深圳市明華澳漢科技股份有限公司

Shenzhen Mingwah Aohan High Technology Corporation Limited *

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 8301)

SUPPLEMENTAL ANNOUNCEMENT

Reference is made to (i) the announcements of Shenzhen Mingwah Aohan High Technology Corporation Limited* (深圳市明華澳漢科技股份有限公司) (the "**Company**", together with its subsidiaries, the "**Group**") dated 8 April 2020, 23 April 2020, 12 May 2020 and 26 May 2020 (collectively as the "**Update Announcements**") in relation to the delay in publication of its audited annual results announcement (the "**2019 Audited Annual Results Announcement**") and annual report (the "**2019 Annual Report**") for the year ended 31 December 2019; and (ii) the 2019 Audited Annual Results Announcement and the 2019 Annual Report, both dated 30 June 2020. Unless the contexts require otherwise, capitalised terms used in this announcement shall have the same meanings as those defined in the 2019 Audited Annual Results Announcement and the 2019 Annual Report.

The Board of Directors wishes to provide to the shareholders and potential investors of the Company (a) additional information and disclosure for the corporate governance report for the year ended 31 December 2019 (the "**Corporate Governance Report**") in relation to the disclaimer of opinion ("**Disclaimer of Opinion**") by the Company's auditors (the "**Auditor**") as disclosed on pages 37 and 38 on the 2019 Audited Annual Results Announcement and pages 35 and 36 on the 2019 Annual Report; and (b) additional information in relation to the impairment losses under expected credit loss ("**ECL**") model, the impairment loss on intangible assets and the impairment loss on interests in joint ventures for the year ended 31 December 2019.

* *For identification purposes only*

DETAILS OF THE DISCLAIMER OF OPINION BY THE AUDITOR

The Board would like to supplement that, in order to cope with the adverse impact of the PRC's anti-graft campaign has on the sales of Moutai liquor, the Company has implemented cost control measures since the second half of 2019. Having anticipated that the outbreak of COVID-19 in early 2020 would further impact the Group's business and financial performance in domestic market, the Group strengthened its cost control and inventory management measures, including reducing its workforce and non-essential subsidiaries to streamline its organisation structure and maintaining a minimal inventory of liquors to avoid incurring unnecessary cost expenses.

As the result of the aforementioned measures implemented by the Group, the Group's general and administrative expenses dropped to approximately RMB12,606,000 for the year ended 31 December 2019 (2018: approximately RMB15,162,000) and to approximately RMB1,409,000 for the three months ended 31 March 2020 (2019: approximately RMB3,062,000). The Group also recorded revenue of approximately RMB9,950,000 and net profit of approximately RMB609,000 for the three months ended 31 March 2020.

In addition, the Group is currently liaising with its customers and debtors and expects to gradually recover the outstanding trade receivables to strengthen the Group's cash position, and will negotiate with certain bankers to obtain bank facilities as and when necessary.

Having considered above, when preparing the Group's consolidated financial statements for the year ended 31 December 2019 (the "**FY2019 Financial Statements**"), the management was of the view that the Group would be able to continue its business as a going concern and prepared the FY2019 Financial Statements accordingly.

As disclosed in the Update Announcements, the timing and ability to deliver all the necessary supporting documents to the Auditor had been adversely impacted due to the travel restrictions and the health issues of the employees and/or their family members as the result of the COVID-19 Outbreak. During the course of the auditing process, the Auditor had requested the Company to provide cash flow forecast and substantial shareholders' letter of support in order to assess the appropriateness of the going concern assumption. However, with the Company merely able to provide all other necessary documents to the Auditor for completion of the auditing process on 30 June 2020, the Company was not able to provide the requested cast flow forecast and letter of financial support from the substantial shareholders.

The Group's ability to continue as a going concern will depend upon the Group's ability to generate adequate financial cash flows. Due to the inherent limitation of the auditing procedure, in the opinion of the Auditor, they cannot form an opinion as to whether the use of going concern assumption in the preparation of the FY2019 Financial Statements is appropriate without the cash flow forecast and the letter of financial support as evidentiary documents supporting such assumption. In the absence of other alternative audit procedures which can be done, the Auditor issued the Disclaimer of Opinion.

Although the management is of the view that the Group would be able to continue its business as a going concern based on the assumptions of that they would be able to obtaining additional cash flow from the customers/debtors and bank(s) as mentioned above, the management considered the Auditor's view and understand their consideration in arriving their view towards the matter.

Audit Committee's view on the Disclaimer of Opinion

In the course of approving the FY2019 Financial Statements, members of the audit committee of the Company (the "**Audit Committee**") reviewed the information provided by the management in relation to auditing process and had a meeting with the Auditor in relation to the details and reasons of arriving at the Disclaimer of Opinion.

