

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED  
 Stock Name : CNOUHUA  
 Financial Period End : 30 SEPTEMBER 2017  
 Quarter : 3



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

PARTICULARS	NOTE	INDIVIDUAL QUARTER		INDIVIDUAL QUARTER	
		CURRENT	PRECEDING YEAR	CURRENT	PRECEDING YEAR
		QUARTER	CORRESPONDING	QUARTER	CORRESPONDING
		30-Sep-17	30-Sep-16	30-Sep-17	30-Sep-16
		RMB'000	RMB'000	RM'000	RM'000
Revenue		3,849	3,660	2,479	2,357
Cost of sales		(3,800)	(3,443)	(2,447)	(2,217)
Gross Profit		49	217	32	140
Finance and other income		20	33	13	21
Marketing and distribution		(1,182)	(2,380)	(761)	(1,533)
Administrative expenses		(1,800)	(4,014)	(1,159)	(2,585)
Other expense			(42)		(27)
(Loss)/profit before tax		(2,913)	(6,186)	(1,876)	(3,984)
Income tax expenses	B4				
(Loss)/profit net of tax		(2,913)	(6,186)	(1,876)	(3,984)
<b>Other comprehensive income:</b>					
Foreign currency translation					
<b>Total comprehensive (loss)/income for the period</b>		<b>(2,913)</b>	<b>(6,186)</b>	<b>(1,876)</b>	<b>(3,984)</b>
<b>(Loss)/profit attributable to :</b>					
- Owners of the parent		(2,770)	(5,882)	(1,784)	(3,788)
- Non-controlling interests		(143)	(304)	(92)	(196)
<b>Total comprehensive (loss)/income attributable to :</b>		<b>(2,913)</b>	<b>(6,186)</b>	<b>(1,876)</b>	<b>(3,984)</b>
- Owners of the parent		(2,770)	(5,882)	(1,784)	(3,788)
- Non-controlling interests		(143)	(304)	(92)	(196)
<b>(Loss)/earnings per share from Group's net (loss)/profit attributable to shareholders</b>	B11				
Basic (RMB cents / RM sen)		(0.41)	(0.88)	(0.26)	(0.57)
Diluted (RMB cents / RM sen)		(0.41)	(0.88)	(0.26)	(0.57)

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes attached to the financial statements.)

Note:  
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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

PARTICULARS	NOTE	CUMULATIVE QUARTER		CUMULATIVE QUARTER	
		CURRENT	PRECEDING YEAR	CURRENT	PRECEDING YEAR
		YEAR TO DATE	YEAR TO DATE	YEAR TO DATE	YEAR TO DATE
		ENDED	ENDED	ENDED	ENDED
		30-Sep-17	30-Sep-16	30-Sep-17	30-Sep-16
		RMB'000	RMB'000	RM'000	RM'000
Revenue		7,683	7,423	4,948	4,781
Cost of sales		(8,166)	(7,974)	(5,259)	(5,136)
Gross Profit		(483)	(551)	(311)	(355)
Finance and other income		60	109	39	70
Marketing and distribution		(1,686)	(6,468)	(1,086)	(4,166)
Administrative expenses		(3,935)	(7,119)	(2,534)	(4,586)
Other expense			(42)		
(Loss)/profit before tax		(6,044)	(14,071)	(3,893)	(9,036)
Income tax expenses	B4				
<b>(Loss)/profit net of tax</b>		<b>(6,044)</b>	<b>(14,071)</b>	<b>(3,893)</b>	<b>(9,036)</b>
<b>Total comprehensive (loss)/ income for the period</b>		<b>(6,044)</b>	<b>(14,071)</b>	<b>(3,893)</b>	<b>(9,036)</b>
<b>(Loss)/profit attributable to :</b>					
- Owners of the parent		(5,751)	(13,379)	(3,704)	(8,617)
- Non-controlling interests		(293)	(692)	(189)	(419)
		<b>(6,044)</b>	<b>(14,071)</b>	<b>(3,893)</b>	<b>(9,036)</b>
<b>Total comprehensive (loss)/ income attributable to :</b>					
- Owners of the parent		(5,751)	(13,379)	(3,704)	(8,617)
- Non-controlling interests		(293)	(692)	(189)	(419)
		<b>(6,044)</b>	<b>(14,071)</b>	<b>(3,893)</b>	<b>(9,036)</b>
<b>(Loss)/earnings per share from Group's net (loss)/profit attributable to shareholders</b>	B11				
<b>Basic (RMB cents / RM sen)</b>		<b>(0.86)</b>	<b>(2.00)</b>	<b>(0.55)</b>	<b>(1.29)</b>
<b>Diluted (RMB cents / RM sen)</b>		<b>(0.86)</b>	<b>(2.00)</b>	<b>(0.55)</b>	<b>(1.29)</b>

