

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED
 Stock Name : CNOUHUA
 Financial Period End: 31 DEC 2018
 Quarter : 4



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FOURTH QUARTER ENDED 31 DEC 2018

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

PARTICULARS	NOTE	INDIVIDUAL QUARTER		INDIVIDUAL QUARTER	
		CURRENT	PRECEDING YEAR	CURRENT	PRECEDING YEAR
		QUARTER	CORRESPONDING	QUARTER	CORRESPONDING
		31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
		RMB'000	RMB'000	RM'000	RM'000
Revenue		6,366	6,401	3,863	3,884
Cost of sales		(5,378)	(5,790)	(3,264)	(3,514)
Gross Profit		988	611	600	371
Finance and other income		847	5,567	514	3,378
Marketing and distribution		(2,392)	(561)	(1,452)	(340)
Administrative expenses		(10,798)	(1,560)	(6,553)	(947)
Other expenses		-	-	-	-
Profit/(Loss) before tax		(11,355)	4,057	(6,891)	2,462
Income tax expenses	B4				
Profit/(Loss) net of tax		(11,355)	4,057	(6,891)	2,462
Other comprehensive income:					
Foreign currency translation					
Total comprehensive income/(loss) for the period		(11,355)	4,057	(6,891)	2,462
Profit/(Loss) attributable to :					
- Owners of the parent		(10,808)	3,821	(6,559)	2,319
- Non-controlling interests		(547)	236	(332)	143
		(11,355)	4,057	(6,891)	2,462
Total comprehensive (loss)/income attributable to :					
- Owners of the parent		(10,808)	3,821	(6,559)	2,319
- Non-controlling interests		(547)	236	(332)	143
		(11,355)	4,057	(6,891)	2,462
(Loss)/earnings per share from Group's net (loss)/profit attributable to shareholders	B11				
Basic (RMB cents / RM sen)		(1.62)	0.57	(0.98)	0.35
Diluted (RMB cents / RM sen)		(1.62)	0.57	(0.98)	0.35

(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 RM0.60683 as at 31 Dec 2018.

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED
 Stock Name : CNOUHUA
 Financial Period Ended : 31 DEC 2018
 Quarter : 4



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FOURTH QUARTER ENDED 31 DEC 2018

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
		31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
		RMB'000	RMB'000	RM'000	RM'000
Revenue		14,287	14,084	8,670	8,547
Cost of sales		(13,895)	(13,956)	(8,432)	(8,469)
Gross Profit		392	128	238	78
Finance and other income		914	5,627	555	3,415
Marketing and distribution		(5,080)	(2,247)	(3,083)	(1,364)
Administrative expenses		(14,821)	(5,495)	(8,994)	(3,335)
Other expenses		(22)		(13)	
(Loss)/profit before tax		(18,617)	(1,987)	(11,297)	(1,206)
Income tax expenses	B4				
(Loss)/profit net of tax		(18,617)	(1,987)	(11,297)	(1,206)
Total comprehensive (loss)/ income for the period		(18,617)	(1,987)	(11,297)	(1,206)
(Loss)/profit attributable to :					
- Owners of the parent		(17,715)	(1,930)	(10,750)	(1,171)
- Non-controlling interests		(902)	(57)	(547)	(35)
		(18,617)	(1,987)	(11,297)	(1,206)
Total comprehensive (loss)/ income attributable to :					
- Owners of the parent		(17,715)	(1,930)	(10,750)	(1,171)
- Non-controlling interests		(902)	(57)	(547)	(35)
		(18,617)	(1,987)	(11,297)	(1,206)
(Loss)/earnings per share from Group's net (loss)/profit attributable to shareholders	B11				
Basic (RMB cents / RM sen)		(2.65)	(0.29)	(1.61)	(0.18)
Diluted (RMB cents / RM sen)		(2.65)	(0.29)	(1.61)	(0.18)

(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 RM0.60683 as at 31 Dec 2018.

