

Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED
 Stock Name : CNOUHUA
 Financial Period End : 30 JUNE 2017
 Quarter : 2



QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2017

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

PARTICULARS	NOTE	INDIVIDUAL QUARTER		INDIVIDUAL QUARTER	
		CURRENT QUARTER 30-Jun-17 RMB'000	PRECEDING YEAR CORRESPONDING QUARTER 30-Jun-16 RMB'000	CURRENT QUARTER 30-Jun-17 RM'000	PRECEDING YEAR CORRESPONDING QUARTER 30-Jun-16 RM'000
Revenue		2,781	1,717	1,791	1,106
Cost of sales		(2,988)	(2,099)	(1,924)	(1,352)
Gross Profit		(207)	(382)	(133)	(246)
Finance and other income		20	37	13	24
Marketing and distribution		(261)	(1,886)	(168)	(1,215)
Administrative expenses		(1,068)	(1,148)	(688)	(739)
Other expense					
(Loss)/profit before tax		(1,516)	(3,379)	(976)	(2,176)
Income tax expenses	B4				
(Loss)/profit net of tax		(1,516)	(3,379)	(976)	(2,176)
Other comprehensive Income:					
Foreign currency translation					
Total comprehensive (loss)/income for the period		(1,516)	(3,379)	(976)	(2,176)
(Loss)/profit attributable to :					
- Owners of the parent		(1,444)	(3,215)	(930)	(2,071)
- Non-controlling interests		(72)	(164)	(46)	(106)
		(1,516)	(3,379)	(976)	(2,176)
Total comprehensive (loss)/income attributable to :					
- Owners of the parent		(1,444)	(3,215)	(930)	(2,071)
- Non-controlling interests		(72)	(164)	(46)	(106)
		(1,516)	(3,379)	(976)	(2,176)
(Loss)/earnings per share from Group's net (loss)/profit attributable to shareholders	B11				
Basic (RMB cents / RM sen)		(0.22)	(0.48)	(0.14)	(0.31)
Diluted (RMB cents / RM sen)		(0.22)	(0.48)	(0.14)	(0.31)

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2016 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 RM0.64406 as at 31 Dec 2016.

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2017



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-17 RMB'000	YEAR TO DATE ENDED 30-Jun-16 RMB'000	YEAR TO DATE ENDED 30-Jun-17 RM'000	YEAR TO DATE ENDED 30-Jun-16 RM'000
Revenue		3,834	3,763	2,469	2,424
Cost of sales		(4,366)	(4,531)	(2,812)	(2,918)
Gross Profit		(532)	(768)	(343)	(495)
Finance and other income		40	76	26	49
Marketing and distribution		(504)	(4,088)	(325)	(2,633)
Administrative expenses		(2,135)	(3,105)	(1,375)	(2,001)
Other expense					
(Loss)/profit before tax		(3,131)	(7,885)	(2,017)	(5,078)
Income tax expenses	B4				
(Loss)/profit net of tax		(3,131)	(7,885)	(2,017)	(5,078)
Total comprehensive (loss)/ income for the period		(3,131)	(7,885)	(2,017)	(5,078)
(Loss)/profit attributable to :					
- Owners of the parent		(2,981)	(7,497)	(1,920)	(4,829)
- Non-controlling interests		(150)	(388)	(97)	(250)
		(3,131)	(7,885)	(2,017)	(5,078)
Total comprehensive (loss)/ income attributable to :					
- Owners of the parent		(2,981)	(7,497)	(1,920)	(4,829)
- Non-controlling interests		(150)	(388)	(97)	(250)
		(3,131)	(7,885)	(2,017)	(5,078)
(Loss)/earnings per share from Group's net (loss)/profit attributable to shareholders	B11				
Basic (RMB cents / RM sen)		(0.45)	(1.12)	(0.29)	(0.72)
Diluted (RMB cents / RM sen)		(0.45)	(1.12)	(0.29)	(0.72)

(The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes attached to the financial statements.)