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes attached to the financial statements.)

**Note:**

The presentation currency of this unaudited interim financial statement is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") shown is for reference only and is based on the exchange rate of RMB1 to RM0.64406 as at 31 Dec 2016.

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED  
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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2017**

PARTICULARS	NOTE	UNAUDITED	AUDITED	UNAUDITED	AUDITED
		AS AT 30-Sep-17 RMB'000	AS AT 31-Dec-16 RMB'000	AS AT 30-Sep-17 RM'000	AS AT 31-Dec-16 RM'000
<b>ASSETS AND LIABILITIES</b>					
<b>Non-current assets</b>					
Property, plant and equipment		40,604	42,963	26,151	27,671
Biological assets					
Prepayments					
		<u>40,604</u>	<u>42,963</u>	<u>26,151</u>	<u>27,671</u>
<b>Current assets</b>					
Inventories		40,709	43,342	26,219	27,915
Trade and other receivables		15,124	17,051	9,740	10,982
Prepayments		119,002	118,813	76,644	76,523
Cash and cash equivalents		27,305	26,316	17,586	16,949
		<u>202,140</u>	<u>205,522</u>	<u>130,190</u>	<u>132,368</u>
<b>Current liabilities</b>					
Trade and other payables		10,328	9,638	6,652	6,207
Other liabilities		299	686	193	442
		<u>10,627</u>	<u>10,324</u>	<u>6,844</u>	<u>6,649</u>
Net current assets		<u>191,513</u>	<u>195,198</u>	<u>123,346</u>	<u>125,719</u>
<b>Non-current liability</b>					
Deferred tax liabilities					
<b>Net assets</b>		<u>232,117</u>	<u>238,161</u>	<u>149,498</u>	<u>153,390</u>
<b>EQUITY</b>					
Share capital		205,838	205,838	132,572	132,572
Other reserve		30,531	30,531	19,664	19,664
Retained earnings		(9,480)	(3,729)	(6,105)	(2,402)
Non-controlling interests		5,228	5,521	3,367	3,556
Total equity		<u>232,117</u>	<u>238,161</u>	<u>149,498</u>	<u>153,390</u>
Net Assets per share attributable to equity holders of the Group (RMB / RM)		0.35	0.36	0.22	0.23

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes attached to the financial statements.)

**Note:**  
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Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED  
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**QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Attributable to Equity Holders of The Group						Total Equity RMB'000
	Share Capital RMB'000	Statutory Reserve funds RMB'000	Other capital reserves RMB'000	Retained Earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	
<i>(IN RMB)</i>							
At 1 January 2017	205,838	29,508	1,023	(3,729)	232,640	5,521	238,161
(Loss)/profit and other comprehensive(loss)/profit for the year				(5,751)	(5,751)	(293)	(6,044)
At 30 September 2017	205,838	29,508	1,023	(9,480)	226,889	5,228	232,117
<i>(IN RM)</i>							
At 1 January 2017	132,572	19,005	659	(2,402)	149,834	3,556	153,390
(Loss)/profit and other comprehensive(loss)/profit for the year				(3,704)	(3,704)	(189)	(3,893)
At 30 September 2017	132,572	19,005	659	(6,105)	146,130	3,367	149,498

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes attached to the financial statements.)