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED
 Stock Name : CNOUHUA
 Financial Period Ended : 31 DEC 2018
 Quarter : 4



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FOURTH QUARTER ENDED 31 DEC 2018

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DEC 2018

PARTICULARS	NOTE	UNAUDITED	AUDITED	UNAUDITED	AUDITED
		AS AT 31-Dec-18 RMB'000	AS AT 31-Dec-17 RMB'000	AS AT 31-Dec-18 RM'000	AS AT 31-Dec-17 RM'000 (Restated)
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		39,382	42,228	23,898	25,625
Biological assets					
Prepayments					
		39,382	42,228	23,898	25,625
Current assets					
Inventories		33,974	38,324	20,615	23,256
Trade and other receivables		2,069	15,317	1,256	9,295
Prepayments		119,651	118,800	72,608	72,091
Cash and cash equivalents		15,930	31,754	9,667	19,270
		171,624	204,195	104,146	123,913
Current liabilities					
Trade and other payables		474	1,890	288	1,148
Other liabilities		549	629	333	382
		1,023	2,519	621	1,530
Net current assets		170,601	201,676	103,525	122,383
Non-current liability					
Deferred tax liabilities					
Net assets		209,983	243,904	127,424	148,008
EQUITY					
Share capital		205,838	205,838	124,909	124,909
Other reserve		30,531	30,531	18,527	18,527
Retained earnings		(30,948)	2,071	(18,780)	1,257
Non-controlling interests		4,562	5,464	2,768	3,315
Total equity		209,983	243,904	127,424	148,008
Net Assets per share attributable to equity holders of the Group (RMB / RM)		0.31	0.37	0.19	0.22

(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 RM0.60683 as at 31 Dec 2018.

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED

Stock Name : CNOUHUJ

Financial Period Ended : 31 DEC 2018

Quarter : 4

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FOURTH QUARTER ENDED 31 DEC 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>							
Balance at 31 December 2017	205,838	29,508	1,023	2,071	238,440	5,464	243,904
Adoption of IFRS9				(15,304)	(15,304)		(15,304)
Balance at 1 January 2018	205,838	29,508	1,023	(13,233)	223,136	5,464	228,600
(Loss)/profit and other comprehensive(loss)/profit for the year				(17,715)	(17,715)	(902)	(18,617)
At 31 Dec 2018	205,838	29,508	1,023	(30,948)	205,421	4,562	209,983
<i>(IN RM)</i>							
Balance at 31 December 2017	124,909	17,906	621	1,257	144,693	3,316	148,008
Adoption of IFRS9				(9,287)	(9,287)		(9,287)
Balance at 1 January 2018	124,909	17,906	621	(8,030)	135,406	3,316	138,721
(Loss)/profit and other comprehensive(loss)/profit for the year				(10,750)	(10,750)	(547)	(11,297)
At 31 Dec 2018	124,909	17,906	621	(18,780)	124,656	2,768	127,424

(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 RM0.60683 as at 31 Dec 2018.

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED
 Stock Name : CNOUHUA
 Financial Period Ended : 31 DEC 2018
 Quarter : 4



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FOURTH QUARTER ENDED 31 DEC 2018

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	←		Attributable to Equity Holders of The Group				→	
	Share Capital	Statutory Reserve funds	Other capital reserves	Retained Earnings	Total	Non-controlling interests	Total Equity	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
(IN RMB)								
At 1 January 2017 (Restated)	205,838	29,508	1,023	4,001	240,370	5,521	245,891	
Profit for the period	-	-	-	(1,930)	(1,930)	(57)	(1,987)	
At 31 Dec 2017 (Restated)	205,838	29,508	1,023	2,071	238,440	5,464	243,904	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
(IN RM)								
At 1 January 2017 (Restated)	124,909	17,906	621	2,428	145,864	3,350	149,214	
Profit for the period	-	-	-	(1,171)	(1,171)	(35)	(1,206)	
At 31 Dec 2017 (Restated)	124,909	17,906	621	1,257	144,693	3,315	148,008	

(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 RM0.60683 as at 31 Dec 2018.