The Audit Committee, having considered the management's report on the auditing process (in particular, the impact of the COVID-19 Outbreak on the ability of the Group to complete the auditing process on or before 30 June 2020), agreed on the management's position, shared the view of the Auditor towards the Disclaimer of Opinion and expressed no further comments on it.

Steps to address the Disclaimer of Opinion

In order to provide the required documents to address the Disclaimer of Opinion, the Company proposed to start formulating a draft cash flow forecast showing the Group to continue generating positive cash flows from its operations on or around February 2021 as soon as management accounts for the year ending 31 December 2020 is available. The Company will continue negotiating with the substantial shareholders so as to obtain their irrevocable undertaking to provide necessary financial assistance to the Group with evidence of them having sufficient resources to meet such needs (where necessary) for the auditing process for the year ending 31 December 2020.

With the Company's action plan to obtain the necessary audit evidence together with its cost control, inventory management and debt recovery measures as mentioned above, the Company expects the Disclaimer of Opinion would be removed in the Group's consolidated financial statements for the year ending 31 December 2020 (the "**FY2020 Financial Statements**"), save for the modified audit opinion on the corresponding figures for the FY2020 Financial Statements in accordance with HKSA 710.

ADDITIONAL DISCLOSURE FOR CORPORATE GOVERNANCE REPORT

In relation to the above, the Board would like to supplement the Corporate Governance Report (pages 10 to 23 of the 2019 Annual Report) as follows:

> "With respect to Code Provision C.1.3, unless it is inappropriate to assume that the company will continue in business, the directors should prepare the accounts on a going concern basis. The Directors are aware of material uncertainties that may cast doubt on the Company's going concern as stated in the independent auditors' report contained in the 2019 Annual Report.
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> As disclosed in the 2019 Annual Report, the Group incurred net loss of approximately RMB37,427,000 for the year ended 31 December 2019 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB21,508,000. The Group also incurred a net cash outflow of approximately RMB1,105,000. These conditions indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern, the validity of which depends upon the Group's ability to repay, renew or extend existing borrowings and other liabilities upon their maturities, through cash flows from operations and continuing support from the Group's finance providers and creditors.
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> In preparing the consolidated financial statements, the Directors have given careful consideration to the future liquidity of the Group and adopted the going concern in view of the effectiveness of its cost control measures, the expected recovery of trade receivables from customers or debtors, and the availability of external bank facilities.
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> The Directors also implemented the following measures in order to improve the working capital and liquidity and cash flow position of the Group:
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> **(1) Cost control measures**
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> The Company implemented cost control and inventory management measures, which effectively decreases the administrative expenses to approximately RMB12,606,000 for the year ended 31 December 2019 (2018: approximately RMB15,162,999 and to approximately RMB1,409,000 for the three months ended 31 March 2020 (2019: approximately RMB3,062,000), and would continue to implement effective measures to avoid incurring unnecessary cost expenses.
>
> **(2) External funding and debt recovery measures to strength the Group's cash position**
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> The Group continues to liaise with its customers and debtors to gradually recover the outstanding trade receivables to strengthen the Group's cash position, and will negotiate with certain bankers to obtain bank facilities as and when necessary, as to enable it to meet its liabilities when they fail due and carry on its business without a significant impact or restrictions to its operations during 31 December 2020."

DETAILS OF THE IMPAIRMENT LOSSES IN FY2019 FINANCIAL STATEMENTS

In order to accurately reflect the Company's financial and operational situation, the Company would conduct a review on every asset, and conduct impairment test on assets which show any indication of impairment at the end of each year. For the year ended 31 December 2019, the Company had the impairment losses on trade and other receivables (the "**Receivables**") under ECL model of approximately RMB15,133,000 (2018: RMBNil), the impairment loss on intangible assets of approximately RMB8,915,000 (2018: RMBNil) and the impairment loss on interests in joint ventures of approximately RMB4,972,000 (2018: RMBNil).

(a) Impairment losses on trade and other receivables under ECL model

As required by HKFRS 9, the Company performed impairment assessment under ECL model on financial assets at amortised cost and engaged an independent valuer to perform a valuation (the "**Valuation**") in relation to the ECL of the trade and other receivables as of 31 December 2019. Assessments on the value of the inputs used in the Valuation were made based on and under the assumptions in accordance with the Company's historical credit loss experience, and were adjusted by factors that were specific to the debtors and factors affecting the general economic conditions, as well as an assessment of the current conditions at the reporting date and the forecast of future conditions affecting these factors. As such, the value of the inputs used includes the value of the trade and other receivables as grouped in different aging classifications and the ECL rate for different aging classifications indicated as follows (please also refer to page 96 of the 2019 Annual Report):

	Average loss rate
Current (not past due)	0.3%
1–90 days past due	0.2%
91–180 days past due	0.7%
Over 180 days past due	100.0%

During the year ended 31 December 2019, as the result of (i) the outstanding trade receivables and other receivables which had been past due for over 180 days and 1 year, respectively; and (ii) the increased credit risk due to the COVID-19 Outbreak causing certain customers unable to resume operations and impacting the PRC economic conditions, significant impairment losses under ECL model on trade receivables of approximately RMB1.4 million and on other receivables of approximately RMB13.7 million were recognised.

