

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED
 Stock Name : CNOUHUA
 Financial Period End: 30 JUNE 2018
 Quarter : 2



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

PARTICULARS	NOTE	INDIVIDUAL QUARTER		INDIVIDUAL QUARTER	
		CURRENT QUARTER 30-Jun-18 RMB'000	PRECEDING YEAR CORRESPONDING QUARTER 30-Jun-17 RMB'000	CURRENT QUARTER 30-Jun-18 RM'000	PRECEDING YEAR CORRESPONDING QUARTER 30-Jun-17 RM'000
Revenue		5,127	2,781	3,190	1,730
Cost of sales		(4,725)	(2,988)	(2,940)	(1,859)
Gross Profit		402	(207)	250	(129)
Finance and other income		22	20	14	12
Marketing and distribution		(385)	(261)	(240)	(162)
Administrative expenses		(1,103)	(1,068)	(686)	(665)
Other expenses		(22)		(14)	
Profit/(Loss) before tax		(1,086)	(1,516)	(676)	(943)
Income tax expenses	B4				
Profit/(Loss) net of tax		(1,086)	(1,516)	(676)	(943)
Other comprehensive Income:					
Foreign currency translation					
Total comprehensive income/(loss) for the period		(1,086)	(1,516)	(676)	(943)
Profit/(Loss) attributable to :					
- Owners of the parent		(1,038)	(1,444)	(646)	(899)
- Non-controlling interests		(48)	(72)	(30)	(45)
Total comprehensive (loss)/income attributable to :		(1,086)	(1,516)	(676)	(943)
- Owners of the parent		(1,038)	(1,444)	(646)	(899)
- Non-controlling interests		(48)	(72)	(30)	(45)
(Loss)/earnings per share from Group's net (loss)/profit attributable to shareholders	B11				
Basic (RMB cents / RM sen)		(0.15)	(0.22)	(0.09)	(0.14)
Diluted (RMB cents / RM sen)		(0.15)	(0.22)	(0.09)	(0.14)

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2017 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 RM0.62224 as at 31 Dec 2017.

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED

Stock Name : CNOUHUA

Financial Period Ended : 30 JUNE 2018

Quarter : 2

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

PARTICULARS	NOTE	CUMULATIVE QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR TO DATE ENDED 30-Jun-18	PRECEDING YEAR YEAR TO DATE ENDED 30-Jun-17	CURRENT YEAR TO DATE ENDED 30-Jun-18	PRECEDING YEAR YEAR TO DATE ENDED 30-Jun-17
		RMB'000	RMB'000	RM'000	RM'000
Revenue		6,163	3,834	3,835	2,366
Cost of sales		(6,183)	(4,366)	(3,847)	(2,717)
Gross Profit		(20)	(532)	(12)	(331)
Finance and other income		46	40	29	25
Marketing and distribution		(475)	(504)	(296)	(314)
Administrative expenses		(2,555)	(2,135)	(1,590)	(1,328)
Other expenses		(22)		(14)	
(Loss)/profit before tax		(3,026)	(3,131)	(1,883)	(1,948)
Income tax expenses	B4				
(Loss)/profit net of tax		(3,026)	(3,131)	(1,883)	(1,948)
Total comprehensive (loss)/ income for the period		(3,026)	(3,131)	(1,883)	(1,948)
(Loss)/profit attributable to :					
- Owners of the parent		(2,882)	(2,981)	(1,793)	(1,855)
- Non-controlling interests		(144)	(150)	(90)	(93)
		(3,026)	(3,131)	(1,883)	(1,948)
Total comprehensive (loss)/ income attributable to :					
- Owners of the parent		(2,882)	(2,981)	(1,793)	(1,855)
- Non-controlling interests		(144)	(150)	(90)	(93)
		(3,026)	(3,131)	(1,883)	(1,948)
(Loss)/earnings per share from Group's net (loss)/profit attributable to shareholders	B11				
Basic (RMB cents / RM sen)		(0.43)	(0.45)	(0.27)	(0.28)
Diluted (RMB cents / RM sen)		(0.43)	(0.45)	(0.27)	(0.28)

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to the financial statements.)

