

Issuer: Dukang Distillers Holdings Limited

Security: Dukang Distillers Holdings Limited

Meeting details:

Date: 27 October 2017

Time: 3.00 p.m.

Venue: Indiana Room, Level 4, Raffles City Convention Centre, 80 Bras Basah Road, Singapore 189560

Company Description

Dukang Distillers Holdings Limited, an investment holding company, manufactures, markets, and sells baijiu products in the People's Republic of China. It sells its products primarily to supermarkets, flagship stores, specialty stores, and restaurants under the Dukang brand. The company was formerly known as Trump Dragon Distillers Holdings Limited and changed its name to Dukang Distillers Holdings Limited in May 2010. Dukang Distillers Holdings Limited was incorporated in 2008 and is based in Zhengzhou, the People's Republic of China.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BKV)

Q1. As noted in the Chairman’s Statement (page 6 of the annual report), the group’s revenue declined 46.3% year-on-year from RMB865.0 million for FY2016 to RMB464.5 million for FY2017. The group incurred a one-time other expenses of RMB23.0 million and recognised an impairment loss on interest in associate of RMB31.0 million.

Based on the results, the net realisable value of inventories is one of the key audit matters highlighted in the Independent Joint Auditors’ Report. Key audit matters are those matters that, in the professional judgement of the Independent Joint Auditors, were of most significance in the audit of the financial statements of the current period.

As shown in Note 19 (page 71 – Inventories), the group has inventories carried at a value of RMB770.2 million. Despite the average selling price (ASP) falling by 6.5%, the work in progress has a carrying value of RMB714.3 million in 2017, 19% higher than the carrying value of the work in progress of RMB598.2 million in 2016.

19. INVENTORIES

	Group	
	2017 RMB'000	2016 RMB'000
Raw materials	22,342	22,231
Work in progress	714,285	598,205
Finished goods	33,550	23,646
	770,177	644,082

(Source: Company annual report)

The recent trends in the revenue, average selling price, and inventories are compiled from the company annual reports and are shown in the table below.

	2013	2014	2015	2016	2017
Revenue (RMB' million)	2,406.2	1,450.9	863.4	865.0	464.5
Average selling price (premium; regular)	RMB195.0 per kilogram;	RMB176.1 per kilogram;	RMB143.3 per kilogram;	RMB143.6 per kilogram;	RMB141.8 per kilogram;
	RMB33.9 per kilogram	RMB31.0 per kilogram	RMB28.8 per kilogram	RMB32.4 per kilogram	RMB30.9 per kilogram
Inventories	343,011	689,607	663,700	644,082	770,177
---- Raw materials	41,227	30,091	24,400	22,231	22,342
---- Work in progress	266,636	623,109	607,925	598,205	714,285
---- Finished goods	35,148	36,407	31,375	23,646	33,550

(Source: Company annual reports)

- a) Can management help shareholders understand why as revenue decreased from RMB2.4 billion in 2013 to RM464.5 million in 2017, the inventories have increased by 125% from RMB343 million to RMB770 million and the work in progress is now 1.68 times higher at RMB770 million compared to just RMB267 million in 2013??
- b) Even without factoring in the drop in price, can the group confirm that it is now storing as much as 2.7 times in work in progress (as part of inventory) in 2017, as compared to that in 2013?

- c) As disclosed in the key audit matter, the assessment of net realisable value of inventories is based on estimates and judgements by management in respect of, amongst others, the current economic condition, historical sales record, ageing analysis and subsequent selling price of inventories.
- d) **Can the audit committee and management elaborate further on the key estimates used to assess the net realisable value of inventories?**
- e) **Can the audit committee explain their individual and collective efforts in assessing the net realisable value of inventories?**

Q2. In the operational review (page 8), the group has disclosed the following:

“The Group incurred a one-time other expenses of RMB23.0 million mainly due to a provision for compensation to suppliers amounting to RMB8.8 million, fixed production overheads incurred during the suspension of production due to severe air pollution amounting to RMB6.8 million, and a loss on re-measurement of assets that ceased to be classified as held for sale amounting to RMB4.9 million”.

- a) **Can management explain in greater detail what the compensation to supplier was for?**
- b) **In terms of accounting for the fixed production overheads incurred during the suspension of production due to severe air pollution amounting to RMB6.8 million, does it mean that the regular salaries and wages recognised as “Salaries, wages and other benefits” was reduced and the amount of RMB6.8 million was charged as a one-time expense?**
- c) **Can management explain, in layman’s term, what is meant by the “loss on re-measurement of assets that ceased to be classified as held for sale”?**

Q3. As noted in the Corporate Governance Report (page 19), Mr Tan Siok Sing (Calvin) and Mr Chia Seng Hee, Jack have both served on the board for more than nine years from the date of their first appointment.

Mr Tan and Mr Chia were both appointed as directors of the company on 26 June 2008.

As the board has disclosed, the Nominating Committee (NC) had conducted a rigorous review of their independence and contributions to the Board to determine if they still remain independent and carry out their duties objectively, taking into account the need for progressive refreshing of the board.

The board concurred with the NC’s view that the two long tenured directors remain independent in character and judgement despite having been on the board for more than 9 years. Notwithstanding that, Guideline 2.4 calls for the board to “also take into account the need for progressive refreshing of the Board”.

- a) **Can the board provide more detail on its plans to ensure the progressive refreshing of the board? How does the board search for new independent directors?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Dukang%20Distillers%20Holdings%20Ltd>

The company's response could be found here:

https://sias.org.sg/media/qareport/company_response/1478155178_DKDH---Annt---Response-to-SIAS-Questions.pdf