the statement of financial position date.

32. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. 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 during the financial year ended 31 December 2008 and 2009.

As disclosed in Note 26, the Group is required by relevant laws and regulations of the PRC to contribute to and maintain non-distributable reserve funds whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied and there is no requirement for such appropriation as the funds have met 50% of the share capital of the subsidiary.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, short term bank loans, trade payables, other payables and accruals, amount due to a corporate shareholder, less cash and cash equivalents. Capital includes equity attributable to the equity holders less the abovementioned restricted reserve funds.

(Amounts expressed in Renminbi)

32. Capital management (cont'd)

	Group	
	31.12.2009	**31.12.2008**
	Rmb'000	Rmb'000
Short term bank loans	–	5,000
Trade and other payables	21,230	14,212
Dividend payables	–	18,000
Other liabilities	3,311	2,653
Convertible notes	14,818	–
Derivative financial instruments	10,496	–
Total debt	49,855	39,865
Less: Cash and cash equivalents	(45,567)	(35,800)
Net debt	4,288	4,065
Equity attributable to the then equity holders	232,984	169,724
Less: Reserve funds	(19,920)	(19,920)
Total capital	213,064	149,804
Capital and net debt	217,352	153,869
Gearing ratio	2%	3%

33. Commitment in respect of capital contribution of Yantai Fazenda Ouhua

As at 31 December 2009, the Company has US$4,700,000 of capital commitments in respect of the capital contribution in Yantai Fazenda Ouhua. In accordance with the Capital Increase Agreement and pursuant to the Company Law of the PRC, the Company has up to 24 March 2011 to contribute the remaining US$4,700,000 to the registered capital of Yantai Fazenda Ouhua.

34. Prior period comparatives

There are no prior period comparatives for the Company as the Company was incorporated on 12 January 2009.

35. Authorisation of financial statements for issue

The financial statements for the financial year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 8 April 2010.

China Ouhua Winery Holdings Limited and its Subsidiary

Independent Auditors' Report
For the financial period from 1 January 2010 to 30 June 2010

To the members of China Ouhua Winery Holdings Limited

We have audited the accompanying financial statements of China Ouhua Winery Holdings Limited (the "Company") and its subsidiary (collectively, the "Group") set out on pages 4 to 52, which comprise the statements of financial position of the Group and the Company as at 30 June 2010, the statements of changes in equity, statements of comprehensive income and statements of cash flows of the Group and the Company for the financial period from 1 January 2010 to 30 June 2010; and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards IAS 34 Interim Financial Reporting ("IAS 34"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

China Ouhua Winery Holdings Limited and its Subsidiary

Independent Auditors' Report
For the financial period from 1 January 2010 to 30 June 2010

Opinion

In our opinion, the accompanying financial statements of the Group and the Company present fairly, in all material respects, the financial position of the Group and the Company as at 30 June 2010 and the results, changes in equity and cash flows of the Group and the Company for the financial period from 1 January 2010 to 30 June 2010 in accordance with IAS 34.

Other matters

The statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and the Company for the financial period ended 30 June 2009 have not been audited nor reviewed.

This report has been prepared solely for inclusion in the Prospectus in connection with the proposed listing of the Company's shares on the Bursa Malaysia Securities Berhad.

Ernst & Young LLP

Ernst & Young LLP

Public Accountants and
Certified Public Accountants
Singapore

Partner in charge: Tan Peck Yen

3 September 2010

China Ouhua Winery Holdings Limited and its Subsidiary

Statements of Comprehensive Income
for the financial period from 1 January 2010 to 30 June 2010

(Amounts expressed in Renminbi)

	Note	Group		Company	
		Audited 1.1.2010 to 30.6.2010	Unaudited 1.1.2009 to 30.6.2009	Audited 1.1.2010 to 30.6.2010	Unaudited 12.1.2009 to 30.6.2009
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Revenue	4	229,270	177,211	–	–
Cost of sales		(94,602)	(80,178)	–	–
Gross profit		134,668	97,033	–	–
Other items of income					
Interest income	5	128	76	–	–
Other income	6	162	–	162	–
Other items of expense					
Marketing and distribution		(25,192)	(13,891)	–	–
Administrative expenses		(9,616)	(5,792)	(71)	–
Interest expense	5	(3,039)	(139)	(3,039)	–
Other expense		(2,970)	(2,254)	(2,970)	(2,254)
Profit/(loss) before tax	7	94,141	75,033	(5,918)	(2,254)
Income tax expense	10	(16,110)	(12,552)	–	–
Profit/(loss) after tax		78,031	62,481	(5,918)	(2,254)
Other comprehensive loss:					
Foreign currency translation		(19)	(41)	(3)	(41)
Total comprehensive income for the period		78,012	62,440	(5,921)	(2,295)
Profit attributable to:					
Owners of the parent		73,624	59,083	(5,918)	(2,254)
Non-controlling interests		4,407	3,398	–	–
		78,031	62,481	(5,918)	(2,254)
Total comprehensive income attributable to:					
Owners of the parent		73,605	59,042	(5,921)	(2,295)
Non-controlling interests		4,407	3,398	–	–
		78,012	62,440	(5,921)	(2,295)
Earnings per share from Group's net profit attributable to shareholders					
Basic (Rmb cents)	11	14.7	23.4		
Diluted (Rmb cents)	11	14.3	23.4		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

China Ouhua Winery Holdings Limited and its Subsidiary

Statements of Financial Position as at 30 June 2010

(Amounts expressed in Renminbi)

		Audited			
		Group		Company	
	Note	30.6.2010	31.12.2009	30.6.2010	31.12.2009
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	36,212	40,456	–	–
Biological assets	13	91,741	88,069	–	–
Prepayments	14	7,864	7,968	–	–
Investment in subsidiary	15	–	–	42,298	26,392
Deferred tax assets	16	6,010	4,899	–	–
		141,827	141,392	42,298	26,392
Current assets					
Inventories	17	75,219	44,788	–	–
Trade and other receivables	18	103,228	84,431	–	–
Prepayments	19	1,968	1,373	1,968	1,373
Cash and cash equivalents	20	97,080	45,567	371	747
		277,495	176,159	2,339	2,120
Total assets		419,322	317,551	44,637	28,512
EQUITY AND LIABILITIES					
Current liabilities					
Income tax payable		4,306	7,015	–	–
Trade and other payables	21	40,235	21,230	24,628	6,474
Other liabilities	22	3,696	3,311	1,000	–
Convertible notes	23	17,865	14,818	17,865	14,818
Derivative financial instruments	23	10,341	10,496	10,341	10,496
		76,443	56,870	53,834	31,788
Net current assets/(liabilities)		201,052	119,289	(51,495)	(29,668)
Non-current liability					
Deferred tax liabilities	16	15,143	10,957	–	–
Total liabilities		91,586	67,827	53,834	31,788
Net assets/(liabilities)		327,736	249,724	(9,197)	(3,276)
Equity attributable to owners of the parent					
Share capital	24	–*	–*	–*	–*
Other reserves	25	24,667	22,570	2,497	2,500
Retained earnings/(accumulated losses)		281,922	210,414	(11,694)	(5,776)
		306,589	232,984	(9,197)	(3,276)
Non-controlling interests		21,147	16,740	–	–
Total equity		327,736	249,724	(9,197)	(3,276)

* Amount less than Rmb 1,000.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

APPENDIX G THE AUDITED FINANCIAL STATEMENTS OF OUHUA FOR THE FYE 31 DECEMBER 2009 AND THE FPE 30 JUNE 2010 (CONT'D)

China Ouhua Winery Holdings Limited and its Subsidiary

Statements of Changes in Equity for the financial period from 1 January 2010 to 30 June 2010
(Amounts expressed in Renminbi)