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Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED
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 Financial Period Ended : 30 JUNE 2018
 Quarter : 2



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

PARTICULARS	NOTE	UNAUDITED	AUDITED	UNAUDITED	AUDITED
		AS AT 30-Jun-18 RMB'000	AS AT 31-Dec-17 RMB'000	AS AT 30-Jun-18 RM'000	AS AT 31-Dec-17 RM'000 (Restated)
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		41,407	42,228	25,765	26,276
Biological assets					
Prepayments					
		41,407	42,228	25,765	26,276
Current assets					
Inventories		37,537	38,324	23,357	23,847
Trade and other receivables		15,049	15,317	9,363	9,531
Prepayments		119,198	118,800	74,170	73,922
Cash and cash equivalents		29,316	31,754	18,242	19,759
		201,100	204,195	125,132	127,058
Current liabilities					
Trade and other payables		1,367	1,890	851	1,175
Other liabilities		262	629	163	391
		1,629	2,519	1,014	1,566
Net current assets		199,471	201,676	124,119	125,492
Non-current liability					
Deferred tax liabilities					
Net assets		240,878	243,904	149,885	151,768
EQUITY					
Share capital		205,838	205,838	128,081	128,081
Other reserve		30,531	30,531	18,998	18,998
Retained earnings		(811)	2,071	(505)	1,289
Non-controlling interests		5,320	5,464	3,310	3,400
Total equity		240,878	243,904	149,885	151,768
Net Assets per share attributable to equity holders of the Group (RMB / RM)		0.36	0.37	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 2017 and the accompanying explanatory notes attached to the financial statements.)

Note:
 The presentation currency of this unaudited and audited 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 RM0.62224 as at 31 Dec 2017.

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED
 Stock Name : CNOUHUA
 Financial Period Ended : 30 JUNE 2018
 Quarter : 2

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018

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	
(IN RMB)							
At 1 January 2018	205,838	29,508	1,023	2,071	238,440	5,464	243,904
(Loss)/profit and other comprehensive(loss)/profit for the year				(2,882)	(2,882)	(144)	(3,026)
At 30 June 2018	205,838	29,508	1,023	(811)	235,558	5,320	240,878
(IN RM)							
At 1 January 2018	128,081	18,361	637	1,289	148,367	3,400	151,768
(Loss)/profit and other comprehensive(loss)/profit for the year				(1,793)	(1,793)	(90)	(1,883)
At 30 June 2018	128,081	18,361	637	(505)	146,574	3,310	149,885

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2017 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 RM0.62224 as at 31 Dec 2017.

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED
 Stock Name : CNOUHUA
 Financial Period Ended : 30 JUNE 2018
 Quarter : 2



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018

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 (Restated)	205,838	29,508	1,023	4,001	240,370	5,521	245,891	
Profit for the period	-	-	-	(2,981)	(2,981)	(150)	(3,131)	
At 30 June 2017 (Restated)	205,838	29,508	1,023	1,020	237,389	5,371	242,760	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<i>(IN RM)</i>								
At 1 January 2017 (Restated)	128,081	18,361	637	2,490	149,569	3,433	153,003	
Profit for the period	-	-	-	(1,855)	(1,855)	(92)	(1,947)	
At 30 June 2017 (Restated)	128,081	18,361	637	635	147,714	3,342	151,056	

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2017 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 RM0.62224 as at 31 Dec 2017.