(b) Impairment losses on intangible assets

The intangible assets of the Company "明華 smartcos 芯片操作管理系統軟件" (the "**IA**") was recognised as intangible assets by the Company in the financial year 2016 with an estimated useful life of 7 years.

According to HKAS 36 – Impairment of Assets, an entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired and the entity shall estimate the recoverable amount of the asset if any such indication exists.

For the year ended 31 December 2018, the Company considered that there was no indication for impairment, as the Company recorded significant revenue from sales of the IA-related products during 2018 and entered into two sales contracts in relation to the IA and were in the course of negotiating new contracts in early 2019.

However, with the revenue generated from the IA being RMBNil during the year ended 31 December 2019, the Company considered it to be an impairment indication and performed the impairment assessment under the discounted cash flow ("**DCF**") approach, as allowed under HKAS36, to derive the value in use of the IA. The value of the inputs used in the impairment assessment includes projected revenue and cash inflow generated from the IA.

Due to (i) the lack of market platform for trading of the IA; (ii) the lack of sales contract regarding the IA obtained by the Company; and (iii) the Company's expectation of there would be no cash generated from the IA, the value in use or the fair value less cost of disposal of the IA was RMBNil. Since the recoverable amount of the IA as at 31 December 2019 was RMBNil, the Company recognised an impairment loss on intangible assets of approximately RMB8.9 million during the year ended 31 December 2019 to write down the carrying amount of IA to RMBNil.

(c) Impairment loss in joint ventures

As at 31 December 2019, the Company's interests in joint ventures included investments in Googut Mingwah (Hong Kong) Limited and Shanghai Googut Trading Co. Limited (the "**Joint Ventures**"), which were established in 2017.

For the year ended 31 December 2018, the Joint Ventures were engaged with negotiations with potential customers and the Company was of the view that such potential sales can covered its investment costs in the Joint Ventures. As a result, no impairment losses in joint ventures was recognised in the year ended 31 December 2018.

However, due to the anti-graft campaign in the PRC in 2019 and the COVID-19 Outbreak which adversely affected the sales of the wine products, the Joint Venture was not able to obtain any customer orders up to the date of the 2019 Audited Annual Results Announcement. As a result, the Company performed the impairment assessment using the DCF approach, as allowed under HKAS 36, to estimate the value of the Joint Ventures in the absence of relevant market transaction data available. The value of the inputs used in the impairment assessment includes projected revenue and cash inflow generated from the Joint Ventures.

Having considered (i) the loss continued to be incurred by the Joint Ventures for the year ended 31 December 2019; (ii) the existing resources, staffs and sales channel of the Joint Ventures; and (iii) the PRC anti-graft campaign and the COVID-19 Outbreak, the Company and the Joint Ventures partners anticipated that there would be no revenue generated for the Joint Ventures in 2020 and 2021. With the Company expected that there would be no projected revenue and cash inflow from the Joint Ventures, the recoverable amount of the Joint Ventures was considered to be RMBNil. In additional, as the Joint Ventures are private companies without any significant assets or profit, there was no market fair value to dispose the shares of the Joint Ventures. Therefore, the Company expected that the fair value less costs of disposal of the Joint Venture would also be insignificant or RMBNil.

According to paragraph 42 of HKAS 28, the entire carrying amount of the investments is tested for impairment in accordance with HKAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Based on the facts and circumstances mentioned above, the Company expected the recoverable amount of the Joint Ventures would be closed to RMBNil as at 31 December 2019 and recognised an impairment loss in the Joint Ventures of approximately RMB4,972,000 for the year ended 31 December 2019.

Save as stated above, all information in the 2019 Audited Annual Results Announcement and the 2019 Annual Report remains unchanged.

By Order of the Board
Shenzhen Mingwah Aohan High Technology Corporation Limited
Zhang Tao
Chairman

Shenzhen, the PRC, 20 August 2020

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As at the date of this announcement, the executive Directors are Mr. Zhang Tao, Mr. Lang Yu and Mr. Liu Jianfeng; the non-executive Director is Mr. Zhou Liang Hao; and the independent non-executive Directors are Mr. Yu Xiuyang, Mr. Wei Wei and Mr. Chan Chun Kit.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (i) the information contained in this announcement is accurate and complete in all material aspects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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