	Attributable to equity holders of the Company								
Group	**Share capital (Note 24)** Rmb'000	**Reserve funds (Note 25)** Rmb'000	**Merger reserve (Note 25)** Rmb'000	**Foreign currency translation reserves (Note 25)** Rmb'000	**Equity contributions (Note 25)** Rmb'000	**Retained earnings** Rmb'000	**Total** Rmb'000	**Non-controlling interests** Rmb'000	**Total equity** Rmb'000
Unaudited									
At 1 January 2009	–	19,920	1,244	–	–	148,560	169,724	12,816	182,540
At 12 January 2009 (on incorporation of the Company)	–*	–	–	–	–	–	–*	–	–
Profit for the period	–	–	–	–	–	59,083	59,083	3,398	62,481
Other comprehensive loss for the period	–	–	–	(41)	–	–	(41)	–	(41)
Total comprehensive income for the period	–	–	–	(41)	–	59,083	59,042	3,398	62,440
Dividends declared (Note 26)	–	–	–	–	–	(63,646)	(63,646)	(3,349)	(66,995)
Adjustment arising from Restructuring Exercise	–	–	(221)	221	–	–	–	–	–
At 30 June 2009	–*	19,920	1,023	180	–	143,997	165,120	12,865	177,985
Audited									
At 1 January 2010	–*	19,920	–	80	2,570	210,414	232,984	16,740	249,724
Profit for the period	–	–	–	–	–	73,624	73,624	4,407	78,031
Other comprehensive loss for the period	–	–	–	(19)	–	–	(19)	–	(19)
Total comprehensive income for the period	–	–	–	(19)	–	73,624	73,605	4,407	78,012
Appropriation to statutory reserve fund	–	2,116	–	–	–	(2,116)	–	–	–
At 30 June 2010	–*	22,036	–	61	2,570	281,922	306,589	21,147	327,736

* The Company was incorporated with an initial paid-up capital of SGD1 (RMB5) which was subsequently increased to SGD 100 (RMB474) via the issuance of shares for SGD99 in cash.

China Ouhua Winery Holdings Limited and its Subsidiary

Statements of Changes in Equity for the financial period from 1 January 2010 to 30 June 2010

(Amounts expressed in Renminbi)

	Share capital (Note 24)	Foreign currency translation reserves (Note 25)	Equity contributions (Note 25)	Accumulated losses	Total equity
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Company					
Unaudited					
At 12 January 2009 (date of incorporation)	–*	–	–	–	–
Loss for the period	–	–	–	(2,254)	(2,254)
Other comprehensive loss for the period	–	(41)	–	–	(41)
Total comprehensive loss for the period	–	(41)	–	(2,254)	(2,295)
At 30 June 2009	–*	(41)	–	(2,254)	(2,295)
Audited					
At 1 January 2010	–*	(70)	2,570	(5,776)	(3,276)
Loss for the period	–	–	–	(5,918)	(5,918)
Other comprehensive loss for the period	–	(3)	–	–	(3)
Total comprehensive loss for the period	–	(3)	–	(5,918)	(5,921)
At 30 June 2010	–*	(73)	2,570	(11,694)	(9,197)

* The Company was incorporated with an initial paid-up capital of SGD1 (RMB5) which was subsequently increased to SGD 100 (RMB474) via the issuance of shares for SGD99 in cash.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

China Ouhua Winery Holdings Limited and its Subsidiary

Statements of Cash Flows for the financial period from 1 January 2010 to 30 June 2010

(Amounts expressed in Renminbi)

	Note	Group		Company	
		Audited 1.1.2010 to 30.6.2010 Rmb'000	Unaudited 1.1.2009 to 30.6.2009 Rmb'000	Audited 1.1.2010 to 30.6.2010 Rmb'000	Unaudited 1.1.2009 to 30.6.2009 Rmb'000
Cash flows from operating activities					
Profit/(loss) before tax		94,141	75,033	(5,918)	(2,254)
Adjustments:					
Amortisation of prepayments		104	104	–	–
Depreciation of property, plant and equipment		4,244	3,343	–	–
Interest expense		3,039	139	3,039	–
Interest income		(128)	(76)	–	–
Fair value gain on derivative financial instrument		(162)	–	(162)	–
Unrealised exchange gain / (loss)		(4)	(41)	12	(41)
Operating profit before working capital changes		101,234	78,502	(3,029)	(2,295)
Decrease/(increase) in:					
Inventories		(30,431)	(10,892)	–	–
Trade and other receivables		(18,797)	(21,425)	–	–
Advances to suppliers		–	382	–	–
Prepayments		(595)	(561)	(595)	(560)
Increase/(decrease) in:					
Trade and other payables		19,005	(1,121)	18,154	2,857
Other liabilities		385	(628)	1,000	–
Cash flows generated from operations		70,801	44,257	15,530	2
Interest income received		128	76	–	–
Interest expense paid		–	(139)	–	–
Income taxes paid		(15,744)	(12,551)	–	–
Net cash flows generated from operating activities		55,185	31,643	15,530	2

China Ouhua Winery Holdings Limited and its Subsidiary

Statements of Cash Flows for the financial period from 1 January 2010 to 30 June 2010
(Amounts expressed in Renminbi)

	Note	Group		Company	
		Audited 1.1.2010 to 30.6.2010 Rmb'000	Unaudited 1.1.2009 to 30.6.2009 Rmb'000	Audited 1.1.2010 to 30.6.2010 Rmb'000	Unaudited 1.1.2009 to 30.6.2009 Rmb'000
Cash flows used in investing activities					
Investment in subsidiary		–	–	(15,906)	–
Purchase of property, plant and equipment		–	(3,510)	–	–
Additions to biological assets		(3,672)	(5,582)	–	–
Net cash flows used in investing activities		(3,672)	(9,092)	(15,906)	–
Cash flows from financing activities					
Proceeds from issue of share capital		–	–*	–	–*
Proceeds from short bank loans		–	3,000	–	–
Repayment of short term bank loans		–	(5,000)	–	–
Dividends paid		–	(18,000)	–	–
Net cash flows used in financing activities		–	(20,000)	–	–
Net increase in cash and cash equivalents		51,513	2,551	(376)	2
Cash and cash equivalents at beginning of financial period		45,567	35,800	747	–
Cash and cash equivalents at end of financial period	20	97,080	38,351	371	2

* Amount less than Rmb 1,000.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

(Amounts expressed in Renminbi)

1. Corporate information

1.1 *The Company*

The Company was incorporated as China Ouhua Winery Holdings Pte. Ltd, a private company limited by shares, in Singapore on 12 January 2009. On 30 October 2009, the Company was registered in Malaysia as a foreign company. The Company was subsequently converted into a public limited company on 24 November 2009 and changed its name to China Ouhua Winery Holdings Limited.

The Company has two registered offices, one located in Singapore and the other located in Malaysia. The registered office of the Company in Singapore is at 1 Robinson Road, #17-00, AIA Tower, Singapore 048542; while the registered office in Malaysia is at Level 18, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia.

The principal activity of the Company is investment holding. The principal activity of the subsidiary is that of production of varieties of wine and sales of its self produced wine.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The consolidated financial statements of the Group and financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The Company's functional currency is Singapore Dollars (SGD or S$). The financial statements are presented in Renminbi (Rmb), which is the functional currency of the operating subsidiary, Yantai Fazenda Ouhua Winery Co., Ltd ("Yantai Fazenda Ouhua").

2.2 *Changes in accounting policies*

(a) *Adoption of new and revised IFRS and IFRIC Interpretations*

On 1 January 2010, the Group adopted the new and revised IFRS and IFRIC Interpretations mandatory for annual periods beginning on or after 1 January 2010. The adoption of these new and revised IFRS and IFRIC Interpretations did not have an impact on the financial position and results of the Group.

(Amounts expressed in Renminbi)

2. Summary of significant accounting policies (cont'd)

2.2 *Changes in accounting policies (cont'd)*

(b) *New IFRS/Revised IAS/IFRIC not yet effective*

The Company has not adopted the following IFRS, IAS and IFRIC that have been issued but are only effective for annual financial periods as stated:

Reference		**Description**	**Effective for annual periods beginning on or after**
IFRS 1	:	Amendments to IFRS 1 – Additional Exemptions for First-time Adopters	1 July 2010
IFRS 9	:	Financial Instruments	1 January 2013
IAS 24	:	Related Party Disclosures (Revised)	1 January 2011
IAS 32	:	Financial Instruments: Presentation – Classification of Rights Issues	1 February 2010
IFRIC 14 and IAS 19	:	The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction	1 January 2011
IFRIC 19	:	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

The directors expect that the adoption of the above pronouncements will have no material impact to the financial statements in the period of initial application, except that the Group is currently assessing the possible impact of the adoption of IFRS 9 on its financial statements.