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Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED
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Financial Period Ended : 30 JUNE 2017
Quarter : 2
QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2017



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

PARTICULARS	NOTE	UNAUDITED	AUDITED	UNAUDITED	AUDITED
		AS AT 30-Jun-17 RMB'000	AS AT 31-Dec-16 RMB'000	AS AT 30-Jun-17 RM'000	AS AT 31-Dec-16 RM'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment		41,601	42,963	26,794	27,671
Biological assets					
Prepayments					
		<u>41,601</u>	<u>42,963</u>	<u>26,794</u>	<u>27,671</u>
Current assets					
Inventories		42,712	43,342	27,509	27,915
Trade and other receivables		16,117	17,051	10,379	10,982
Prepayments		119,204	118,813	76,775	76,523
Cash and cash equivalents		25,424	26,316	16,375	16,949
		<u>203,457</u>	<u>205,522</u>	<u>131,039</u>	<u>132,368</u>
Current liabilities					
Trade and other payables		9,646	9,638	6,213	6,207
Other liabilities		382	686	246	442
		<u>10,028</u>	<u>10,324</u>	<u>6,459</u>	<u>6,649</u>
Net current assets		<u>193,429</u>	<u>195,198</u>	<u>124,580</u>	<u>125,719</u>
Non-current liability					
Deferred tax liabilities					
Net assets		<u>235,030</u>	<u>238,161</u>	<u>151,374</u>	<u>153,390</u>
EQUITY					
Share capital		205,838	205,838	132,572	132,572
Other reserve		30,531	30,531	19,664	19,664
Retained earnings		(6,710)	(3,729)	(4,322)	(2,402)
Non-controlling interests		5,371	5,521	3,459	3,556
Total equity		<u>235,030</u>	<u>238,161</u>	<u>151,374</u>	<u>153,390</u>
Net Assets per share attributable to equity holders of the Group (RMB / RM)		0.35	0.36	0.23	0.23

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 31 December 2016 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 RM0.64406 as at 31 Dec 2016.



Company Name : CHINA OUHUA WINERY HOLDINGS LIMITED
 Stock Name : CNOUHUA
 Financial Period Ended : 30 JUNE 2017
 Quarter : 2

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2017

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital		Attributable to Equity Holders of The Group				Retained Earnings	Total	Non-controlling interests	Total Equity
	RMB'000	RMB'000	Foreign currency translation reserves	Statutory Reserve funds	Other capital reserves	RMB'000				
<i>(IN RMB)</i>										
At 1 January 2016	205,838	29,508	-	1,023	-	33,583	269,952	8,247	278,199	
Profit for the period	-	-	-	-	-	(7,497)	(7,497)	(388)	(7,885)	
At 30 June 2016	205,838	29,508	-	1,023	-	26,086	262,455	7,859	270,314	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<i>(IN RM)</i>										
At 1 January 2016	132,572	19,005	-	659	-	21,629	173,865	5,312	179,177	
Profit for the period	-	-	-	-	-	(4,829)	(4,829)	(250)	(5,078)	
At 30 June 2016	132,572	19,005	-	659	-	16,801	169,037	5,062	174,098	

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 31 December 2016 and the accompanying explanatory notes attached to the financial statements.)

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2017

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	CURRENT YEAR TO DATE 30-Jun-17 RMB'000	PRECEDING CORRESPONDING YEAR TO DATE 30-Jun-16 RMB'000	CURRENT YEAR TO DATE 30-Jun-17 RM'000	PRECEDING YEAR CORRESPONDING YEAR TO DATE 30-Jun-16 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	(3,131)	(7,885)	(2,017)	(5,078)
Adjustments for :-				
Depreciation and amortisation expenses	1,958	2,150	1,261	1,385
Impairment loss on PPE	-	-	-	-
Loss on disposal of PPE	-	-	-	-
Depreciation of biological assets	-	-	-	-
Impairment loss on inventories	-	-	-	-
Impairment loss on trade receivables	-	-	-	-
Loss on disposal of biological assets	-	-	-	-
Impairment loss on inventories	-	-	-	-
Write-off of prepayments	-	-	-	-
Other payables write-off	-	-	-	-
Gains arising from initial recognition of harvested grapes	-	-	-	-
Interest income	(40)	(76)	(26)	(49)
Operating profit before working capital changes	(1,213)	(5,811)	(780)	(3,743)
<i>Decrease/(increase) in:</i>				
Inventories	630	622	406	401
Trade and other receivables	543	(1,413)	350	(909)
<i>(Decrease)/increase in:</i>				
Trade and other payables	8	(730)	5	(470)
Other liabilities	(304)	(263)	(196)	(169)
Cash flows generated from/(used in) operations	(336)	(7,595)	(216)	(4,892)
Income tax paid	-	-	-	-
Interest income received	40	76	26	48
Net cash flows generated from/(used in) operating activities	(296)	(7,519)	(191)	(4,843)
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(596)	-	(384)	-
Loan repaid from Third Party	-	-	-	-
Proceeds from sale of PPE	-	-	-	-
Purchase of biological assets	-	-	-	-
Net cash flow generated from/(used in) investing activities	(596)	-	(384)	-
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	(892)	(7,519)	(575)	(4,843)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	26,316	53,777	16,949	34,636
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	25,424	46,258	16,375	29,793
Cash and cash equivalents at the end of the period comprise the followings:				
Cash on hand and at banks	25,424	46,258	16,375	29,793
	25,424	46,258	16,375	29,793

(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 2016)

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 RM0.64406 as at 31 Dec 2016.

