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**Issuer:** Dukang Distillers Holdings Limited

**Security:** Dukang Distillers Holdings Limited

**Meeting details:**

Date: 26 October 2018

Time: 3.00 p.m.

Venue: Minto 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 is also involved in trademarks management. 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](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BKV))

1. As noted in the Chairman statement, it is the 10<sup>th</sup> year since the group's listing on the Singapore Exchange. In FY2018, the group reported a 68.0% year-on-year decrease in revenue to RMB148.5 million and a loss attributable to the owners of the company amounted to RMB222.0 million. The group's total equity stands at RMB1.089 billion as at 30 June 2018, down from a peak of RMB1.999 billion as at 30 June 2014.

The chairman has stated that *"the production and turnover of the baijiu industry have declined in recent years and the baijiu market in China continues to be challenging"* (page 6 of the annual report) although the chairman later mentioned that the first-tier players rebounded and emerged stronger after a challenging period.

In a recent Bloomberg article\* titled "The world's most valuable distiller is running out of liquor" (Jan 18, Bloomberg), there is a buying frenzy nation-wide for the top-tier baijiu. This has propelled the market value of Kweichow Moutai to more than US\$145 billion. The demand for their baijiu has pushed its resale value to more than RMB3,000 per bottle, which is more than double the suggested resale ceiling of RMB1,499. The company has said that it is "literally running out of liquor".

Granted that the group's "Dukang" is not a first-tier brand, its products are positioned to target the mid-to-high end market. The bifurcation in the market means that demand and pricing power for "Dukang" products have not moved up in tandem with the high-end market, leading to the group's severe underperformance.

**Would the board consider it opportune to carry out a strategic review of the group's operations to assess the core competencies of the group, its management team, its assets (including the brand) and its financial strength and to fine-tune its strategy so as to create long-term sustainable value for all shareholders?**

(\*Source: <https://www.bloomberg.com/news/articles/2018-01-17/the-world-s-most-valuable-distiller-is-running-out-of-liquor>)

2. As disclosed on page 6, the prolonged severe air pollution and the poor weather condition in the winter months resulted in the suspension/reduction of production. Coal burning was restricted to lower the emissions of industrial pollutants.

The group expects this disruption to recur until the air quality improves.

- (i) **Did the board identify air pollution/disruption of production as a key risk to the group's operations?**
- (ii) **Did management evaluate improvements or changes to its production process, such as the use of cleaner sources of fuel/substitutes or by installing filters and scrubbers to clean "exhaust fumes"?**
- (iii) **What pro-active measures will be taken to minimise the disruption to the group's operations?**

3. Two of the company's independent directors, namely Mr. Tan Siok Sing (Calvin) and Mr. Chia Seng Hee, Jack were appointed on 26 June 2008. As both directors have served on the board for more than nine years from the date of their first appointment, the nominating committee (NC) conducted a rigorous review of their independence.

The NC comprises of Mr. Chia Seng Hee, Jack (as chairman), Mr. Tan Siok Sing (Calvin) and Mr. Ho Teck Cheong. It is noted that two of the NC members, including the NC chairman, are subject to the rigorous review of independence.

- (i) Can the NC describe in greater detail how the “particular rigorous review” of the independence of the director was carried out?**
- (ii) Two of the NC members (including the chairman) are subject to the “particularly rigorous review”. Please explain how the particularly rigorous review was carried out to ensure effectiveness.**
- (iii) Was any director involved in the determination of his own independence?**

Notwithstanding that the NC determined, and the board concurred, that the long tenured directors are independent, Guideline 2.4 of the 2012 Code of Corporate Governance calls for the board to “also take into account the need for progressive refreshing of the Board”.

- (iv) The appointment of Mr. Ho Teck Cheong as an independent director occurred in April 2011. What are the board's near-term plans to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory?**
- (v) Has the board evaluated the impact of the 2018 Code of Corporate Governance and the amendments to the Listing Rules on the board?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 and 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:

2017: -----

2016:

[https://sias.org.sg/media/qareport/1478155178\\_DKDH---Annt---Response-to-SIAS-Questions.pdf](https://sias.org.sg/media/qareport/1478155178_DKDH---Annt---Response-to-SIAS-Questions.pdf)