2.3 *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiary for the entire financial period and as at the statement of financial position date. The financial statements of the subsidiary are prepared for the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

The Company acquired the subsidiary pursuant to the Group Restructuring as described in Note 15. As the two entities are entities under common control, the consolidated financial statements are prepared using the pooling of interest method.

Business combination involving entities under common control are accounted for by applying the pooling-of-interest method. The assets and liabilities of the combining entities are reflected at their carrying amounts. Any difference between the consideration paid and the share capital of the "acquired" entity is reflected within equity as merger reserve. The consolidated statement of comprehensive income reflects the results of the combining entities for the full year, irrespective of when the combination takes place.

2. Summary of significant accounting policies (cont'd)

2.3 ***Basis of consolidation (cont'd)***

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Transaction with non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets in subsidiary not held by the Group and are presented separately in profit or loss of the Group and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Transactions with non-controlling interests are accounted for as transactions with owners. On acquisition of non-controlling interests, the difference between the consideration and book value of the share of the net assets acquired is reflected as being a transaction between owners and recognised directly in equity. Gain or loss on disposal to non-controlling interests is recognised directly in equity.

2.4 ***Foreign currency***

The Group's consolidated financial statements are presented in Renminbi (Rmb). The Company and its subsidiary have determined SGD and Rmb to be their respective functional currency and items included in the financial statements of the Company and its subsidiary is measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company and its subsidiary in their respective functional currency at rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the statement of comprehensive income with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the statement of comprehensive income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as 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 is determined.

2. Summary of significant accounting policies (cont'd)

2.5 ***Related party***

An entity or individual is considered a related party of the Group for the purposes of the financial statements if:

(a) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
(ii) has an interest in the entity that gives it significant influence over the entity; or
(iii) has joint control over the entity;

(b) the party is an associate (as defined in IAS 28 Investments in Associates) of the entity;

(c) the party is a joint venture in which the entity is a venturer (see IAS 31 Interests in Joint Ventures);

(d) the party is a member of the key management personnel of the entity or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

2.6 ***Biological assets***

(a) *Vineyards*

Biological assets consist of immature grape vines. The grape vines have an average life of 20 years. Prior to the vineyards having attained a sustainable yield of grapes from their harvest, they are deemed as immature. As market determined prices or values are not readily available for grape vines in its present condition and for which alternative estimates of fair value are determined to be clearly unreliable, the biological assets are stated at cost less accumulated depreciation and impairment.

Costs include all costs of purchase and other costs in bringing the vineyards to their present location and condition. They include purchase of seedlings and vineyard maintenance costs.

Once immature vines commence bearing crop which is harvested (but prior to having attained a sustainable yield or industry productivity), the cost of the biological assets is expensed on the basis of yield achieved as a proportion of anticipated yield of a mature vine.

2. Summary of significant accounting policies (cont'd)

2.6 ***Biological assets (cont'd)***

(a) *Vineyards (cont'd)*

Once the fair value of the vines becomes reliably measurable, the grape vines are measured at their fair value less estimated point-of-sale costs at point of harvest. Gains or losses arising on initial recognition of grape vines at fair value less estimated point-of-sale costs is dealt with in the statement of comprehensive income when it arises. Subsequent to initial recognition, changes in fair value are recognised in the statement of comprehensive income.

Grapes are initially measured at their fair values less estimated point-of-sale costs at the time of harvest. The fair value of grapes is determined by reference to market prices for grapes in the local area, at the time of harvests. At the time of harvest, such measurement of the grapes is recorded as inventory and the gain on initial recognition of grapes is recognised in the statement of comprehensive income.

(b) *Prepayments*

Prepayments relate to crop compensation costs paid to previous lessees of the land on which the Group's vineyards reside. Prepayments are amortised in the statement of comprehensive income on a straight-line basis over the lease term of the vineyards, which ranges from 30 to 50 years.

2.7 ***Property, plant and equipment***

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation of an asset begins when it is available for use and is computed on a straight-line basis to write off the cost of property, plant and equipment over the estimated useful life of the assets as follows:

	Years
Furniture and fixtures (at specialty stores)	5
Renovations	5-10
Plant and machinery	10
Office equipment	5
Motor vehicles	5
Vineyard land preparation costs and fixtures	10

(Amounts expressed in Renminbi)

2. Summary of significant accounting policies (cont'd)

2.7 ***Property, plant and equipment (cont'd)***

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income in the year the asset is derecognised.

2.8 ***Impairment of non-financial assets***

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the statement of comprehensive income.

2.9 ***Subsidiary***

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investment in subsidiary is accounted for at cost less impairment losses.

2. Summary of significant accounting policies (cont'd)

2.10 *Financial assets*

Financial assets are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

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

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in equity is recognised in the statement of comprehensive income.

All regular way purchases and sales of financial assets are recognised or derecognised 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 year generally established by regulation or convention in the marketplace concerned.

Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, and through the amortisation process.

2.11 *Cash and cash equivalents*

Cash and cash equivalents comprise cash and bank balances and unpledged bank deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and short term deposits carried in the statement of financial position are classified and accounted for as loans and receivables. The accounting policy for this category of financial assets is as disclosed in Note 2.10.

2. Summary of significant accounting policies (cont'd)

2.12 *Impairment of financial assets*

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

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

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

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

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

2.13 *Inventories*

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

- Raw materials – purchase cost on a weighted average basis
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(Amounts expressed in Renminbi)

2. Summary of significant accounting policies (cont'd)

2.14 *Provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.15 *Financial liabilities*

Financial liabilities are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transaction costs.

Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective interest method, except for derivatives, which are measured at fair value.

A financial liability is derecognised when the obligation under the liability is extinguished. For financial liabilities other than derivatives, gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised, and through the amortisation process. Any gains or losses arising from changes in the fair value of derivatives are recognised in the statement of comprehensive income. Net gains or losses on derivatives include exchange differences.

2.16 *Borrowing costs*

Borrowing costs are recognised in the statement of comprehensive income as incurred except to the extent that they are capitalised. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are ready for their intended use or sale.

(Amounts expressed in Renminbi)

2. Summary of significant accounting policies (cont'd)

2.17 ***Convertible notes***

The convertible notes are hybrid financial instruments with a host debt component and an embedded derivative component, which are required to be accounted for separately on inception of the convertible notes. On inception of the convertible notes, embedded derivative components are recognised at fair values. The initial carrying amount of the host debt component is the residual of the gross proceeds after separating the embedded derivatives. The host debt component is categorised and accounted for as "financial liability measured at amortised cost" while the embedded derivative component is categorised and accounted for as "financial liability at fair value through profit or loss". The Group's accounting policies for financial liabilities are stated in Note 2.15. Embedded derivative relating to issuance of put option written by a shareholder to convertible note holders is recognised as equity contribution in equity.

2.18 ***Operating leases***

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.19 ***Employee benefits***

Defined contribution plans - pension benefits

The Group is required to provide certain staff pension benefits to its employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the Group's employees.

Pension contributions are recognised as an expense in the period in which the related services are performed.

2.20 ***Revenue***

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

(a) *Sale of goods*

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customers. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) *Interest income*

Interest income is recognised using the effective interest method.

(Amounts expressed in Renminbi)

2. Summary of significant accounting policies (cont'd)

2.21 ***Income taxes***

(a) *Current tax*

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

(b) *Deferred tax*

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

Deferred income tax liabilities are recognised for all temporary differences, except:

- Where the deferred income 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 accounting profit nor taxable profit or loss;

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference 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 accounting profit nor taxable profit or loss;

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only 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.