**Note:**

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 Quarter : 3

**QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Attributable to Equity Holders of The Group							Total Equity RMB'000
	Share Capital RMB'000	Statutory Reserve funds RMB'000	Foreign currency translation reserves RMB'000	Other capital reserves RMB'000	Retained Earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	
(IN RMB)								
At 1 January 2016	205,838	29,508	-	1,023	33,583	269,952	8,247	278,199
Profit for the period	-	-	-	-	(13,379)	(13,379)	(692)	(14,071)
At 30 September 2016	205,838	29,508	-	1,023	20,204	256,573	7,555	264,128
(IN RM)								
At 1 January 2016	132,572	19,005	-	659	21,629	173,865	5,312	179,177
Profit for the period	-	-	-	-	(8,617)	(8,617)	(446)	(9,063)
At 30 September 2016	132,572	19,005	-	659	13,013	165,248	4,866	170,114

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes attached to the financial statements.)

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	CURRENT YEAR TO DATE 30-Sep-17 RMB'000	PRECEDING CORRESPONDING YEAR TO DATE 30-Sep-16 RMB'000	CURRENT YEAR TO DATE 30-Sep-17 RM'000	PRECEDING YEAR CORRESPONDING YEAR TO DATE 30-Sep-16 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before taxation	(6,044)	(14,071)	(3,893)	(9,063)
Adjustments for :-				
Depreciation and amortisation expenses	2,955	3,202	1,903	2,062
Impairment loss on PPE	-	-	-	-
Loss on disposal of PPE	-	42	-	27
Depreciation of biological assets	-	-	-	-
Impairment loss on inventories	-	-	-	-
Impairment loss on trade receivables	-	-	-	-
Loss on disposal of biological assets	-	-	-	-
Impairment loss on inventories	-	-	-	-
Write-off of prepayments	-	-	-	-
Other payables write-off	-	-	-	-
Gains arising from initial recognition of harvested grapes	-	-	-	-
Interest income	(60)	(109)	(39)	(70)
<b>Operating profit before working capital changes</b>	<b>(3,149)</b>	<b>(10,936)</b>	<b>(2,027)</b>	<b>(7,043)</b>
<i>Decrease/(increase) in:</i>				
Inventories	2,633	37	1,696	24
Trade and other receivables	1,738	(2,472)	1,119	(1,591)
<i>(Decrease)/increase in:</i>				
Trade and other payables	690	1,795	444	1,156
Other liabilities	(387)	(338)	(249)	(218)
<b>Cash flows generated from/(used in) operations</b>	<b>1,525</b>	<b>(11,914)</b>	<b>982</b>	<b>(7,673)</b>
Income tax paid	-	-	-	-
Interest income received	60	109	39	69
<b>Net cash flows generated from/(used in) operating activities</b>	<b>1,585</b>	<b>(11,805)</b>	<b>1,021</b>	<b>(7,603)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(596)	-	(384)	-
Loan repaid from Third Party	-	-	-	-
Proceeds from sale of PPE	-	-	-	-
Purchase of biological assets	-	-	-	-
<b>Net cash flow generated from/(used in) investing activities</b>	<b>(596)</b>	<b>-</b>	<b>(384)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Dividends paid to shareholders	-	-	-	-
Dividends paid to non controlling-interests	-	-	-	-
Dividend recovered	-	-	-	-
<b>Net cash flows used in financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>989</b>	<b>(11,805)</b>	<b>637</b>	<b>(7,603)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>26,316</b>	<b>53,777</b>	<b>16,949</b>	<b>34,636</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>27,305</b>	<b>41,972</b>	<b>17,586</b>	<b>27,032</b>
<b>Cash and cash equivalents at the end of the period comprise the followings:</b>				
Cash on hand and at banks	27,305	41,972	17,586	27,032
	<b>27,305</b>	<b>41,972</b>	<b>17,586</b>	<b>27,032</b>

(The accompanying explanatory notes form an integral part of and should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2016)

**Note:**  
 The functional and presentation currency of this unaudited interim financial statement is Renminbi ("RMB"). Supplementary information in Ringgit Malaysia ("RM") shown is for reference only and is based on the exchange rate of RMB1 to RM0.64406 as at 31 Dec 2016.