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED
 Stock Name : CNOUHUA
 Financial Period Ended : 31 DEC 2018
 Quarter : 4



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FOURTH QUARTER ENDED 31 DEC 2018

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	CURRENT YEAR TO DATE 31-Dec-18 RMB'000	PRECEDING CORRESPONDING YEAR TO DATE 31-Dec-17 RMB'000	CURRENT YEAR TO DATE 31-Dec-18 RM'000	PRECEDING YEAR CORRESPONDING YEAR TO DATE 31-Dec-17 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before taxation	(18,617)	(1,987)	(11,297)	(1,205)
Adjustments for :-				
Depreciation and amortisation expenses	4,056	3,951	2,461	2,398
Reversal for impairment loss of property, plant and equipment		(2,620)		(1,590)
Loss on disposal of PPE	22		13	
Depreciation of biological assets				
(Reversal)/ Allowance for inventory obsolescence	7,587	(961)		(583)
(Reversal)/ Allowance for impairment loss of trade receivables	(829)	(1,964)		(1,192)
Interest income	(82)	(82)	(50)	(50)
Operating profit before working capital changes	(7,863)	(3,663)	(8,871)	(2,222)
<i>Decrease/(increase) in:</i>				
Inventories	(3,237)	5,979	(1,964)	3,628
Trade and other receivables	(2,079)	3,711	(1,262)	2,252
<i>(Decrease)/increase in:</i>				
Trade and other payables	(1,416)	(18)	(859)	(11)
Other liabilities	(80)	(57)	(49)	(35)
Cash flows (used in)/generated from operations	(14,675)	5,952	(13,006)	3,612
Interest income received	82	82	50	49
Net cash flows generated from/(used in) operating activities	(14,593)	6,034	(12,956)	3,662
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(1,231)		(747)	
Proceeds from sale of PPE		(596)		(362)
Net cash flow generated from/(used in) investing activities	(1,231)	(596)	(747)	(362)
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	(15,824)	5,438	(13,703)	3,300
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	31,754	26,316	19,269	15,969
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	15,930	31,754	5,566	19,269
Cash and cash equivalents at the end of the period comprise the followings:				
Cash on hand and at banks	15,930	31,754	9,667	19,269
	15,930	31,754	9,667	19,269

(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 RM0.60683 as at 31 Dec 2018.

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 year ended 31 December 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 year ended 31 December 2018.

4. Changes in estimates

There were no material changes in estimates for the financial year ended 31 December 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 year ended 31 December 2018.

7. Dividends Payable

The Board of directors does not recommend any interim dividend for the current quarter ended 31 December 2018.

8. Segment Information

a) Operating segments

	White Wine	Red Wine	Total
<u>12 months ended 31 December 2018</u>	RMB'000	RMB'000	RMB'000
Revenue			
Sales to external customers	730	13,547	14,287
Results			
Segment gross profit	47	345	392
Unallocated expenses, net			(19,085)
Interest income			76
Other income			-
Loss before tax			(18,617)
Income tax expense			-
Net loss			(18,617)

	White Wine	Red Wine	Total
<u>12 months ended 31 December 2017</u>	RMB'000	RMB'000	RMB'000
Revenue			
Sales to external customers	1,756	12,328	14,084
Results			
Segment gross profit	(59)	187	128
Unallocated expenses, net			(7,742)
Interest income			82
Other income			5,545
Loss before tax			(1,987)
Income tax expense			-
Net loss			(1,987)

Other segment information

	International Label	Own Label	Total
<u>12 months ended 31 December 2018</u>	RMB'000	RMB'000	RMB'000
Revenue			
Sales to external customers	11,699	2,588	14,287

	International Label	Own Label	Total
<u>12 months ended 31 December 2017</u>	RMB'000	RMB'000	RMB'000
Revenue			
Sales to external customers	2,266	11,818	14,084

b) Geographical segments

Segmented information by geographical region is not applicable for the financial year ended 31 December 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 year under review up to the date of this report that have not been reflected in this fourth 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 year ended 31 December 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 year ended 31 December 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 year ended 31 December 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 31 December 2018	
	RMB'000	RM'000	RMB'000	RM'000
Realised retained profits:	2,071	1,257	(30,948)	(18,780)
Unrealised retained profits:	-----	-----	-----	-----
Total group retained profits:	=====	=====	=====	=====

15. Recurring related party transactions

For the financial year ended 31 December 2018, the Group rented office and factory premises from a director-related company, Yantai Ouhua Winery Co., Ltd, with rental expense amounting to RMB793,800.