2. Summary of significant accounting policies (cont'd)

2.21 *Income taxes (cont'd)*

(b) *Deferred tax (cont'd)*

The carrying amount of deferred income tax asset is reviewed at each statement of financial position date 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 each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

(c) *Value-added-tax ("VAT")*

The Group's sales of goods in the PRC are subjected to VAT at the applicable tax rate of 17% for PRC domestic sales. Input tax on purchases can be deducted from output VAT. The net VAT receivable or payable is included in "Other receivables" or "Other payables". The Group's export sales are not subjected to VAT.

Revenues, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.22 *Share capital and share issue expenses*

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to such capital contributions are deducted against share capital.

2. Summary of significant accounting policies (cont'd)

2.23 *Segment reporting*

For management purposes, the Group is organised into operating segments based on its products. The management of the Group regularly reviews the segment results in order to allocate resources to the segments and to assess the segment's performance. Additional disclosures on each of these segments are shown in Note 27, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.24 *Contingencies*

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the statement of financial position of the Group.

3. Significant accounting judgements and estimates

The preparation of the Group's financial statements 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 at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 *Judgements made in applying accounting policies*

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

(a) *Income taxes*

The Group has exposure to income taxes in the PRC. Significant judgement is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made. The carrying amount of the Group's income tax payable and deferred tax assets and liabilities at 30 June 2010 were Rmb 4,306,000 (31.12.2009: Rmb 7,015,000), Rmb 6,010,000 (31.12.2009: Rmb 4,899,000) and Rmb 15,143,000 (31.12.2009: Rmb 10,957,000) respectively.

(Amounts expressed in Renminbi)

3. Significant accounting judgements and estimates (cont'd)

3.1 *Judgements made in applying accounting policies (cont'd)*

(b) *Biological assets*

The directors have determined that market determined prices or values are not readily available for grape vines in its present condition and for which alternative estimates of fair value are determined to be clearly unreliable. It is the first time that the land is used to plant the vines (previously such land was used for the cultivation of other crops), coupled with the management having no prior relevant experience in the cultivation of grapes. Therefore, the directors are of the opinion that prior to the vineyards having attained a sustainable yield of grapes from their harvest, the projected future cash flows from harvesting of grapes over the estimated useful life cannot be reliably ascertained. Accordingly, the biological assets are stated at cost less accumulated depreciation and impairment. Judgement has been exercised based on the conditions of the grape vines in determining that the net realisable value will exceed cost less accumulated depreciation and thus, no impairment in biological assets is necessary as at the statement of financial position date. The carrying amount of the biological assets as at 30 June 2010 was Rmb 91,741,000 (31.12.2009: Rmb 88,069,000).

3.2 *Key sources of estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of production plant and machinery

The cost of production plant and machinery is depreciated on a straight-line basis over the estimated useful life of the assets. Management estimates the useful life of the production plant and machinery to be 10 years and residual value to be 10% of cost. This is a common life expectancy applied in the manufacturing industry. The carrying amount of the Group's production plant and machinery as at 30 June 2010 was approximately Rmb 11,871,000 (31.12.2009: Rmb 13,386,000).

Changes in the expected level of usage and technological developments could impact the economic useful life of the production plant and machinery; therefore future depreciation charges could be revised. A 5% difference in the expected useful lives of the production plant and machinery from management's estimates would not result in any significant variance in profit for the period.

China Ouhua Winery Holdings Limited and its Subsidiary

Notes to the Financial Statements – 30 June 2010

(Amounts expressed in Renminbi)

4. Revenue

Revenue represents sales of goods net of discounts and value-added-tax ("VAT").

5. Interest income/(expense)

	Note	Group		Company	
		Audited	Unaudited	Audited	Unaudited
		1.1.2010 to 30.6.2010	1.1.2009 to 30.6.2009	1.1.2010 to 30.6.2010	12.1.2009 to 30.6.2009
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Interest income from loans and receivables:					
- bank balances		128	76	–	–
Interest expense on:					
- short term bank loans		–	139	–	–
- convertible notes (accretion of interest)	23	3,037	–	3,037	–
- others		2	–	2	–
		3,039	139	3,039	–

6. Other income

	Note	Group		Company	
		Audited	Unaudited	Audited	Unaudited
		1.1.2010 to 30.6.2010	1.1.2009 to 30.6.2009	1.1.2010 to 30.6.2010	12.1.2009 to 30.6.2009
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Fair value gain on derivative financial instruments	23	162	–	162	–

(Amounts expressed in Renminbi)

7. Profit/(loss) before tax

This is determined after charging the following items:

	Note	Group		Company	
		Audited	Unaudited	Audited	Unaudited
		1.1.2010 to 30.6.2010	1.1.2009 to 30.6.2009	1.1.2010 to 30.6.2010	12.1.2009 to 30.6.2009
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Amortisation of long-term prepayments	14	104	104	–	–
Depreciation of property, plant and equipment	12	4,244	3,343	–	–
Distributor promotional expenses		13,601	4,245	–	–
Employee compensation*	8	9,575	6,501	61	–
Expenses in relation to proposed listing of the Company		2,970	2,254	2,970	2,254
Foreign exchange loss, net		4	–	–	–
Operating lease expense – buildings		873	855	–	–
Operating lease expense – vineyard		1,650	1,650	–	–

* Includes directors' remuneration and remuneration of key management personnel as disclosed in Note 9.

8. Employee compensation

	Group		Company	
	Audited	Unaudited	Audited	Unaudited
	1.1.2010 to 30.6.2010	1.1.2009 to 30.6.2009	1.1.2010 to 30.6.2010	12.1.2009 to 30.6.2009
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Salaries, wages and bonuses	8,724	5,599	61	–
Employer's contribution to defined contribution plans	703	699	–	–
Welfare expense	130	184	–	–
Labour union expense	18	19	–	–
	9,575	6,501	61	–

(Amounts expressed in Renminbi)

9. Related party transactions

During the financial periods ended 30 June 2010 and 30 June 2009, the Group had the following transactions with related parties, on terms agreed between the respective parties:

(a) ***Compensation of key management personnel***

Related party transactions with key management personnel are as follows:

	Group		Company	
	Audited	Unaudited	Audited	Unaudited
	1.1.2010 to 30.6.2010	1.1.2009 to 30.6.2009	1.1.2010 to 30.6.2010	12.1.2009 to 30.6.2009
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Salaries and other short term employee benefits, representing total compensation to key management personnel	2,338	971	61	–
Comprises amounts paid to:				
Directors	776	287	–	–
Other key management personnel	1,562	684	61	–
	2,338	971	61	–

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

(b) ***Rental***

Rental of office building from a related party, in which a director, Mr Wang Chao, has an interest	378	360	–	–

(Amounts expressed in Renminbi)

9. Related party transactions (cont'd)

(c) *Sales to Distributor*

	Group		Company	
	Audited	Unaudited	Audited	Unaudited
	1.1.2010 to 30.6.2010	1.1.2009 to 30.6.2009	1.1.2010 to 30.6.2010	12.1.2009 to 30.6.2009
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Sales to a Distributor in which a director, Mr Wang Chao, has deemed interest	–	18,857	–	–
Trade receivable due from the distributor	–	5,650	–	–

10. Income tax expense

	Group		Company	
	Audited	Unaudited	Audited	Unaudited
	1.1.2010 to 30.6.2010	1.1.2009 to 30.6.2009	1.1.2010 to 30.6.2010	12.1.2009 to 30.6.2009
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Current income tax				
- Current period income tax expense	13,035	10,245	–	–
Deferred income tax				
- Origination of temporary differences	3,075	2,307	–	–
Income tax expense recognised in the statement of comprehensive income	16,110	12,552	–	–

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(Amounts expressed in Renminbi)

10. Income tax expense (cont'd)

A reconciliation between tax expense and the product of profit/(loss) before tax multiplied by the applicable tax rate for the financial periods ended 30 June 2009 and 2010 is as follows:

	Group		Company	
	Audited	Unaudited	Audited	Unaudited
	1.1.2010 to 30.6.2010	1.1.2009 to 30.6.2009	1.1.2010 to 30.6.2010	12.1.2009 to 30.6.2009
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Profit/(loss) before tax	94,141	75,033	(5,918)	(2,254)
Tax at the applicable domestic tax rates	24,009	18,939	(1,006)	(383)
Tax effects of:				
- Partial tax exemption	(12,508)	(9,665)	–	–
- Income not subjected for tax purposes	(28)	–	(28)	–
- Expenses not deductible for tax purposes	1,036	390	1,034	383
- Origination of temporary difference	(537)	(340)	–	–
- Withholding tax on unremitted earnings of subsidiary	4,186	3,228	–	–
- Others	(48)	–	–	–
Income tax expense recognised in the statement of comprehensive income	16,110	12,552	–	–

According to the New Corporate Income Tax Law starting from 1 January 2008, companies in PRC are entitled to PRC corporate income tax ("CIT") rate of 25%. According to the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, the subsidiary in the PRC is entitled to exemption from CIT for the first two years commencing from the first profit-making year after offsetting all tax losses carried forward, and a 50% reduction for the three years thereafter. Yantai Fazenda Ouhua, a PRC subsidiary of the Group, is in its fifth (2009: fourth) profit-making year for the financial period ended 30 June 2010 and benefits from the 50% reduction.

Temporary difference relating to investment in subsidiary

At the statement of financial position date, deferred tax liability of Rmb 15,143,000 (31.12.2009: Rmb 10,957,000) has been recognised for taxes that would be payable on the undistributed earnings of Yantai Fazenda Ouhua.

Deferred income tax related to other comprehensive income

The deferred income tax related to other comprehensive income is Rmb Nil (31.12.2009: Rmb Nil).

(Amounts expressed in Renminbi)

11. Earnings per share

Earnings per share is calculated by dividing the Group's net profit attributable to ordinary equity holders of the parent for the financial period by the weighted average number of ordinary shares outstanding during the financial period.

Diluted earnings per share is calculated by dividing the Group's net profit attributable to ordinary equity holders of the parent for the financial period (after adjusting for interest expense on convertible notes) by the weighted average number of ordinary shares outstanding during the financial period plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The dilutive potential ordinary shares relate to the convertible notes that are convertible into ordinary shares of the Company based on a discount of 40% to the share price of the Company at initial public offering. The diluted potential shares are based on the estimated number of shares expected to be issued from conversion of the convertible notes to ordinary shares upon listing of the Company.

The following reflects the profit and loss and share data used in the computation of basic and diluted loss per share for the periods ended 30 June 2010 and 30 June 2009:

	Group	
	Audited 1.1.2010 to 30.6.2010 Rmb'000	Unaudited 1.1.2009 to 30.6.2009 Rmb'000
Profit for the period attributable to ordinary equity holders of the parent used in computation of basic earnings per share	73,624	59,083
Add back: Interest expense on convertible notes	3,037	–
Profit for the period attributable to ordinary equity holders of the parent used in computation of diluted earnings per share	76,661	59,083
	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares for the calculation of basic earnings per share	500,000	252,500
Effects of dilution:		
Convertible notes	37,000	–
Weighted average number of ordinary shares for the calculation of diluted earnings per share	537,000	252,500
	Rmb	Rmb
Earnings per share from Group's net profit attributable to ordinary equity holders of the parent (cents per share)		
Basic	14.7	23.4
Diluted	14.3	23.4

(Amounts expressed in Renminbi)

12. Property, plant and equipment

	Furniture and fittings (at specialty stores)	Renovations	Plant and machinery	Office equipment	Motor vehicles	Vineyard land preparation costs and fixtures	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Group							
Audited							
Cost:							
At 1 January 2009	–	13,200	35,900	1,002	151	14,080	64,333
Additions	9,630	–	–	–	–	–	9,630
At 31 December 2009, 1 January 2010 and 30 June 2010	9,630	13,200	35,900	1,002	151	14,080	73,963
Accumulated depreciation:							
At 1 January 2009	–	(4,220)	(19,484)	(176)	(108)	(2,561)	(26,549)
Depreciation charge for the year	(468)	(1,890)	(3,030)	(148)	(14)	(1,408)	(6,958)
At 31 December 2009 and 1 January 2010	(468)	(6,110)	(22,514)	(324)	(122)	(3,969)	(33,507)
Depreciation charge for the period	(999)	(945)	(1,515)	(74)	(7)	(704)	(4,244)
At 30 June 2010	(1,467)	(7,055)	(24,029)	(398)	(129)	(4,673)	(37,751)
Net carrying amount:							
At 31 December 2009	9,162	7,090	13,386	678	29	10,111	40,456
At 30 June 2010	8,163	6,145	11,871	604	22	9,407	36,212

(Amounts expressed in Renminbi)

13. Biological assets

	Group Audited	
	30.6.2010	31.12.2009
	Rmb'000	Rmb'000
Immature planted vineyards:		
At cost:		
At 1 January	89,486	77,661
Additions	3,672	11,825
At 30 June/31 December	93,158	89,486
Accumulated depreciation:		
At 1 January	(1,417)	–
Additions	–	(1,417)
At 30 June/31 December	(1,417)	(1,417)
Net carrying amount:		
At 30 June/31 December	91,741	88,069

The Group held approximately 3,302,000 grape vines planted on 2 separate plots of land aggregating approximately 367 hectares of land. The grape vines were planted in 2006 and 2007 respectively. The grape vines are immature plants which have not been fully harvested as of 30 June 2010.

The Group is exposed to financial risks in respect of agricultural activity. The agricultural activity of the Group consists of the management of the vineyards to produce grapes for use in the production of wine. The primary risk associated with this activity occurs due to the length of time between expending cash on the purchase or planting and maintenance of grape vines and on harvesting grapes, and ultimately receiving cash from the sale of wine to third parties. The Group has not attained a sustainable annual yield of grapes from its vineyards and only about 1,000 tonnes were harvested for the first time in September 2009. The estimated total yield in the year of 2010 is approximately 2,000 tonnes (representing approximately half of estimated total yield upon maturity of the vineyards). Accordingly, the growth of the vines is deemed to be in their early stage and there exists high level of uncertainty with regards to the future outcome of their growth. This is affected by, inter alia, weather, biological properties of the vines planted, livability, disease, management of the vineyards, pollution etc.

The Group's strategy to manage this financial risk is to actively review and manage its working capital requirements as well as continue to enhance its relationship with the farmers/suppliers from whom it has been purchasing grapes/grape juice for production of wine.

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(Amounts expressed in Renminbi)

14. Prepayments, non-current

	Group Audited	
	30.6.2010	**31.12.2009**
	Rmb'000	Rmb'000
Cost:		
At 1 January	8,800	8,800
Additions	–	–
At 30 June/31 December	8,800	8,800
Accumulated amortisation:		
At 1 January	(832)	(624)
Amortisation charge for the period/year	(104)	(208)
At 30 June/31 December	(936)	(832)
Net carrying amount:		
At 30 June/31 December	7,864	7,968

Prepayments relate to crop compensation costs paid to the previous lessees of the land on which the Group's vineyards reside.

15. Investment in subsidiary

	Company Audited	
	30.6.2010	**31.12.2009**
	Rmb'000	Rmb'000
Shares, at cost	42,298	26,392

Name	Country of Incorporation	Principal activities	Proportion (%) of ownership interest 30.6.2010	31.12.2009
Yantai Fazenda Ouhua [1]	People's Republic of China	Production of varieties of wine and sales of its self produced wines	95	95

[1] Audited by Shandong Hua Bin Certified Public Accountant Co., Ltd for PRC statutory audit purpose and audited by Ernst & Young LLP, Singapore for purposes of inclusion in the consolidated financial statements.

15. Investment in subsidiary (cont'd)

Prior to the Restructuring Exercise, Yantai Fazenda Ouhua was 25% owned by The Group of Hualian Commercial Building (Spain) S.L. ("Hualian") and 75% owned by Yantai Ouhua Winery Co., Ltd. ("YO Winery"). Mr Wang Chao, Executive Chairman and CEO, was the ultimate beneficial owner of Yantai Fazenda Ouhua, holding his interest through Hualian and YO Winery.