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED
Stock Name : CNOUHUA
Financial Period Ended : 30 JUNE 2018
Quarter : 2
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018



UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	CURRENT YEAR TO DATE 30-Jun-18	PRECEDING CORRESPONDING YEAR TO DATE 30-Jun-17	CURRENT YEAR TO DATE 30-Jun-18	PRECEDING YEAR CORRESPONDING YEAR TO DATE 30-Jun-17
	RMB'000	RMB'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before taxation	(3,026)	(3,131)	(1,883)	(1,947)
Adjustments for :-				
Depreciation and amortisation expenses	2,030	1,958	1,263	1,218
Reversal for impairment loss of property, plant and equipment				
Loss on disposal of PPE	22		14	
Depreciation of biological assets				
(Reversal)/ Allowance for inventory obsolescence				
(Reversal)/ Allowance for impairment loss of trade receivables				
Interest income	(46)	(40)	(29)	(25)
Operating profit before working capital changes	(1,020)	(1,213)	(634)	(754)
Decrease/(increase) in:				
Inventories	787	630	490	392
Trade and other receivables	(130)	543	(81)	338
(Decrease)/increase in:				
Trade and other payables	(523)	8	(325)	5
Other liabilities	(367)	(304)	(228)	(189)
Cash flows (used in)/generated from operations	(1,253)	(336)	(780)	(209)
Interest income received	46	40	29	24
Net cash flows generated from/(used in) operating activities	(1,207)	(296)	(751)	(184)
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(1,231)		(766)	
Proceeds from sale of PPE		(596)		(371)
Net cash flow generated from/(used in) investing activities	(1,231)		(766)	(371)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends paid to shareholders				
Dividends paid to non controlling-interests				
Dividend recovered				
Net cash flows used in financing activities				
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,438)	(892)	(1,517)	(555)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	31,754	26,316	19,759	16,375
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	29,316	25,424	18,242	15,820
Cash and cash equivalents at the end of the period comprise the followings:				
Cash on hand and at banks	29,316	25,424	18,242	15,820
	<u>29,316</u>	<u>25,424</u>	<u>18,242</u>	<u>15,820</u>

(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 2017)

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 RM0.62224 as at 31 Dec 2017.

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 June 2018 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 2017 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 2018.

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 financial 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 June 2018.

4. Changes in estimates

There were no material changes in estimates for the financial period ended 30 June 2018.

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 June 2018.

7. Dividends Payable

The Board of directors does not recommend any interim dividend for the current quarter ended 30 June 2018.

8. Segment Information

a) Operating segments

<u>6 months ended 30 June 2018</u>	White Wine RMB'000	Red Wine RMB'000	Total RMB'000
Revenue			
Sales to external customers	730	5,433	6,163
Results			
Segment gross profit	47	(67)	(20)
Unallocated expenses, net			(3,052)
Interest income			46
Other income			-
Loss before tax			(3,026)
Income tax expense			-
Net loss			(3,026)
	White Wine RMB'000	Red Wine RMB'000	Total RMB'000
<u>6 months ended 30 June 2017</u>			
Revenue			
Sales to external customers	492	3,342	3,834
Results			
Segment gross profit	(67)	(465)	(532)
Unallocated expenses, net			(2,639)
Interest income			40
Interest expense			-
Loss before tax			(3,131)
Income tax expense			-
Net loss			(3,131)

Other segment information

<u>6 months ended 30 June 2018</u>	International Label RMB'000	Own Label RMB'000	Total RMB'000
Revenue			
Sales to external customers	3,575	2,588	6,163
	International Label RMB'000	Own Label RMB'000	Total RMB'000
<u>6 months ended 30 June 2017</u>			
Revenue			
Sales to external customers	818	3,016	3,834

b) Geographical segments

Segmented information by geographical region is not applicable for the financial period ended 30 June 2018 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 second 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 June 2018.

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 June 2018.

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 June 2018.