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 2017 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 2016 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 2017.

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 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 2017.

4. Changes in estimates

There were no material changes in estimates for the financial period ended 30 June 2017.

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 2017.

7. Dividends Payable

The Board of directors does not recommend any interim dividend for the current quarter ended 30 June 2017.

8. Segment Information

a) Operating segments

<u>6 months ended 30 June 2017</u>	White Wine RMB'000	Red Wine RMB'000	Total RMB'000
Revenue			
Sales to external customers	492	3,342	3,834
Results			
Segment gross profit	(67)	(465)	(532)
Unallocated expenses, net			(2,639)
Interest income			40
Interest expense			-
Loss before tax			(3,131)
Income tax expense			-
Net loss			(3,131)
<u>6 months ended 30 June 2016</u>	White Wine RMB'000	Red Wine RMB'000	Total RMB'000
Revenue			
Sales to external customers	944	2,819	3,763
Results			
Segment gross profit	(192)	(576)	(768)
Unallocated expenses, net			(7,193)
Interest income			76
Interest expense			-
Loss before tax			(7,885)
Income tax expense			-
Net loss			(7,885)

Other segment information

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

	International Label	Own Label	Total
<u>6 months ended 30 June 2016</u>	RMB'000	RMB'000	RMB'000
Revenue			
Sales to external customers	1,637	2,126	3,763

b) Geographical segments

Segmented information by geographical region is not applicable for the financial period ended 30 June 2017 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 first 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 2017.

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 2017.

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 2017.

14. Retained Earnings

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

	As at 31 Dec 2016		As at 30 June 2017	
	RMB'000	RM'000	RMB'000	RM'000
Realised retained profits:	(3,729)	(2,402)	(6,710)	(4,322)
Unrealised retained profits:	-----	-----	-----	-----
Total group retained profits:	(3,729)	(2,402)	(6,710)	(4,322)
	=====	=====	=====	=====

15. Recurring related party transactions

For the financial period ended 30 June 2017, the Group rented office and factory premises from a director-related company, Yantai Ouhua Winery Co., Ltd, with rental expense amounting to RMB396,900.

B. INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD UNDER LISTING REQUIREMENTS

1. Review of the performance of the Group

The Group's performance for the quarter under review as compared to the same period of last year are as follow:

	Individual Period (2nd quarter)		Changes (Amount/ %)	Cumulative Period		Changes (Amount/ %)
	Current Year Quarter	Preceding Year Corresponding Quarter		Current Year To-date	Preceding Year Corresponding Period	
	30/6/17 RMB'000	30/6/16 RMB'000		30/6/17 RMB'000	30/6/16 RMB'000	
Revenue	2,781	1,717	61.97	3,834	3,763	1.87
Operating Profit	(1,536)	(3,416)	55.04	(3,171)	(7,961)	60.17
Profit Before Interest and Tax	(1,536)	(3,416)	55.04	(3,171)	(7,961)	60.17
Profit Before Tax	(1,516)	(3,379)	55.13	(3,131)	(7,885)	60.29
Profit After Tax	(1,516)	(3,379)	55.13	(3,131)	(7,885)	60.29
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	(1,444)	(3,215)	55.09	(2,981)	(7,497)	60.24

For the current quarter ended 30 June 2017("3M2017"), the Group revenue increased

by RMB1.06 million or 61.97% to RMB2.78 million, from RMB1.72 million in the the same period last year("3M2016"). Loss before (net of) tax in this current quarter decreased by RMB1.86 million from RMB3.38 million in 3M2016 to RMB1.52 million in 3M2017. This was mainly attributed to a reduction in marketing and distribution.

For the financial period ended 30 June 2017 ("6M2017"), the Group revenue increased by RMB0.07 million or 1.9% to RMB3.83 million, from RMB3.76 million in the previous corresponding period ended 30 June 2016 ("6M2016"). Loss before (net of) tax decreased by RMB4.76 million from RMB7.89 million in 6M2016 to RMB3.13 million in 6M2017. The decrease in loss is mainly due to the reduction of the marketing and distribution fee.

