

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED
 Stock Name : CNOUHUA
 Financial Period End : 30 JUNE 2019
 Quarter : 2



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2019

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

PARTICULARS	NOTE	INDIVIDUAL QUARTER		INDIVIDUAL QUARTER	
		CURRENT QUARTER 30-Jun-19 RMB'000	PRECEDING YEAR CORRESPONDING QUARTER 30-Jun-18 RMB'000	CURRENT QUARTER 30-Jun-19 RM'000	PRECEDING YEAR CORRESPONDING QUARTER 30-Jun-18 RM'000
Revenue		8,113	5,127	4,923	3,111
Cost of sales		(7,842)	(4,725)	(4,759)	(2,867)
Gross Profit		271	402	164	244
Finance and other income		10	22	6	13
Marketing and distribution		(1,126)	(385)	(683)	(234)
Administrative expenses		(824)	(1,103)	(500)	(669)
Other expenses		(1)	(22)	-	(13)
Loss before tax		(1,670)	(1,086)	(1,013)	(659)
Income tax expenses	B4	-	-	-	-
Loss net of tax		(1,670)	(1,086)	(1,013)	(659)
Other comprehensive Income:					
Foreign currency translation		-	-	-	-
Total comprehensive loss for the period		(1,670)	(1,086)	(1,013)	(659)
Loss attributable to :					
- Owners of the parent		(1,594)	(1,038)	(967)	(630)
- Non-controlling interests		(76)	(48)	(46)	(29)
		(1,670)	(1,086)	(1,013)	(659)
Total comprehensive loss attributable to :					
- Owners of the parent		(1,594)	(1,038)	(967)	(630)
- Non-controlling interests		(76)	(48)	(46)	(29)
		(1,670)	(1,086)	(1,013)	(659)
Loss per share from Group's net loss attributable to shareholders	B11				
Basic (RMB cents / RM sen)		(0.24)	(0.15)	(0.15)	(0.09)
Diluted (RMB cents / RM sen)		(0.24)	(0.15)	(0.15)	(0.09)

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2018 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
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Financial Period Ended : 30 JUNE 2019
Quarter : 2
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2019



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

PARTICULARS	NOTE	CUMULATIVE QUARTER		CUMULATIVE QUARTER	
		CURRENT	PRECEDING YEAR	CURRENT	PRECEDING YEAR
		YEAR TO DATE ENDED 30-Jun-19 RMB'000	YEAR TO DATE ENDED 30-Jun-18 RMB'000	YEAR TO DATE ENDED 30-Jun-19 RM'000	YEAR TO DATE ENDED 30-Jun-18 RM'000
Revenue		9,239	6,163	5,606	3,740
Cost of sales		(8,808)	(6,183)	(5,345)	(3,752)
Gross Profit		431	(20)	261	(12)
Finance and other income		21	46	13	28
Marketing and distribution		(2,279)	(475)	(1,383)	(289)
Administrative expenses		(2,088)	(2,555)	(1,267)	(1,550)
Other expenses		(4)	(22)	(2)	(13)
Loss before tax		(3,919)	(3,026)	(2,378)	(1,836)
Income tax expenses	B4	-	-	-	-
Loss net of tax		(3,919)	(3,026)	(2,378)	(1,836)
Total comprehensive loss for the period		(3,919)	(3,026)	(2,378)	(1,836)
Loss attributable to :					
- Owners of the parent		(3,733)	(2,882)	(2,265)	(1,749)
- Non-controlling interests		(186)	(144)	(113)	(87)
		(3,919)	(3,026)	(2,378)	(1,836)
Total comprehensive loss attributable to :					
- Owners of the parent		(3,733)	(2,882)	(2,265)	(1,749)
- Non-controlling interests		(186)	(144)	(113)	(87)
		(3,919)	(3,026)	(2,378)	(1,836)
Loss per share from Group's net loss attributable to shareholders	B11				
Basic (RMB cents / RM sen)		(0.56)	(0.43)	(0.34)	(0.26)
Diluted (RMB cents / RM sen)		(0.56)	(0.43)	(0.34)	(0.26)

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2018 and the accompanying explanatory notes attached to the financial statements.)