14. Retained Earnings

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

	As at 31 Dec 2017		As at 30 June 2018	
	RMB'000	RM'000	RMB'000	RM'000
Realised retained profits:	2,071	1,289	(811)	(505)
Unrealised retained profits:	-----	-----	-----	-----
Total group retained profits:	2,071	1,289	(811)	(505)
	=====	=====	=====	=====

15. Recurring related party transactions

For the financial period ended 30 June 2018, the Group rented office and factory premises from a director-related company, Yantai Ouhua Winery Co., Ltd, with rental expense amounting to RMB396,900.

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 (2nd quarter)		Changes (Amount/%)	Cumulative Period		Changes (Amount/%)
	Current Year Quarter	Preceding Year Corresponding Quarter		Current Year To-date	Preceding Year Corresponding Period	
	30/6/18 RMB'000	30/6/17 RMB'000		30/6/18 RMB'000	30/6/17 RMB'000	
Revenue	5,127	2,781	84.36	6,163	3,834	60.75
Operating Profit	(1,086)	(1,516)	28.36	(3,026)	(3,131)	3.35
Profit Before Interest and Tax	(1,086)	(1,516)	28.36	(3,026)	(3,131)	3.35
Profit Before Tax	(1,086)	(1,516)	28.36	(3,026)	(3,131)	3.35
Profit After Tax	(1,086)	(1,516)	28.36	(3,026)	(3,131)	3.35
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	(1,038)	(1,444)	28.12	(2,882)	(2,981)	3.32

For the current quarter ended 30 June 2018("3M2018"), the Group revenue increased by RMB2.35 million or 84.36% to RMB5.127 million, from RMB2.781 million in the same period last year("3M2017"). Loss(profit) before (net of) tax in this current quarter decreased by RMB0.430 million from loss of RMB1.516 million in 3M2017 to loss of RMB1.086million in 3M2018.

For the financial period ended 30 June 2018 ("6M2018"), the Group revenue increased by RMB2.329 million or 60.75% to RMB6.163 million, from RMB3.834 million in the previous corresponding period ended 30 June 2017 ("6M2017"). Loss before (net of) tax decreased by RMB0.105 million from RMB3.131 million in 6M2017 to RMB3.026

million in 6M2018.

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 30/6/18 RMB'000	Immediate Preceding Quarter 31/3/18 RMB'000	Changes (Amount / %)
Revenue	5,127	1,036	394.88
Operating Profit/(loss)	(1,086)	(1,940)	44.02
Profit/(loss) Before Interest and Tax	(1,086)	(1,940)	44.02
Profit/(loss) Before Tax	(1,086)	(1,940)	44.02
Profit/(loss) After Tax	(1,086)	(1,940)	44.02
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent holders of the parent	(1,038)	(1,844)	43.71

For the current quarter, the Group recorded a increase in revenue of RMB4.091 million from RMB1.036 million to RMB5.127 million and an decrease in loss net of tax of RMB0.854million from loss of RMB1.940 million to loss of RMB1.038 million as compared to the immediate preceding quarter ended 31 March 2018.

3. Prospects

In the first half year 2018, Customs statistics of imported wine still show growing trend. For the first time, imported wine has overtaken domestic wine in volume, meaning that half of China's wine market has been carved up by imported wine. The competition of wine industry in Chinese market will continue to be keen. The management of the Company has been keeping on to improve the revenue and profit in this financial year and gotten some increase in revenue. The management will try to make greater improvement in revenue.

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 June 2018.

7. Purchase or disposal of quoted securities

No purchase or disposal of quoted securities by the Group in the financial period ended 30 June 2018.

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 second 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 June 2018 and 30 June 2017 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 June 2018.

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 2017 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 before our submission of the Audited Financial Statements for the financial year ended 31 December 2017 ("AFS") of CNOUHUA to Bursa Securities, the Board of Directors of CNOUHUA wishes to inform that Messrs UHY Lee Seng Chan & Co., the External Auditors of CNOUHUA, had qualified their report for the AFS of the Company in respect of other receivables on Deposits, the Company hereby set outs below the full details of the qualified opinion:-

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

The key audit matter disclosed is as follows: -

Basis for Qualified Opinion

Included in trade and 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 5 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.