## **A. NOTES TO THE QUARTERLY RESULTS**

### **1. Basis of accounting and changes in accounting policies**

#### **a) Basis of accounting**

The condensed consolidated financial statements for the financial period ended 30 September 2017 are unaudited and have been prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS") and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

The condensed consolidated financial statements should be read in conjunction with the Group's audited financial statements for the financial year ended 31 December 2016 and the accompanying explanatory notes attached to this financial report.

#### **b) Changes in accounting policies**

At the date of this report, the Group has adopted certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods after 1 January 2017.

The directors do not anticipate that the adoption of the new standards (including consequential amendments) and interpretations will result in any material impact to the financial statements.

### **2. Seasonality or cyclicity of operation**

The business of the Group is generally affected by seasonal factors. Typically the first and fourth quarters of the year are the best quarters for wine industry in the People's Republic of China ("PRC"). Consumers tend to purchase and drink more wines during the festive periods such as Christmas, New Year and the Lunar New Year.

### **3. Unusual items due to nature, size or incidence**

There were no unusual items reported that will affect the assets, liabilities, equity, net income or cash flows of the Group for the financial period ended 30 September 2017.

### **4. Changes in estimates**

There were no material changes in estimates for the financial period ended 30 September 2017.

### **5. Prepayments in Current assets**

The deposits in current assets include RMB118.80 million, being 90% of total cash consideration price of RMB132 million, which consist of two payments made by Yantai Fazenda Ouhua Winery Co., Ltd., for acquisition of the land, buildings and ancillary facilities located at No. 3, Wolong North Road, Yantai City.

## 6. Changes in share capital and debts

There were no changes in share capital and debts for the financial period ended 30 September 2017.

## 7. Dividends Payable

The Board of directors does not recommend any interim dividend for the current quarter ended 30 September 2017.

## 8. Segment Information

### a) Operating segments

	White Wine	Red Wine	Total
<u>9 months ended 30 September 2017</u>	RMB'000	RMB'000	RMB'000
<b>Revenue</b>			
Sales to external customers	923	6,760	7,683
<b>Results</b>			
Segment gross profit	(59)	(424)	(483)
Unallocated expenses, net			(5,621)
Interest income			60
Interest expense			-
Loss before tax			(6,044)
Income tax expense			-
Net loss			(6,044)
	<b>White Wine</b>	<b>Red Wine</b>	<b>Total</b>
<u>9 months ended 30 September 2016</u>	RMB'000	RMB'000	RMB'000
<b>Revenue</b>			
Sales to external customers	1,832	5,591	7,423
<b>Results</b>			
Segment gross profit	(133)	(418)	(551)
Unallocated expenses, net			(13,629)
Interest income			109
Interest expense			-
Loss before tax			(14,071)
Income tax expense			-
Net loss			(14,071)

### Other segment information

	International Label	Own Label	Total
<u>9 months ended 30 September 2017</u>	RMB'000	RMB'000	RMB'000
<b>Revenue</b>			
Sales to external customers	1,328	6,355	7,683



	International Label	Own Label	Total
<b><u>9 months ended 30 September</u></b>			
<b><u>2016</u></b>	RMB'000	RMB'000	RMB'000
<b>Revenue</b>			
Sales to external customers	<u>2,547</u>	<u>4,876</u>	<u>7,423</u>

**b) Geographical segments**

Segmented information by geographical region is not applicable for the financial period ended 30 September 2017 as the business operations of the Group is only carried out in the PRC..

**9. Subsequent events**

There were no material events subsequent to the end of the financial period under review up to the date of this report that have not been reflected in this first quarter report as at the date of this report.

**10. Changes in the composition of the Group**

There were no changes in the composition of the Group during the financial period ended 30 September 2017.

**11. Contingent liabilities or assets**

No material contingent liabilities and assets, which upon becoming enforceable may have a material effect on the financial position of the Group since the last annual statement of financial position date.

**12. Valuation of property, plant and equipment**

There was no revaluation of property, plant and equipment during the financial period ended 30 September 2017.