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

PARTICULARS	NOTE	UNAUDITED	AUDITED	UNAUDITED	AUDITED
		AS AT 30-Jun-19 RMB'000	AS AT 31-Dec-18 RMB'000	AS AT 30-Jun-19 RM'000	AS AT 31-Dec-18 RM'000 (Restated)
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		37,377	39,382	22,681	23,898
Biological assets		-	-	-	-
Prepayments		-	-	-	-
		<u>37,377</u>	<u>39,382</u>	<u>22,681</u>	<u>23,898</u>
Current assets					
Inventories		33,226	33,974	20,163	20,617
Trade and other receivables		123,807	122,783	75,130	74,508
Prepayments		-	-	-	-
Cash and cash equivalents		13,623	15,930	8,267	9,667
		<u>170,656</u>	<u>172,687</u>	<u>103,560</u>	<u>104,792</u>
Current liabilities					
Trade and other payables		1,969	2,086	1,195	1,266
Other liabilities		-	-	-	-
		<u>1,969</u>	<u>2,086</u>	<u>1,195</u>	<u>1,266</u>
Net current assets		<u>168,687</u>	<u>170,601</u>	<u>102,365</u>	<u>103,526</u>
Non-current liability					
Deferred tax liabilities		-	-	-	-
Net assets		<u>206,064</u>	<u>209,983</u>	<u>125,046</u>	<u>127,424</u>
EQUITY					
Share capital		205,838	205,838	124,909	124,909
Other reserve		30,531	30,531	18,527	18,527
Accumulated losses		(34,681)	(30,948)	(21,045)	(18,780)
Non-controlling interests		4,376	4,562	2,655	2,768
Total equity		<u>206,064</u>	<u>209,983</u>	<u>125,046</u>	<u>127,424</u>
Net Assets per share attributable to equity holders of the Group (RMB / RM)		0.31	0.31	0.19	0.19

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2018 and the accompanying explanatory notes attached to the financial statements.)

Note:

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Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED

Stock Name : CNOUHUA

Financial Period Ended : 30 JUNE 2019

Quarter : 2

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2019

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	Accumulated Losses RMB'000	Total RMB'000	Non-controlling Interests RMB'000		
(IN RMB)								
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)	
at 1 January 2018	205,838	29,508	1,023	(13,233)	223,136	5,464	228,600	
Profit for the period	-	-	-	(2,882)	(2,882)	(144)	(3,026)	
At 30 June 2018	205,838	29,508	1,023	(16,115)	220,254	5,320	225,574	
(IN RM)								
at 31 December 2017	124,909	17,906	621	1,257	144,693	3,315	148,008	
Adoption of IFRS9	-	-	-	(9,287)	(9,287)	-	(9,287)	
At 1 January 2018	124,909	17,906	621	(8,030)	135,406	3,315	138,721	
Profit for the period	-	-	-	(1,749)	(1,749)	(87)	(1,836)	
At 30 June 2018	124,909	17,906	621	(9,779)	133,657	3,228	136,885	

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2018 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 : 30 JUNE 2019
 Quarter : 2



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2019

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	Accumulated Losses RMB'000	Non-controlling interests RMB'000	Total RMB'000	
<i>(IN RMB)</i>							
At 1 January 2019	205,838	29,508	1,023	(30,948)	4,562	205,421	209,983
Loss and other comprehensive(loss)/profit for the year	-	-	-	(3,733)	(186)	(3,733)	(3,919)
At 30 June 2019	205,838	29,508	1,023	(34,681)	4,376	201,688	206,064
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<i>(IN RM)</i>							
At 1 January 2019	124,909	17,906	621	(18,780)	2,768	124,656	127,424
Loss and other comprehensive(loss)/profit for the year	-	-	-	(2,265)	(113)	(2,265)	(2,378)
At 30 June 2019	124,909	17,906	621	(21,045)	2,655	122,391	125,046

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2018 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 : 30 JUNE 2019
 Quarter : 2



