



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF CHINA OUHUA WINERY HOLDINGS LIMITED

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of CHINA OUHUA WINERY HOLDINGS LIMITED (the "Company") and its subsidiary corporation (the "Group") which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and International Financial Reporting Standards ("IFRS") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

Basis for Qualified Opinion

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

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

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter disclosed in the Basis of Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Matter	Audit response
<p>Valuation of trade receivables (RMB 22.816 million) Refer to Note 12 to the financial statements</p> <p>The Group has significant and long outstanding trade receivables totaling to RMB 7.193 million, representing 32% of the total trade receivables.</p> <p>Management monitors and assesses the Group's credit risk, and where required, adjust the level of impairment allowance, which requires management to make significant judgements regarding the expected future financial condition and ability of future receipts from debtors, especially where the debts are aged for more than 150 days.</p> <p>Inappropriate judgements and estimates made in the impairment assessment would result in a significant impact on the carrying amount of the trade receivables.</p> <p>Disclosure on the above significant judgement has been made in Note 3 to the financial statements and further information related to the aged trade receivables is provided under Note 12 to the financial statements.</p>	<p>Our audit procedures to evaluate management's assessment on the recoverability of the Group's aged trade receivables which are past due but not impaired include inquiry with management on the reasons for the delay in payments of certain aged trade receivables and review of appropriateness of any allowance for impairment losses to be made by considering among others factors such as subsequent cash receipts, past payment practices, the ongoing business relationship with the debtors and the repayment plans agreed with the debtors.</p> <p>Based on our procedures, we found management's assessment of the recoverability of trade receivables, which premised on the repayment plans to be reasonable.</p> <p>We have also assessed and validated the adequacy and appropriateness of the disclosure made in the financial statements.</p>
<p>Valuation of inventories (RMB 93.126 million) Refer to Note 13 to the financial statements</p> <p>The Group's work-in-progress inventories amounting to RMB 92.828 million represents 99% of the total inventories. These inventories relate mainly to the direct costs incurred for wine production. The period over which the wine inventories are converted to finished goods can be a significant length of time and forecasting demand and market prices can vary significantly over the holding period up to the likely date of sale.</p> <p>Management has estimated the net realisable of the work-in-progress inventories based on certain assumptions relating to spoilage and obsolescence. Obsolescence considerations include inventory aging profile, as well as different market factors impacting the sale of these product lines.</p> <p>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.</p> <p>Disclosure on the above significant judgement has been made in Note 3 to the financial statements and further information related to the written-down of the inventories to its net realisable values is provided under Note 13 to the financial statements.</p>	<p>Our audit procedures to validate the valuation of the inventories include performance of test of details on actual margins and valuation of obsolete inventories. We assessed whether there were inventories which were sold with negative margin by evaluating sales invoices issued subsequent to year end to validate management's assessment and decision whether inventories should or should not be adjusted to its net realisable values. Furthermore, we analysed the inventory turnaround based on the inventory turnover days and compared that to management's estimates on obsolete inventories.</p> <p>Based on our procedures, we found management's estimates, which are the basis of the inventory valuation to be reasonable.</p> <p>We have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements.</p>

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our independent auditors' report thereon, which we obtained prior to the date of this report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence on the recoverability of the Group's deposit to Huangwu Subdistrict Office. Accordingly we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is See John Kuan.

Other Reporting Responsibilities

The supplementary information set out in Note 26 to the financial statements are disclosed to meet the requirements of Bursa Malaysia Securities Berhad and are not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information are prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.



HELMI TALIB & CO
Public Accountants and
Chartered Accountants

Singapore

Date: 19 April 2017