INDEPENDENT AUDITOR'S 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 (the Group) which comprise the statements of financial position of the Group and of the Company as at 31 December 2018, 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 for the financial 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), 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) so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018 and of the financial performance, changes in equity and cash flows of the Group for the financial year ended on that date.

Basis for Qualified Opinion

As disclosed in Note 5 to the financial statements, included in trade and other receivables are deposits of RMB 118,800,000 representing 90% of the total purchase price of RMB 132,000,000 which the Group had paid to Huangwu Subdistrict Office, Zhifu District, Yantai City (the Local Government) under a sale and purchase agreement (the SPA) entered into between the Group and the Local Government on 17 December 2013 for the purchase by the Group of the Assets as described in Note 5 (the Transaction) Pursuant to the SPA, in the event that the Transaction is not completed, the Local Government will refund the deposits of RMB 118,800,000 to the Group. As at the date of this report, the procedures in relation to the Transaction are pending completion.

We have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves with respect to the extent of recoverability of the deposits of RMB 118,800,000 in the event that the Transaction is not completed. Consequently, we are unable to determine whether any adjustments to the carrying amount of the deposits as at 31 December 2018 are necessary. Our audit opinion on the financial statements for the previous financial year was qualified due to the same reason.

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Group 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.

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Information Other than the Financial Statements and Auditor's Report Thereon

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 auditor's 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 express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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, 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 deposits paid to the Local Government. Accordingly we are unable to conclude whether the other information is materially misstated with respect to this matter.

Material Uncertainty Related to Going Concern

We draw attention to Note 1.2 to the financial statements, which indicates that 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. Our opinion is not further qualified in respect of this matter.

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 matters described in the Basis for Qualified Opinion section and Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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Key Audit Matters	Audit Responses
(1) 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.	We 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. We 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, we assessed the adequacy of disclosures in describing the areas of judgement and estimation uncertainties involving recoverability of the trade receivables. We found the disclosures in describing the areas of judgement and inherent degree of estimation uncertainties involved to be appropriate.
(2) 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.	Our audit procedures to validate the valuation of the inventories included 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 as to whether inventories need be adjusted to their net realisable values.

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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.	Based on the work performed, we found management's estimates to be reasonable. We also found the disclosures in the financial statements to be adequate.
(3) Impairment of property, plant and equipment and deposit for purchase of land, buildings and ancillary facilities (RMB 118.800 million) **Refer to Notes 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 Notes 3.1(b) and 3.1(c) to the financial statements.	 Our audit procedures focused on evaluating the appropriateness and adequacy of the impairment loss recognised for property, plant and equipment. Based on our work performed, we assessed management's key assumptions and review process to be reasonable. We also found the disclosures in the financial statements to be adequate.

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(4) Allowance for impairment for non-trade amount due from subsidiary (RMB 77.279 million) 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.	We evaluated the reasonableness of the estimates and assumptions in the discounted cash flow model. Based on our audit procedures, we found the significant estimates and key assumption within the discounted cash flow model to be reasonable. We also found the disclosures in the financial statements to be adequate.

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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, SFRS(I)s which are simultaneously compliant with IFRSs issued by the IASB, 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 assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- 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 Group'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 Group 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 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 auditor's 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.

Other Reporting Responsibilities

The supplementary information set out in Note 23 to the financial statements is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is 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 is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

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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 Tang Boon Sun.

UHY Lee Seng Chan & Co
Public Accountants and
Chartered Accountants

Singapore
29 April 2019