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2019

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	CURRENT YEAR TO DATE 30-Jun-19 RMB'000	PRECEDING CORRESPONDING YEAR TO DATE 30-Jun-18 RMB'000	CURRENT YEAR TO DATE 30-Jun-19 RM'000	PRECEDING YEAR CORRESPONDING YEAR TO DATE 30-Jun-18 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before taxation	(3,919)	(3,026)	(2,378)	(1,836)
Adjustments for :-				
Depreciation and amortisation expenses	2,005	2,030	1,217	1,232
Reversal for impairment loss of property, plant and equipment	-	-	-	-
Loss on disposal of PPE	-	22	-	13
Depreciation of biological assets	-	-	-	-
(Reversal)/ Allowance for inventory obsolescence	-	-	-	-
(Reversal)/ Allowance for impairment loss of trade receivables	-	-	-	-
Interest income	(21)	(46)	(13)	(28)
Operating profit before working capital changes	(1,935)	(1,020)	(1,174)	(619)
<i>Decrease/(increase) in:</i>				
Inventories	748	787	453	478
Trade and other receivables	(1,024)	(130)	(621)	(79)
<i>(Decrease)/increase in:</i>				
Trade and other payables	(117)	(523)	(71)	(317)
Other liabilities	-	(367)	-	(223)
Cash flows used in operations	(2,328)	(1,253)	(1,413)	(760)
Interest income received	21	46	13	28
Net cash flows used in operating activities	(2,307)	(1,207)	(1,400)	(732)
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	-	(1,231)	-	(747)
Proceeds from sale of PPE	-	-	-	-
Net cash flow generated from/(used in) investing activities	-	(1,231)	-	(747)
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 DECREASE IN CASH AND CASH EQUIVALENTS	(2,307)	(2,438)	(1,400)	(1,479)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	15,930	31,754	9,667	19,269
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	13,623	29,316	8,267	17,790
Cash and cash equivalents at the end of the period comprise the followings:				
Cash on hand and at banks	13,623	29,316	8,267	17,790
	13,623	29,316	8,267	17,790

(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 2018)

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 period ended 30 June 2019 are unaudited and have been prepared in accordance with the provisions of the Companies Act, Chapter 50 (the Act), Singapore Financial Reporting Standards (International) [SFRS(I)s] which are simultaneously compliant with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) 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 2018 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 2019.

4. Changes in estimates

There were no material changes in estimates for the financial period ended 30 June 2019.

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 2019.

7. Dividends Payable

The Board of directors does not recommend any interim dividend for the current quarter ended 30 June 2019.

8. Segment Information

a) Operating segments

<u>6 months ended 30 June 2019</u>	White Wine RMB'000	Red Wine RMB'000	Total RMB'000
Revenue			
Sales to external customers		9,239	9,239
Results			
Segment gross profit		431	431
Unallocated expenses, net			(4,371)
Interest income			21
Other income			-
Loss before tax			(3,919)
Income tax expense			-
Net loss			(3,919)
	White Wine RMB'000	Red Wine RMB'000	Total RMB'000
<u>6 months ended 30 June 2018</u>			
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
Interest expense			-
Loss before tax			(3,026)
Income tax expense			-
Net loss			(3,026)

Other segment information

<u>6 months ended 30 June 2019</u>	International Label RMB'000	Own Label RMB'000	Total RMB'000
Revenue			
Sales to external customers	9,239		9,239
	International Label	Own Label	Total
	RMB'000	RMB'000	RMB'000
<u>6 months ended 30 June 2018</u>			
Revenue			
Sales to external customers	3,575	2,588	6,163

b) Geographical segments

Segmented information by geographical region is not applicable for the financial period ended 30 June 2019 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 2019.

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 2019.

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 2019.

14. Accumulated Losses

The breakdown of accumulated losses of the Group as at the respective reporting dates is as follows:

	As at 31 Dec 2018		As at 30 June 2019	
	RMB'000	RM'000	RMB'000	RM'000
Realised retained profits:	(30,948)	(18,780)	(34,681)	(21,045)
Unrealised retained profits:	-----	-----	-----	-----
Total group retained profits:	<u>(30,948)</u>	<u>(18,780)</u>	<u>(34,681)</u>	<u>(21,045)</u>

15. Recurring related party transactions

For the financial period ended 30 June 2019, 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 is as follows:

	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	
	30/6/19 RMB'000	30/6/18 RMB'000		30/6/19 RMB'000	30/6/18 RMB'000	
Revenue	8,113	5,127	58.24	9,239	6,163	49.91
Operating Loss	(1,670)	(1,086)	53.78	(3,919)	(3,026)	29.51
Loss Before Interest and Tax	(1,670)	(1,086)	53.78	(3,919)	(3,026)	29.51
Loss Before Tax	(1,670)	(1,086)	53.78	(3,919)	(3,026)	29.51
Loss After Tax	(1,670)	(1,086)	53.78	(3,919)	(3,026)	29.51
Loss Attributable to Ordinary Equity Holders of the Parent	(1,594)	(1,038)	53.57	(3,733)	(2,882)	29.53

For the current quarter ended 30 June 2019("3M2019"), the Group's revenue increased by RMB2.986 million or 58.24% to RMB8.113 million, from RMB5.127 million in the same period last year ("3M2018"). Loss before tax in this current quarter increased by RMB0.584 million from loss of RMB1.086 million in 3M2018 to loss of RMB1.670 million in 3M2019. It is a normal fluctuation and no great changes incurred.