**13. Capital commitments**

There are no material capital commitments, which upon becoming enforceable, may have a material effect on the financial position of the Group for the financial period ended 30 September 2017.

**14. Retained Earnings**

The breakdown of retained profits of the Group as at the respective reporting dates is as follows:

	As at 31 Dec 2016		As at 30 September 2017	
	RMB'000	RM'000	RMB'000	RM'000
Realised retained profits:	(3,729)	(2,402)	(9,480)	(6,105)
Unrealised retained profits:	-----	-----	-----	-----
Total group retained profits:	(3,729)	(2,402)	(9,480)	(6,105)
	=====	=====	=====	=====

## 15. Recurring related party transactions

For the financial period ended 30 September 2017, the Group rented office and factory premises from a director-related company, Yantai Ouhua Winery Co., Ltd, with rental expense amounting to RMB595,350.

## B. INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD UNDER LISTING REQUIREMENTS

### 1. Review of the performance of the Group

The Group's performance for the quarter under review as compared to the same period of last year are as follow:

	Individual Period (3rd quarter)		Changes (Amount/ %)	Cumulative Period		Changes (Amount/ %)
	Current Year Quarter	Preceding Year Corresponding Quarter		Current Year To-date	Preceding Year Corresponding Period	
	30/9/17 RMB'000	30/9/16 RMB'000		30/9/17 RMB'000	30/9/16 RMB'000	
Revenue	3,849	3,660	5.16	7,683	7,423	3.50
Gross Profit	(2,913)	(6,186)	52.91	(6,044)	(14,071)	57.05
Profit Before Interest and Tax	(2,913)	(6,186)	52.91	(6,044)	(14,071)	57.05
Profit Before Tax	(2,913)	(6,186)	52.91	(6,044)	(14,071)	57.05
Profit After Tax	(2,913)	(6,186)	52.91	(6,044)	(14,071)	57.05
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	(2,770)	(5,882)	52.91	(5,751)	(13,379)	57.01

For the current quarter ended 30 September 2017("3M2017"), the Group revenue increased by RMB0.19 million or 5.16% to RMB3.85 million, from RMB3.67 million in the the same period last year("3M2016"). Loss before (net of) tax in this current quarter decreased by RMB3.27 million from RMB6.19 million in 3M2016 to RMB2.92 million in 3M2017. This was mainly attributed to a reduction in marketing and distribution and administrative expenses.

For the financial period ended 30 September 2017 ("9M2017"), the Group revenue increased by RMB0.26 million or 3.50% to RMB7.68 million, from RMB7.42 million in the previous corresponding period ended 30 September 2016 ("9M2016"). Loss before (net of) tax decreased by RMB8.03 million from RMB14.07 million in 9M2016 to RMB6.04 million in 9M2017. The decrease in loss is mainly due to the reduction of the marketing and distribution and administrative expenses.

## 2. Variation of results against preceding quarter

The Group's performance for the quarter under review as compared to the preceding quarter is as follow:

	Current Quarter 30/9/17 RMB'000	Immediate Preceding Quarter 30/6/17 RMB'000	Changes (Amount / %)
Revenue	3,849	2,781	38.40
Operating Profit	(2,913)	(1,516)	-92.15
Profit Before Interest and Tax	(2,913)	(1,516)	-92.15
Profit Before Tax	(2,913)	(1,516)	-92.15
Profit After Tax	(2,913)	(1,516)	-92.15
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent holders of the parent	(2,770)	(1,444)	-91.83

For the current quarter, the Group recorded an increase in revenue of RMB1.07 million from RMB2.78 million to RMB3.85 million and an increase in loss net of tax of RMB1.40million from RMB1.51 million to RMB2.91 million as compared to the immediate preceding quarter ended 30 June 2017. The increase in loss net of tax mainly due to the increase in marketing and distribution expenses.

## 3. Prospects

According to the data from China Customs, China's bulk wine imports witnessed a sharp increase in both volume and value during the third quarter of the year. The total volume and value of imported wines are also increased compared with the same period last year. The competition of wine market in China continues to be very competitive.

