



JGY HOLDINGS LIMITED

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Explanatory notes to audited combined financial statements of the Company's operating subsidiaries

Directors of JGY Holdings Limited refer to the audited combined financial statements of the Company's operating subsidiaries, namely Tianchang Jinguixiang Agriculture Co., Limited ("**Farmco**") and Pizhou Yinxingyuan Liquor Industry Co., Limited ("**Wineco**"), for the financial years ended 31 March 2015, 31 March 2016 and 31 March 2017, and wish to provide explanatory notes on:

- (1) the extended and increasing inventories and trade and other receivables; and
- (2) the increase in trade receivables more than 90 days over the 3 years

During the financial year ended 31 March 2016 ("**FY2016**"), management and then controlling shareholders of WineCo embarked on an ambitious market expansion plan. This plan encompassed the WineCo aggressively ramping up its production and employing new channels to market its products. WineCo also made substantial sales to new customers and other intermediaries such as e-commerce platforms and direct sales network operators with whom it has never worked before. Wineco had also failed to perform adequate credit checks on these new customers and intermediaries. The ambitious market expansion plan did not yield the results its management had hoped for, and it was aborted in favour of the more conservative approach employed in the past.

The substantial increase in the inventories and trade receivables and the deteriorated debtors' ageing are all directly attributed to and caused by Wineco's aforesaid failed market expansion plan during FY2016. This market expansion plan has since been aborted, and Wineco's business is now secondary to Farmco's business.

For and on behalf of

JGY HOLDINGS LIMITED

WANG Caifu

Chairman

18 December 2017