The Restructuring Exercise was carried out as follows:

(i) On 13 March 2009, the Company entered into an Equity Transfer Agreement with Hualian to acquire 25% equity interest in Yantai Fazenda Ouhua held by Hualian for a purchase consideration of approximately Rmb 1,022,700 (the "Acquisition Consideration").

Pursuant to a notice of assignment dated 18 November 2009, Hualian confirmed that on completion as at 27 September 2009, Hualian had assigned all of its rights to the Acquisition Consideration under the Equity Transfer Agreement to Mr Wang Chao, and confirmed that it had no further claim against the Company under the Equity Transfer Agreement for the Acquisition Consideration;

Pursuant to a deed of release and discharge dated 20 November 2009 entered into between Mr Wang Chao and the Company (the "Deed of Release and Discharge"), Mr Wang Chao confirmed that as at 27 September 2009, Mr Wang Chao had unconditionally discharged and released the Company from all obligations under the Equity Transfer Agreement to pay the Acquisition Consideration to Mr Wang Chao, and thereby unconditionally and irrevocably waived all of his rights whatsoever in relation thereto. This amount of Rmb 1,022,700 has been adjusted to equity contributions (purchase consideration of equity interest in subsidiary waived by a major shareholder) within equity at the Group/Company respectively (Note 25).

(ii) Pursuant to a Capital Increase Agreement dated 16 March 2009 entered into between the Company and YO Winery, the Company shall invest in aggregate sum of US$8,400,000 in cash into Yantai Fazenda Ouhua for an additional 70% equity interests in Yantai Fazenda Ouhua ("Capital Injection").

As at 30 June 2010, the Company has contributed approximately US$6,040,000 (FY09: US$3,700,000) to the registered capital of Yantai Fazenda Ouhua. In accordance with the Capital Increase Agreement and pursuant to the Company Law of the PRC, the Company has up to 24 March 2011 to contribute the remaining US$2,360,000 (FY09: US$4,700,000) to the registered capital of Yantai Fazenda Ouhua.

The Company became the legal and beneficial owner of 95% of the registered capital of Yantai Fazenda Ouhua upon the acquisition of Yantai Fazenda Ouhua and the Capital Injection i.e 16 March 2009.

(iii) On 27 November 2009, the Company entered into a call option agreement with YO Winery to acquire the remaining 5% equity interest held by YO Winery. The purchase consideration is to be determined by an independent valuer. The call option is valid for a period of 2 years from the date of the listing of the Company on Bursa Malaysia Securities Berhad.

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15. Investment in subsidiary (cont'd)

(iv) On 29 July 2010, the Company has contributed US$2,360,000 to the registered capital of Yantai Fazenda Ouhua. Subsequent to the capital injection, the Company completed its capital commitment under the Capital Increase Arrangement dated 16 March 2009.

16. Deferred tax assets/liabilities

		Group Audited	
	Note	**30.6.2010**	**31.12.2009**
		Rmb'000	Rmb'000
Deferred tax assets:			
Amortisation of prepayment		234	208
Differences in depreciation of property, plant and equipment for tax purposes		1,377	1,179
Differences in the amortisation of biological assets for tax purposes		3,712	3,654
Accruals		687	414
		6,010	5,455
Deferred tax liabilities:			
Differences in the income from harvest of grapes for tax purposes		–	556
Withholding tax on unremitted earnings of subsidiary		15,143	10,957
		15,143	11,513
Deferred tax liabilities, net		9,133	6,058
Presented as:			
Deferred tax assets		6,010	4,899
Deferred tax liabilities		(15,143)	(10,957)
Deferred tax liabilities, net		(9,133)	(6,058)

Movement in the deferred tax assets during the financial period/year is as follows:

Deferred tax liabilities, net			
At 1 January		(6,058)	(645)
Charge to statement of comprehensive income	10	(3,075)	(5,413)
At 30 June/31 December		(9,133)	(6,058)

(Amounts expressed in Renminbi)

17. Inventories

	Group Audited	
	30.6.2010	31.12.2009
	Rmb'000	Rmb'000
Statement of financial position:		
Raw materials	1,194	1,219
Work-in-progress	73,920	43,020
Finished goods	105	549
Total inventories at lower of cost and net realisable value	75,219	44,788
Statement of comprehensive income:		
Inventories recognised as an expense in cost of sales	67,514	122,017

During the financial period/ year ended 30 June 2010 and 31 December 2009, there has been no inventory written off or allowance for inventory obsolescence.

18. Trade and other receivables

		Audited			
		Group		Company	
	Note	30.6.2010	31.12.2009	30.6.2010	31.12.2009
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade receivables		103,208	84,411	–	–
Other receivables		20	20	–	–
Total trade and other receivables		103,228	84,431	–	–
Add: Cash and cash equivalents	20	97,080	45,567	371	747
Total loans and receivables		200,308	129,998	371	747

During the financial period/ year ended 30 June 2010 and 31 December 2009, there have been no trade receivables written off or allowance for doubtful trade receivables.

Trade receivables

Trade receivables are non-interest bearing, unsecured and are normally settled on 30 to 90 days' terms. They are recognised at their original invoiced amounts which represent their fair values on initial recognition.

(Amounts expressed in Renminbi)

18. Trade and other receivables (cont'd)

Trade receivables (cont'd)

Trade receivables that are past due but not impaired

As at 30 June 2010, Group has trade receivables amounting to Rmb 45,350 (2009: Rmb Nil) that were past due but not impaired. These trade receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group Audited	
	30.6.2010	**31.12.2009**
	Rmb'000	Rmb'000
Trade receivables past due:		
Less than 30 days	27,654	–
30 to 60 days	17,696	–
	45,350	–

19. Prepayments, current

Prepayments relate to expenses in relation to the proposed listing of the Company's shares on the Bursa Malaysia Securities Berhad. These are incremental costs directly attributable to the proposed listing of the Company.

20. Cash and cash equivalents

	Audited			
	Group		Company	
	30.6.2010	**31.12.2009**	**30.6.2010**	**31.12.2009**
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Cash and bank balances	97,080	45,567	371	747

Cash and bank balances have an effective interest rate of 0.36% per annum and 0.125% to 0.36% per annum for the financial period/year ended 30 June 2010 and 31 December 2009 respectively.

Cash and cash equivalents are denominated in the following currencies:

Renminbi	96,695	44,820	–	–
Singapore dollars	305	747	305	747
United States dollars	80	–	66	–
	97,080	45,567	371	747

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21. Trade and other payables

		Audited			
		Group		Company	
	Note	30.6.2010	31.12.2009	30.6.2010	31.12.2009
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade payables		9,745	4,323	–	–
VAT and other operating tax payables		5,802	10,328	–	–
Other payables		60	105	–	–
Due to a corporate shareholder		24,628	6,474	24,628	6,474
Total trade and other payables		40,235	21,230	24,628	6,474
Add: Other liabilities	22	3,696	3,311	1,000	–
Total financial liabilities carried at amortised cost		43,931	24,541	25,628	6,474

Trade payables and other payables

These amounts are non-interest bearing. Trade payables are unsecured and normally settled on 60 days term while other payables have an average term of one month.

Due to a corporate shareholder (non-trade)

Amount due to a corporate shareholder is interest free, non-trade in nature, unsecured and repayable on demand.

22. Other liabilities

	Audited			
	Group		Company	
	30.6.2010	31.12.2009	30.6.2010	31.12.2009
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Accrued operating expenses	3,696	3,311	1,000	–

23. Convertible notes

On 23 September 2009, the Company entered into a Note Purchase Agreement with certain Pre-IPO Investors (the "Investors"), to issue unsecured convertible promissory notes (the "Notes") amounting to a total of S$5.5 million. The Notes are convertible into ordinary shares of the Company at the discretion of the Investors at any time prior to the maturity of the Notes. The Notes are convertible into ordinary shares of the Company based on a discount of 40% to the share price of the Company at initial public offering. The Notes bears interest at 15% per annum in the event that they are not converted within 18 months from the date of issue or on the date of listing of the Company on the Bursa Malaysia Securities Berhad.