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 (4th quarter)		Changes (%)	Cumulative Period		Changes (%)
	Current Year Quarter	Preceding Year Corresponding Quarter		Current Year To-date	Preceding Year Corresponding Period	
	31/12/18 RMB'000	31/12/17 RMB'000		31/12/18 RMB'000	31/12/17 RMB'000	
Revenue	6,366	6,401	-0.55	14,287	14,084	1.44
Operating Profit/(Loss)	(11,355)	4,057	-379.89	(18,617)	(1,987)	836.94
Profit/(Loss) Before Interest and Tax	(11,355)	4,057	-379.89	(18,617)	(1,987)	836.94
Profit/(Loss) Before Tax	(11,355)	4,057	-379.89	(18,617)	(1,987)	836.94
Profit/(Loss) After Tax	(11,355)	4,057	-379.89	(18,617)	(1,987)	836.94
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	(10,808)	3,821	-382.86	(17,715)	(1,930)	817.88

For the current quarter ended 31 December 2018 ("3M2018"), the Group's revenue decreased by RMB0.035 million or -0.55% to RMB6.366 million, from RMB6.401 million in the same period last year ("3M2017"). Loss/(profit) before (net of) tax in this current quarter increased by RMB7.298 million from profit of RMB4.057 million in 3M2017 to loss of RMB11.355 million in 3M2018. This was mainly attributed to provision for inventories impairment.

For the financial year ended 31 December 2018 ("12M2018"), the Group's revenue increased by RMB0.203 million or 1.44% to RMB14.287 million, from RMB14.084 million in the previous corresponding year ended 31 December 2017 ("12M2017"). Loss before (net of) tax increased by RMB16.630 million from RMB1.987 million in 12M2017 to RMB18.617 million in 12M2018. The increase in loss is mainly due to the provision for inventories impairment.

2. Variation of results against the preceding quarter

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

	Current Quarter 31/12/18 RMB'000	Immediate Preceding Quarter 30/9/18 RMB'000	Changes (Amount / %)
Revenue	6,366	1,758	262.12
Operating Loss	(11,355)	(4,236)	168.06
Loss Before Interest and Tax	(11,355)	(4,236)	168.06
Loss Before Tax	(11,355)	(4,236)	168.06
Loss After Tax	(11,355)	(4,236)	168.06
Loss Attributable to Ordinary Equity Holders of the Parent holders of the parent	(10,808)	(4,025)	168.52

For the current quarter, the Group recorded an increase in revenue of RMB4.608 million from RMB1.758 million to RMB6.366 million and an increase in loss net of tax of RMB7.119 million from loss of RMB4.236 million to loss of RMB11.355 million as compared to the immediate preceding quarter ended 30 September 2018. The increase in loss net of tax is mainly due to the provision for the inventories impairment.

3. Prospects

In the financial year ended 31 December 2018, the Company has enhanced the sales of imported wine and realised some effect. The Management is planning to pay more emphasis on network marketing to increase its sales and decrease its marketing expenses. At the same time, the Company will try to develop more public consumption wine to increase its sales and improve its market share.

The Management has been struggling to find new projects to make diversification development for the Company. They have confidence to lead the Company to sound development.

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 the financial year ended 31 December 2018.

7. Purchase or disposal of quoted securities

No purchase or disposal of quoted securities by the Group in the financial year ended 31 December 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's borrowings and debts securities

Our Group has no borrowings and debts securities as at the reporting date of the fourth 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 31 December 2018 and 31 December 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 31 December 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 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.

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 significant and long outstanding trade receivables amounting to RMB5.229 million, representing 25% 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 provided 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 losses 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.

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

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 provided 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 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.

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

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.

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 their 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.

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

(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 the Land Office to ensure that the land title ownership will 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 follow up closely with the Land Office until the approval for the transfer of land title to Yantai Ouhua is granted by the Land Office.