The Group will continue its proactive marketing activities by

expanding marketing channels to increase sales volume. The management is thinking of ways to carry out some optimization such as plan to import foreign wine as sales direction for development and we are currently in the process of exploring it.

In the meantime, the Group will remain steadfast, vigilant and continue with its strategic initiatives of looking for feasible projects and potentially new viable business. Though the management of the Company is facing with the current tough situation, we have confidence that we are able to find new development direction and seize the opportunity to strive hard with eagerness to make progress. In a responsible attitude to the Company and shareholders, the management will work hard and strive for soonest development and improvement.

#### **4. Profit forecast and guarantee**

No profit forecast or guarantee were previously announced and disclosed by the Group in a public document.

#### **5. Income tax charge**

No provision for taxation as the Group has incurred losses for the financial period.

#### **6. Sales of unquoted investments and/or properties**

There are no sales of unquoted investments and/or properties of the Group in the current quarter and financial period ended 30 September 2017.

#### **7. Purchase or disposal of quoted securities**

No purchase or disposal of quoted securities by the Group in the financial period ended 30 September 2017.

#### **8. Status of corporate proposals and utilisation of proceeds**

There is no corporate proposals announced but pending computation as at the date of this report.

#### **9. Group borrowings and debts securities**

Our Group has no borrowings and debts securities as at the reporting date of the third quarter under review.

#### **10. Off-balance sheet financial instruments risks**

As at the date of this report, there were no off-balance sheet financial instruments.

#### **11. Changes in material litigation**

As at the date of this report, the Group has not engaged in any legal proceedings which may materially affect the financial position of the Group, and the Directors are not aware of any legal proceedings pending or threatened or of any fact likely to give rise to any

proceedings which might materially and adversely affect the financial position or business of the Group.

## 12. (Loss)/Earnings per share

(Loss)/Earnings per share for 30 September 2017 and 30 September 2016 were computed by dividing the (loss)/profit net of tax and minority interests of the respective financial period by the weighted average number of ordinary shares of 668,000,000 each respectively. There was no potential dilutive instrument as at 30 September 2017.

## 13. Audit report of the Group's preceding annual and immediate financial statements

The Group's audited financial statements for the financial year ended 31 December 2016 were subject to qualified opinion.

Pursuant to Paragraph 9.19(37) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"), and further to our submission of the Audited Financial Statements for the financial year ended 31 December 2016 ("AFS") of CNOUHUA to Bursa Malaysia Securities Berhad on 20 April 2017, the Board of Directors of CNOUHUA wishes to inform that Messrs Helmi Talib & Co., the External Auditors of CNOUHUA, had qualified their report for the AFS of the Company in respect of Other Receivables on Deposits, as set out below:-

### (a) Key Audit Matters Disclosed In The External Auditors' Report

The key audit matters disclosed are as follows:-

#### Basis for Qualified Opinion

Included in other receivables are deposits of RMB 118,800,000 representing 90% of the total cash consideration price, which were made to Huangwu Subdistrict Office, Zhifu District, Yantai City, People's Republic of China. As disclosed in Note 12 to the financial statements, on 17 December 2013, the Group entered into a contract to purchase land, buildings and ancillary facilities including 320KVA power distribution equipment, water supply system, roads surrounding the factory and enclosing wall (collectively known as "Assets") for a cash consideration of RMB 132,000,000. As mentioned in Note 12 to the financial statements, no independent professional valuation of the acquired Assets was made for the deposits.

In the absence of an independent valuation, the External Auditors were unable to ascertain whether the net recoverable amount of the Assets acquired will exceed the total purchase consideration. In addition, the External Auditors have not been able to obtain sufficient appropriate audit evidence to satisfy themselves of the extent of recoverability of the deposits of RMB 118,800,000 in the event that the transaction is not completed. Consequently, the External Auditors were unable to determine whether any adjustments to the carrying amount of deposits as at 31 December 2016 were necessary. The External Auditors' opinion on the current year's financial statements is also modified because of the possible effects of this matter on current year's figures as at 31 December 2016.