A put option was granted by the promoter/ a majority shareholder of the Company to the Investors. The Investors may, pursuant to the put option, sell their shares to the promoter/ a majority shareholder at 100% of the principal amount plus interest of 15% per annum. The fair value of the put option at the date the option was granted (i.e. 23 September 2009) is accounted for as equity contributions (put option written by a shareholder to convertible note holders) recorded within equity (Note 25).

The carrying amount of the liability component, embedded derivative component and put option at the statement of financial position date is derived as follows:

		Group and Company	
		Audited	
	Note	**30.6.2010**	**31.12.2009**
		Rmb'000	Rmb'000
Liability component			
Face value of convertible notes at initial recognition		–	26,678
Fair value of embedded derivative at initial recognition		–	(12,695)
Put option written by a shareholder to convertible note holders at initial recognition		–	(1,547)
Liability component at initial recognition		–	12,436
Liability component at beginning of financial period		14,818	–
Translation difference		10	28
Accretion of interest	5	3,037	2,354
Liability component at the end of financial period/year		17,865	14,818
Embedded derivative component			
At initial recognition		–	12,695
At beginning of financial period		10,496	–
Fair value gain on embedded derivative	6	(162)	(2,171)
Translation difference		7	(28)
Embedded derivative component at the end of financial period/year		10,341	10,496

(Amounts expressed in Renminbi)

24. Share capital

	Audited			
	Group and Company			
	30.6.2010		31.12.2009	
	No. of shares	Rmb'000	No. of shares	Rmb'000
Issued and fully paid :				
At 1 January 2009 and 2010 or 12 January 2009 (date of incorporation)	100	*	1	*
Issue of shares	–	*	99	*
At 30 June/31 December	100	*	100	*
Upon share split by sub-dividing 1 share into 5,000,000 shares and as at 30 June 2010 and 31 December 2009	500,000,000	*	500,000,000	*

* Denote less than Rmb 1,000

The Company was incorporated in Singapore on 12 January 2009 with an initial issued and paid up share capital of S$1 comprising one ordinary share. Subsequently the share capital increased to S$100 via the issue of 99 shares for cash.

On 28 November 2009, the Company implemented a share split of 100 shares to 500,000,000 shares by sub-dividing one share into 5,000,000 shares of the Company.

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

(Amounts expressed in Renminbi)

25. Other reserves

	Audited			
	Group		Company	
	30.6.2010	31.12.2009	30.6.2010	31.12.2009
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Reserve funds	22,036	19,920	–	–
Foreign currency translation reserves	61	80	(73)	(70)
Equity contributions	2,570	2,570	2,570	2,570
	24,667	22,570	2,497	2,500

Reserve funds

In accordance with the relevant laws and regulations of the PRC, companies in the PRC are required to set aside an enterprise expansion reserve fund and a general reserve fund by way of appropriation from their statutory net profit, as reported in the PRC statutory financial statements, at a rate to be determined by the board of directors of the Group. The board of directors of the Group have decided that 10% of the statutory net profit, as reported in the PRC statutory financial statements of the Group, be appropriated each period to each of the enterprise expansion reserve fund and general reserve fund respectively. There is no requirement for such appropriation of statutory net profit if the reserve funds meet 50% of the share capital.

The reserves may be used to offset accumulated losses or increase the registered capital of the Group, subject to approval from the PRC authorities and are not available for dividend distribution to the shareholders.

Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of the Company whose functional currency is different from that of the Group's presentation currency.

Equity contributions

		Group and Company Audited	
	Note	30.6.2010	31.12.2009
		Rmb'000	Rmb'000
Purchase consideration of equity interest in subsidiary waived by a major shareholder	(15i)	1,023	1,023
Put option written by a shareholder to convertible note holders	23	1,547	1,547
		2,570	2,570

(Amounts expressed in Renminbi)

26. Dividends

During the financial periods ended 30 June 2010 and 30 June 2009, the Group's subsidiary declared dividends amounting to Rmb Nil and Rmb 66,995,000 respectively. The dividends were paid to the then existing shareholders of the subsidiary, prior to the entity being restructured as a subsidiary of the Company.

27. Segment information

For management purposes, the Company has two reportable operating segments as follows:

(i) White wine ("WW")

The White wine segment relates to the business of producing white wines from Chardonnay, Riesling, Sauvignon Blanc, and Pinot Blancs grape varietals grown on the Company's vineyards, grapes sourced from grape growers from areas neighbouring the Company's vineyards as well as wines purchased for production.

(ii) Red wine ("RW")

The Red wine segment relates to the business of producing red wines from Cabernet Sauvignon, Pinot Noir, Shiraz, Merlot grape varietals, grown on the Company's vineyards, grapes sourced from grape growers from areas neighbouring the Company's vineyards, as well as wines purchased for production.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business unit separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the tables below, is measured differently from operating profit or loss in the financial statements.

There is no inter-segment transfer for the financial periods ended 30 June 2010 and 30 June 2009.

(Amounts expressed in Renminbi)

27. Segment information (cont'd)

The following table presents revenue, results and other information regarding the Group's operating segments for the financial periods ended 30 June 2010 and 30 June 2009:

30 June 2010	WW Rmb'000	RW Rmb'000	Total Rmb'000
Revenue			
Sales to external customers	30,043	199,227	229,270
Results			
Segment gross profit	17,117	117,551	134,668
Unallocated expenses, net			(37,616)
Interest income			128
Interest expense			(3,039)
Profit before tax			94,141
Income tax expense			(16,110)
Net profit			78,031
Other segment information			
Amortisation of long-term prepayments			104
Depreciation of property, plant and equipment			4,244
Fair value gain on derivative financial instruments			162

China Ouhua Winery Holdings Limited and its Subsidiary

Notes to the Financial Statements – 30 June 2010

(Amounts expressed in Renminbi)

27. Segment information (cont'd)

30 June 2009	**WW** Rmb'000	**RW** Rmb'000	**Total** Rmb'000
Revenue			
Sales to external customers	21,049	156,162	177,211
Results			
Segment gross profit	13,257	83,776	97,033
Unallocated expenses, net			(21,937)
Interest income			76
Interest expense			(139)
Profit before tax			75,033
Income tax expense			(12,552)
Net profit			62,481
Other segment information			
Amortisation of long-term prepayments			104
Depreciation of property, plant and equipment			3,343

Geographical information

Segmented information by geographical region is not applicable for the financial periods ended 30 June 2010 and 30 June 2009 as the business operation of the Group is only carried out in the PRC.

Information about major customers

Three (30.06.2009: four) major customers who contributed 10% or more of the total revenue each for the financial period ended 30 June 2010 accounted for 51% of the Group's revenue (30.06.2009: 62%). Each of the major customers contributed Rmb 69,289,000 (30.06.2009: Rmb 55,034,000), Rmb 25,249,000 (30.06.2009: Rmb 18,857,000) and Rmb 22,853,000 (30.06.2009: Rmb 17,903,000 and Rmb 18,026,000) to the total Group's revenue for both the Group's operating segments (i.e. white wine and red wine).

28. Commitments

Operating lease commitments

The Group has operating lease agreements for its office and factory buildings and vineyards in the PRC. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing. These leases have an average tenure of between 20 to 50 years. Future minimum rentals payable under non-cancellable operating leases as at 30 June 2010 and 31 December 2009 are as follows:

	Group	
	Audited	
	30.6.2010	**31.12.2009**
	Rmb'000	Rmb'000
Not later than 1 year	5,144	5,046
1 year through 5 years	21,131	21,063
More than 5 years	169,748	172,437
	196,023	198,546

29. Financial risk management objectives and policies

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The board of directors reviews and agrees policies and procedures for the management of these risks. It is the Group's policy that no derivatives shall be undertaken. The Group does not apply hedge accounting.