For the financial period ended 30 June 2019 ("6M2019"), the Group's revenue increased by RMB3.076 million or 49.91% to RMB9.239 million, from RMB6.163 million in the previous corresponding period ended 30 June 2018 ("6M2018"). Loss before tax increased by RMB0.893 million from RMB3.026 million in 6M2018 to RMB3.919 million in 6M2019.

2. Variation of results against preceding quarter

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

	Current Quarter 30/6/19 RMB'000	Immediate Preceding Quarter 31/3/19 RMB'000	Changes (Amount / %)
Revenue	8,113	1,126	620.52
Operating loss	(1,670)	(2,249)	-25.74
Loss Before Interest and Tax	(1,670)	(2,249)	-25.74
Loss Before Tax	(1,670)	(2,249)	-25.74
Loss After Tax	(1,670)	(2,249)	-25.74
Loss Attributable to Ordinary Equity Holders of the Parent holders of the parent	(1,594)	(2,139)	-25.48

For the current quarter, the Group recorded a increase in revenue of RMB6.987 million from RMB1.126 million to RMB8.113 million and a decrease in loss before tax of RMB0.579million from loss of RMB2.249 million to loss of RMB1.67 million as compared to the immediate preceding quarter ended 31 March 2019.

3. Prospects

In the first half year of 2019, the Company has enhanced the sales of imported wine and realised some effect, Online sales have started and have made some sales. Management is planning to pay more emphasis on network marketing to increase its sales and decrease its marketing expenses. Meanwhile, the management of the company always try to bring new business to the company, expanding business scope and increasing sales, making the operation more diversified. They have confidence to lead the Company to sound development.

4. Profit forecast and guarantee

No profit forecast or guarantee was 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 ended 30 June 2019.

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 2019.

7. Purchase or disposal of quoted securities

No purchase or disposal of quoted securities by the Group in the financial period ended 30 June 2019.

8. Status of corporate proposals and utilisation of proceeds

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

9. Group borrowings and debts securities

The 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 are 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 per share

Loss per share for 30 June 2019 and 30 June 2018 were computed by dividing the loss 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 2019.

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 2018 were subjected to qualified opinion with material uncertainty related to going concern.

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 2018 ("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, and had included an emphasize of matter to draw attention to the material

uncertainty related to going concern. The Company hereby sets out 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 2018 were necessary.

Material Uncertainty Related to Going Concern

The Group incurred a net loss of RMB 18,617,000 and generated a negative operating cash flows of RMB 14,953,000 for the financial year ended 31 December 2018. The Company's total and current liabilities exceeded its total and current assets by RMB 992,000 for the financial year ended 31 December 2018. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The ability of the Group and Company to continue as a going concern is dependent upon the continuing financial support from a director and shareholder of the Company. The External Auditors' opinion is not further qualified in respect of this matter.

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 matters described in the Basis for Qualified Opinion section and Material Uncertainty Related to Going Concern section, the External Auditors had determined the matters described below to be the key audit matters to be communicated in their report.

i. Valuation of trade receivables (RMB 21.759 million) (Refer to Note 5 to the financial statements)

The Group has significant trade receivables amounting to the RMB21.759 million. In accordance with SFRS(I) 9 Financial Instruments, the Group is required to recognise loss allowances on expected credit losses on trade receivables. The determination of the loss allowances requires significant judgement and estimates to determine whether the receivable is credit impaired, and the best estimate of the ultimate realisation of the amounts receivable from customers.

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 3.2(a) to the financial statements and further information related to the aged trade receivables is in Note 22.2 to the financial statements.

Audit Response

The External Auditors have reviewed the Group's estimation process used in determining the amounts of loss allowance recognised on expected credit losses on trade receivables.

The Group has a process to assess credit risk and to determine the amounts of loss allowance to recognise on expected credit losses on trade receivables.