2. Variation of results against preceding quarter

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

	Current Quarter 30/6/17 RMB'000	Immediate Preceding Quarter 31/3/17 RMB'000	Changes (Amount / %)
Revenue	2,781	1,053	164.10
Operating Profit	(1,536)	(1,635)	6.06
Profit Before Interest and Tax	(1,536)	(1,635)	6.06
Profit Before Tax	(1,516)	(1,615)	6.13
Profit After Tax	(1,516)	(1,615)	6.13
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent holders of the parent	(1,444)	(1,537)	6.05

For the current quarter, the Group recorded an increase in revenue of RMB1.73 million from RMB1.05 million to RMB2.78 million and a decrease in loss net of tax of RMB0.1million from RMB1.62 million to RMB1.52 million as compared to the immediate preceding quarter ended 31 March 2017.

3. Prospects

For the past half year, domestic wine production continues to decline and at the same time imported wine continues to show growth momentum. The competition of wine market in China continues to be very competitive. The Group will continue its proactive marketing activities by making sales calls and provide quality customer services to long term loyal customers. In the meantime, the Group will continue to look for viable projects and feasible opportunities moving forward for the benefits of the shareholders.

4. Profit forecast and guarantee

No profit forecast or guarantee were previously announced and disclosed by the Group in a public document.

5. Income tax charge

No provision for taxation as the Group has incurred losses for the financial period.

6. Sales of unquoted investments and/or properties

There are no sales of unquoted investments and/or properties of the Group in the current quarter and financial period ended 30 June 2017.

7. Purchase or disposal of quoted securities

No purchase or disposal of quoted securities by the Group in the financial period ended 30 June 2017.

8. Status of corporate proposals and utilisation of proceeds

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

9. Group borrowings and debts securities

Our Group has no borrowings and debts securities as at the reporting date of the second quarter under review.

10. Off-balance sheet financial instruments risks

As at the date of this report, there were no off-balance sheet financial instruments.

11. Changes in material litigation

As at the date of this report, the Group has not engaged in any legal proceedings which may materially affect the financial position of the Group, and the Directors are not aware of any legal proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially and adversely affect the financial position or business of the Group.

12. (Loss)/Earnings per share

(Loss)/Earnings per share for 30 June 2017 and 30 June 2016 were computed by dividing the (loss)/profit net of tax and minority interests of the respective financial period by the weighted average number of ordinary shares of 668,000,000 each respectively. There was no potential dilutive instrument as at 30 June 2017.

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 2016 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 further to our submission of the Audited Financial Statements for the financial year ended 31 December 2016 ("AFS") of CNOUHUA to Bursa Malaysia Securities Berhad on 20 April 2017, the Board of Directors of CNOUHUA wishes to inform that Messrs Helmi Talib & Co., the External Auditors of CNOUHUA, had qualified their report for the AFS of the Company in respect of Other Receivables on Deposits, as set out below:-

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

The key audit matters disclosed are as follows:-

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, the External Auditors were unable to ascertain whether the net recoverable amount of the Assets acquired will exceed the total purchase consideration. In addition, 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 2016 were necessary. The External Auditors' 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.

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 22.816 million) (Refer to Note 12 to the financial statements)

The Group has significant and long outstanding trade receivables totaling to RMB 7.193 million, representing 32% of the total trade receivables.

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.

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 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.

Audit Response

The External Auditors' 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.

Based on the External Auditors' procedures, 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 adequacy and appropriateness of the disclosure made in the financial statements.

ii. Valuation of inventories (RMB 93.126 million) (Refer to Note 13 to the financial statements)

The Group's work-in-progress inventories amounting to RMB 92.828 million represent 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.

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.

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 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.

Audit Response

The External Auditors' audit procedures to validate the valuation of the inventories include performance of test of details on actual margins and valuation of obsolete inventories. The External Auditors 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, the External Auditors analysed the inventory turnaround based on the inventory turnover days and compared that to management's estimates on obsolete inventories.

Based on their procedures, they found management's estimates, which are the basis of the inventory valuation to be reasonable.

The External Auditors have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements.

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

The Yantai Municipal Land Administration Bureau ("YMLAB") has arranged its staff to attend, follow up and visit the Company twice for comprehensive discussion and understanding of the land transfer matters. The municipal government has completed the land survey and measurement on 7 April 2017. Moving forward, the Company will follow up closely with the YMLAB together with Yantai Municipal Housing Bureau ("YMHB") by sending the Company's specially assigned staff to visit both the bureaus once in every two weeks basis. The Yantai Municipal government has informed the Company that they are processing the land transfer administration according to the procedures and the Company will work closely and follow their instructions accordingly.

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

All the procedures of the transactions are expected to be completed in the financial year ending 2017.