#### Key Audit Matters

Key audit matters are those matters that, in the External Auditors' professional judgement, were of most significance in their audit of the financial statements of the current period. These matters were addressed in the context of the External Auditors' audit of the financial statements as a whole, and in forming their opinion thereon, and

they do not provide a separate opinion on these matters. In addition to the matter disclosed in the Basis of Qualified Opinion section, the External Auditors have determined the matters described below to be the key audit matters to be communicated in their report.

i. Valuation of trade receivables (RMB 22.816 million) (Refer to Note 12 to the financial statements)

The Group has significant and long outstanding trade receivables totaling to RMB 7.193 million, representing 32% of the total trade receivables.

Management monitors and assesses the Group's credit risk, and where required, adjust the level of impairment allowance, which requires management to make significant judgements regarding the expected future financial condition and ability of future receipts from debtors, especially where the debts are aged for more than 150 days.

Inappropriate judgements and estimates made in the impairment assessment would result in a significant impact on the carrying amount of the trade receivables. Disclosure on the above significant judgement has been made in Note 3 to the financial statements and further information related to the aged trade receivables is provided under Note 12 to the financial statements.

**Audit Response**

The External Auditors' audit procedures to evaluate management's assessment on the recoverability of the Group's aged trade receivables which are past due but not impaired include inquiry with management on the reasons for the delay in payments of certain aged trade receivables and review of appropriateness of any allowance for impairment losses to be made by considering among others factors such as subsequent cash receipts, past payment practices, the ongoing business relationship with the debtors and the repayment plans agreed with the debtors.

Based on the External Auditors' procedures, they found management's assessment of the recoverability of trade receivables, which premised on the repayment plans to be reasonable.

The External Auditors have also assessed and validated the adequacy and appropriateness of the disclosure made in the financial statements.

ii. Valuation of inventories (RMB 93.126 million) (Refer to Note 13 to the financial statements)

The Group's work-in-progress inventories amounting to RMB 92.828 million represent 99% of the total inventories. These inventories relate mainly to the direct costs incurred for wine production. The period over which the wine inventories are converted to finished goods can be a significant length of time and forecasting demand and market prices can vary significantly over the holding period up to the likely date of sale.

Management has estimated the net realisable of the work-in-progress inventories based on certain assumptions relating to spoilage and obsolescence. Obsolescence considerations include inventory aging profile, as well as different market factors impacting the sale of these product lines.

Inappropriate judgement and estimate made in estimating the conditions and estimated selling price would result in a significant impact on the net realisable value of the work-in-progress inventories.

Disclosure on the above significant judgement has been made in Note 3 to the financial statements and further information related to the written-down of the inventories to its net realisable values is provided under Note 13 to the financial statements.

#### Audit Response

The External Auditors' audit procedures to validate the valuation of the inventories include performance of test of details on actual margins and valuation of obsolete inventories. The External Auditors assessed whether there were inventories which were sold with negative margin by evaluating sales invoices issued subsequent to year end to validate management's assessment and decision whether inventories should or should not be adjusted to its net realisable values. Furthermore, the External Auditors analysed the inventory turnaround based on the inventory turnover days and compared that to management's estimates on obsolete inventories.

Based on their procedures, they found management's estimates, which are the basis of the inventory valuation to be reasonable.

The External Auditors have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements.

#### (b) Steps Taken Or Proposed To Be Taken To Address Those Key Audit Matter That Relate To The Qualified Opinion

The Yantai Municipal Land Administration Bureau ("YMLAB") has arranged its staff to attend, follow up and visit the Company twice for comprehensive discussion and understanding of the land transfer matters. The municipal government has completed the land survey and measurement on 7 April 2017. Moving forward, the Company will follow up closely with the YMLAB together with Yantai Municipal Housing Bureau ("YMHB") by sending the Company's specially assigned staff to visit both the bureaus once in every two weeks basis. The Yantai Municipal government has informed the Company that they are processing the land transfer administration according to the procedures and the Company will work closely and follow their instructions accordingly.

#### (c) Timeline For The Steps Referred To Sub-Paragraph (b) Above

Barring any unforeseen circumstances, all the procedures of the transactions are expected to be completed by 5 April 2018.