The External Auditors have also reviewed significant inputs to management's assessment of the amounts of loss allowance recognised on expected credit losses, and considered the reasonableness of the inputs by reference to the recent credit review assessments prepared by management. The judgements applied by management around the recovery of receivables were relevant under the facts and circumstances currently made available to the Group. Lastly, They assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving recoverability of the trade receivables.

They found the disclosures in describing the areas of judgement and inherent degree of estimation uncertainties involved to be appropriate.

ii. Valuation of inventories (RMB 90.384 million) (Refer to Note 6 to the financial statements)

The Group's work-in-progress inventories amounting to RMB84.734 million represents 94% of the total inventories. These inventories relate mainly to the direct costs incurred for wine production.

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 made in Note 3.2(b) 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 the performance of test of details on actual margins and valuation of obsolete inventories. They assessed whether there are 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 to 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 and 8 to the financial statements

As at 31 December 2018, property, plant and equipment and deposit for purchase of land, buildings and ancillary facilities with carrying amounts of RMB39.382 million and RMB118.800 million constituted approximately 19% and 56% 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.

The review 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 3.1(b) and 3.1(c) 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.

Based on their work performed, They assessed management's key assumptions and review process to be reasonable.

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

iv. Allowance for impairment for non-trade amount due from subsidiary (RMB 77.279million) and impairment of investment in subsidiary (RMB 60.135 million) Refer to Notes 5 and 7 to the financial statements

As at 31 December 2018, the Company has investment in subsidiary with carrying amount of RMB 60.135 million. During the current financial year, there are impairment indicators which require the Group to perform an assessment on the recoverable amount of the investment in subsidiary using a discounted cash flow model for the next five years.

Based on the result of the assessment, the Company has fully impaired the investment in subsidiary. Furthermore, the Company has amount owing from its subsidiary amounting to RMB 77.279 million. The management has assessed the future operating and financial performance of the subsidiary to be unfavourable. As a result, the management has fully impaired on the amount due from subsidiary.

Audit Response

The External Auditors evaluated the reasonableness of the estimates and assumptions in the discounted cash flow model.

Based on their work performed, they found the significant estimates and key assumption within the discounted cash flow model 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 MATTERS THAT RELATE TO THE QUALIFIED OPINION AND MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

i. Key Audit Matters that relate to the Qualified Opinion

The People's Republic of China ("PRC") had changed their rules and implemented the real estate registration certificate system, whereby the former land use rights certificate and real estate certificate are now merged and would be issued as real estate certificate. The implementation of the new rules involved more tedious procedures and had caused the delay for the Company's application to be approved.

Management have been actively coordinating with the relevant government departments in relation to the land title ownership. However, as part of the subject real estate is a state-owned property, the land title ownership transfer was subjected to the examination and approval by State-owned Assets Supervision and Administration Commission and the decision of the District Mayor Administration Meeting. Currently, the Company is still waiting for the result of the said examination and approval on the Company's application. In addition, the delay was also due to the institutional reforms and personnel changes in the relevant government departments.

China Ouhua will proactively follow up with the relevant government authorities of the PRC to ensure the land title ownership be transferred to Yantai Ouhua.

ii. Key Audit Matters that relate to the Material Uncertainty Related to Going Concern

Management of the Company believes that although the company's operating performance is not good, the Company has sufficient cash and relatively good basic business. With many years of operating experiences in the wine industry, Management was of the view that there is no risk of continuing its operations. Management would continue to work hard in developing the wine business. In addition, Management plans to develop new businesses to increase the Company's profitability. The Company has started launching new wine products and selling through online platform to adapt to the current market's demand. At the same time, the Company has expanded its business scope and conducted other trading businesses that will benefit the Company in a short period of time. The Company is actively identifying new and promising companies to collaborate with to improve the business performance.

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

i. Timeline for the Steps for Qualified Opinion

China Ouhua will proactively follow up with the relevant government authorities of the PRC to ensure the land title ownership to be transferred to Yantai Ouhua. Barring any unforeseen circumstances, the Board is of the view that the whole process should be able to complete within six (6) months from the date of announcement (which was dated 3 May 2019).

ii. Timeline for the Steps for Material Uncertainty Related to Going Concern

The Company would proactively identify new businesses to be developed and targeted to be in operation during the financial year ending 2019.