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 2017 were necessary.

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 20.533 million) (Refer to Note 5 to the financial statements)

The Group has long outstanding trade receivables amounting to RMB890,000, representing 6% of the total trade receivables.

Management monitors and assesses the Group's credit risk and where required, adjusts the level of impairment allowance, which requires management to make significant judgements regarding the expected future financial condition and payment ability of the debtors, especially where the debts are aged 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 management's judgement is provided in Note 3 to the financial statements and further information related to the aged trade receivables is in Note 22(b) to the financial statements.

Audit Response

The External Auditors' have evaluated and challenged management's assessment on the recoverability of the Group's aged trade receivables which are past due but not impaired, including the assessment of any allowance to be made by the Group in respect of overdue debts. They have enquired with management on the reasons for the delay in payments of certain aged trade receivables and review of appropriateness of any allowance for impairment to be made by considering factors such as subsequent cash receipts, past payment records, ongoing business relationship with the debtors and the repayment plans agreed with the debtors.

Based on their work performed, they found management's assessment of the recoverability of trade receivables, which premised on the repayment plans to be reasonable.

They also found the disclosures in the financial statements to be adequate.

ii. Valuation of inventories (RMB 87.147million) (Refer to Note 6 to the financial statements)

The Group's work-in-progress inventories amounting to RMB86.736 million represents 99% of the total inventories. These inventories relate mainly to the direct costs incurred for the 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 value 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 is given made in Note 3 to the financial statements and further information related to the write-down of the inventories to its net realisable values is disclosed under Note 6 to the financial statements.

Audit Response

The External Auditors' audit procedures to validate the valuation of the inventories included performance of test of details on actual margins and valuation of obsolete inventories. They 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 as to whether inventories need be adjusted to their net realisable values.

Based on the work performed, they found management's estimates to be reasonable.

They also found the disclosures in the financial statements to be adequate.

iii. Impairment of property, plant and equipment and deposit for purchase of land buildings, and ancillary facilities (RMB 118.800 million) Refer to Note 5 to the financial statements

As at 31 December 2017, property, plant and equipment and deposit for purchase of land, buildings and ancillary facilities with carrying amounts of RMB42.228 million and RMB118.800 million constituted approximately 17% and 48% of the total assets of the Group respectively.

During the current financial year, the Group carried out a review of the recoverable amount of its property, plant and equipment and deposit for purchase of land, buildings and ancillary facilities based on valuations carried out by an independent external valuer engaged by the Group.

The valuation process involves significant judgement in determining the appropriate valuation methods to be used, and in estimating the key underlying assumptions to be applied.

These critical judgement and significant estimation are disclosed in Note 3 to the financial statements.

Audit Response

The External Auditors' audit procedures focused on evaluating the appropriateness and adequacy of the impairment loss recognised for property, plant and equipment.

They have assessed the competency, capabilities and objectivity of the external valuer and obtained an understanding of his work. They have also challenged the key assumptions used by the external valuer in the valuation report.

Based on their work performed, they found the external valuer's key assumptions and valuation methods to be reasonable.

They also found the disclosures in the financial statements to be adequate.

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

Most of the processes of the land title ownership transfer procedure have been completed. The management of the Company had been following up closely with the Yantai Land Commission Office ("Land Office") in Yantai City, People's Republic of China ("PRC") on the approval of the Company's application of the transfer of land title.

China Ouhua will proactively follow up with meticulous supervision with the Land Office to ensure the land title ownership be transferred to Yantai Fazenda Ouhua Winery Co., Ltd. ("Yantai Ouhua") as soon as possible.

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

China Ouhua will continuously follow up with the Land Office until the approval for the transfer of land title to Yantai Ouhua is granted by the Land Office.