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

(a) ***Credit risk***

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. The Group subjects new customers to credit verification procedures and obtains advanced payments instead of granting credit. In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

(Amounts expressed in Renminbi)

29. Financial risk management objectives and policies (cont'd)

(a) *Credit risk (cont'd)*

Exposure to credit risk

At the statement of financial position date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position as disclosed in Note 18.

Credit risk concentration profile

At the statement of financial position date, approximately 81% (31.12.2009: 70%) of the Group's trade receivables were due from the top 5 major customers located in the PRC.

Financial assets that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

There are no financial assets that are impaired. Information regarding the financial assets that are past due is disclosed in Note 18 of the financial statements.

(b) *Liquidity risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's liquidity risk management policy is to maintain sufficient liquid financial assets and stand-by credit facilities with different banks. In addition, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The financial liabilities of the Group at the statement of financial position date will mature in less than one year based on the carrying amount reflected in the financial statements.

(Amounts expressed in Renminbi)

29. Financial risk management objectives and policies (cont'd)

(b) ***Liquidity risk (cont'd)***

The table below summarises the maturity profile of the Group's financial assets and liabilities at the statement of financial position date based on contractual undiscounted payments.

	Audited			
	Group		Company	
	30.6.2010	31.12.2009	30.6.2010	31.12.2009
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Financial assets:				
Trade and other receivables	103,228	84,431	–	–
Cash and cash equivalents	97,080	45,567	371	747
Total undiscounted financial assets	200,308	129,998	371	747
Financial liabilities:				
Trade and other payables	40,235	21,230	24,628	6,474
Other liabilities	3,696	3,311	1,000	–
Convertible notes	26,678	26,678	26,678	26,678
Total undiscounted financial liabilities	70,609	51,219	52,306	33,152
Total net undiscounted financial assets/(liabilities)	129,699	78,779	(51,935)	(32,405)

29. Financial risk management objectives and policies (cont'd)

(c) ***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from cash at bank at floating rates for the financial period/ year ended 30 June 2010 and 31 December 2009. The Group's policy is to obtain the most favourable interest rates available.

Surplus funds are placed with reputable banks.

Information relating to the Group's interest rate exposure is also disclosed in Note 20.

	Audited	
	30.6.2010	**31.12.2009**
	Rmb'000	Rmb'000
Group		
Floating rate		
Cash at bank	97,049	45,549
Company		
Floating rate		
Cash at bank	371	747

Sensitivity analysis for interest rate risk

At 30 June 2010, if Rmb interest rates had been 100 basis points (31.12.2009: 100 basis points) lower/higher with all other variables held constant, the Group's profit after tax would have been Rmb 970,000 (31.12.2009: Rmb 455,000) lower/higher, arising mainly as a result of lower/higher interest income on cash at bank.

(d) ***Foreign currency risk***

Currently, the PRC government imposes control over foreign currencies. Rmb, the official currency in China, is not freely convertible. Enterprises operating in PRC can enter into exchange transactions through People's Bank of China or other authorised financial institutions.

(Amounts expressed in Renminbi)

29. Financial risk management objectives and policies (cont'd)

(d) *Foreign currency risk (cont'd)*

Payments for imported materials or services, which is outside of the PRC, are subject to availability of foreign currencies which depends on the foreign currency denominated earnings of the enterprises, or exchanges of Rmb for foreign currency must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchase of imported materials and remittance of earnings. While conversion of Rmb into foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

As at 30 June 2010 and 31 December 2009, sensitivity analysis for foreign currency risk is not applicable as the Group maintains minimal balances in foreign currency and thus has minimal exposure to foreign currency risk.

30. Fair value of financial instruments

A. *Fair value of financial instruments that are carried at fair value*

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy:

	Note	Quoted prices in active markets (Level 1)	Significant other observable (Level 2)	Significant unobservable (Level 3)	Total
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Group and Company					
30.6.2010					
Financial liabilities:					
Derivatives					
- Embedded derivative component of convertible note	23	–	–	10,341	10,341
At 30 June 2010		–	–	10,341	10,341
31.12.2009					
Financial liabilities:					
Derivatives					
- Embedded derivative component of convertible note	23	–	–	10,496	10,496
At 31 December 2009		–	–	10,496	10,496

30. Fair value of financial instruments (cont'd)

Fair value hierarchy

The Group classify fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy have the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Determination of fair value

Derivatives (Note 23): The embedded derivative component of convertible notes is valued using a valuation technique which uses both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the successful listing of the Company on the Bursa Malaysia Securities Berhad and expected stock price volatility of the Company based on comparable companies within the industry.

Movements in Level 3 financial instruments measured at fair value

The following table presents the reconciliation for all financial instruments measured at fair value based on significant unobservable inputs (Level 3).

	Note	Derivatives - embedded derivative component of convertible notes	
		30.6.2010	**31.12.2009**
		Rmb'000	Rmb'000
Group and Company			
At 1 January 2010 / at initial recognition	23	10,496	12,695
Total gains:			
- in statement of comprehensive income (presented in other income)		(162)	(2,171)
- in other comprehensive income		(7)	(28)
Closing balance		10,341	10,496
Total gains for the period/ year included in statement of comprehensive income (presented in other income) for liabilities held at 30 June 2010/ 31 December 2009		162	2,171

30. Fair value of financial instruments (cont'd)

Impact of changes to key assumptions on fair value of Level 3 financial instruments

Management is of the view that the key assumption affecting the fair value of the level 3 financial instruments refer to the IPO success rate.

For embedded derivative, the fair value had been determined using a valuation technique based on assumptions, including the Company's successful listing on the Bursa Malaysia Securities Berhad that are not supported by direct observable market data.

Had the IPO success rate been adjusted by 2.5% from management's estimates, the fair value of the embedded derivative component of convertible notes would differ by approximately Rmb 547,000 depending on whether such success rate increases or decreases. Such a variation is considered by the Group to be within a range of reasonably possible alternatives.

B. ***Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value***

Current trade and other receivables; trade and other payables and other liabilities (Notes 18, 21 and 22)

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the statement of financial position date.

(Amounts expressed in Renminbi)

31. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. 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 during the financial period/ year ended 30 June 2010 and 31 December 2009.

As disclosed in Note 25, the Group is required by relevant laws and regulations of the PRC to contribute to and maintain non-distributable reserve funds whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, trade payables, other payables, other liabilities, convertible notes and derivative financial instruments, less cash and cash equivalents. Capital includes equity attributable to the equity holders less the abovementioned restricted reserve funds.

		Group Audited	
	Note	**30.6.2010**	**31.12.2009**
		Rmb'000	Rmb'000
Trade and other payables	21	40,235	21,230
Other liabilities	22	3,696	3,311
Convertible notes	23	17,865	14,818
Derivative financial instruments	23	10,341	10,496
Total debt		72,137	49,855
Less: Cash and cash equivalents	20	(97,080)	(45,567)
Net (cash) / debt		(24,943)	4,288
Equity attributable to the equity holders		306,589	232,984
Less: Reserve funds	25	(22,036)	(19,920)
Total capital		284,553	213,064
Capital and net debt		259,610	217,352
Gearing ratio		N/A *	2%

* As at 30 June 2010, there is no gearing ratio as the Group is in a net cash position.

(Amounts expressed in Renminbi)

32. Events after balance sheet date

As at 30 June 2010, the Company has US$2,360,000 of capital commitments in respect of the capital contribution in Yantai Fazenda Ouhua. In accordance with the Capital Increase Agreement and pursuant to the Company Law of the PRC, the Company has up to 24 March 2011 to contribute the remaining US$2,360,000 to the registered capital of Yantai Fazenda Ouhua.

On 29 July 2010, the Company has contributed US$2,360,000 to the registered capital of Yantai Fazenda Ouhua. Subsequent to the capital injection, the Company completed its capital commitment under the Capital Increase Arrangement dated 16 March 2009.

33. Authorisation of financial statements for issue

The financial statements for the financial period ended 30 June 2010 were authorised for issue in accordance with a resolution of the directors on 3 September 2010.