



**Securities Investors Association (Singapore)**

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UEN No: S99SS0111B

GST Reg No: M90367530Y

**Issuer:** Dutech Holdings Limited

**Security:** Dutech Holdings Limited

**Meeting details:**

Date: 25 April 2019

Time: 10.00 a.m.

Venue: Room 308, Suntec Singapore, Convention & Exhibition Centre, 1 Raffles Boulevard, Suntec City, Singapore 039593

**Company Description**

Dutech Holdings Limited is a global manufacturer of high security products. The principal activity of the Company is investment holding and general wholesale of high security products. The Company's products include automatic teller machine (ATM) safes, banking safes, commercial safes and cash handling systems. It also designs and manufactures intelligent terminals and provides other business solutions to its customers. It operates in two segments: High Security and Business Solutions. The High Security segment designs and manufactures ATM safes, fire-resistant commercial safes, safes for storage of weapons and other security products. The Business solutions segment provides business solutions by designing, engineering, manufacturing and assembling electro-mechanical equipment and modules, precision engineering parts, semi-conductor instruments and other products. The Company has operations in People's Republic of China, North and South America, Europe, Asia Pacific and Africa.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=CZ4](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=CZ4))

1. On 19 March 2019, the company posted an announcement titled “Response to SGX queries” in response to the exchange’s queries on the company’s full year results announcement released via SGXNet on 28 February 2019.

The exchange asked for more clarity on the following issues, including:

- Adequacy of impairment loss on trade receivables
- Reversal of long term unclaimed payable
- Write back of other liabilities and write back of contingent consideration
- Breakdown of other expenses
- Nature of other receivables, deposits and prepayments

The response to the queries by the exchange was 3 pages long.

- (i) How did the audit committee (AC) review the quarterly and full year financial statements before they were published on SGXNet?**
- (ii) What deliberations did the AC have over the level of disclosure on significant financial reporting issues and judgements; changes in accounting policies and practices; major risk areas; as well as compliance with accounting standards, and compliance with exchange, statutory and regulatory requirements?**
- (iii) In its review, did the AC ensure that sufficient information is provided to shareholders to allow them to assess the performance and risk of the group?**
- (iv) Can the board, especially the independent directors on the AC, help shareholders understand their accounting and related financial management expertise or experience?**

In fact, the company received 6 queries since April 2017 and had been queried by the exchange 9 times since April 2015.

- (v) Has the AC reviewed the queries by the exchange and evaluated the company’s quality of financial reporting and made improvements to the processes and raised its level of disclosure?**
- (vi) Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity and quality of the financial statements?**

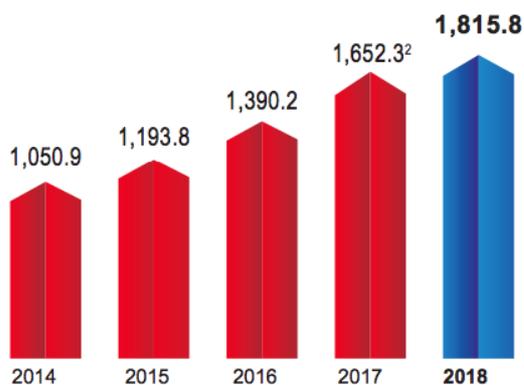
2. Following the strategic acquisitions, the group has transformed into a global leading manufacturer with two core businesses: High Security Segment and Business Solutions Segment.

The chairman highlighted the group’s investments in R&D and innovative products, coupled with the group’s operational efficiency achieved through quality improvement and

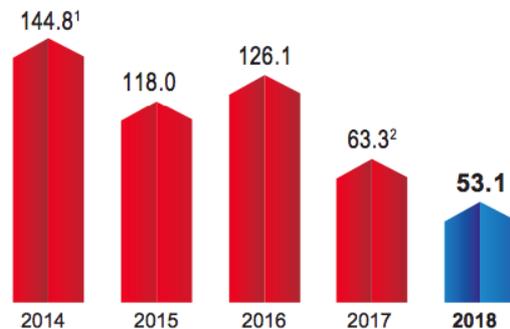
resource optimisation. The group has targeted a shift up the value chain and expansion of its market presence and customer base.

As shown on page 5 of the annual report (Financial highlights), the group has increased its revenue by 73% from 2014 to 2018 but profit attributable has been on a downward trend dropping from RMB144.8 million (or RMB88.9 million if the effect of one-off bargain purchase was excluded) to RMB53.1 million in 2018.

**REVENUE** (RMB Million)



**PROFIT ATTRIBUTABLE TO SHAREHOLDERS** (RMB Million)



<sup>1</sup> Excluding the one-off bargain purchase of RMB55.9 million in FY2014 arising from the acquisition of DTMT, the profit attributable to shareholders was RMB88.9 million in FY2014.

<sup>2</sup> Restated due to the adoption of SFRS(I) 15.

(Source: Company annual report)

- (i) **Would the board help shareholders better understand its business model and identify the key value drivers for the group?**
- (ii) **Have the acquired companies been fully integrated into the group?**
- (iii) **What synergies are there? Has the group been able to optimise the resources to streamline its processes on a global basis?**
- (iv) **What are the challenges as the group moves from a hardware-based manufacturer to a software-heavy manufacturer?**
- (v) **The decline in profits seems to suggest that competition is eroding the group's margin. Can management elaborate further how the new products can capture better margins? How does the group prevent low-cost manufacturers from copying their concepts, designs and implementation?**

3. Would the board/management provide shareholders with better clarity on the following financial matters? Specifically:

- (i) Trade receivables:** The “Impairment of trade receivables” is a key audit matter (KAM) highlighted by the Independent Auditor’s in their Report on the Audit of the Financial Statements (page 29). Key audit matters are those matters that, in the professional judgement of the Independent Auditor’s, were of most significance in the audit of the financial statements of the current period. **Has the board evaluated how it could further improve its collection to reduce its credit risks?**
- (ii) Research and development:** The research and development cost is presented in the financial statement as a single line item amounting to RMB78.7 million in FY2018 and RMB55.6 million in FY2017. **Would management consider providing a breakdown of the R&D expenses? How does the board oversee the R&D budget and evaluate the effectiveness of the group’s R&D?**
- (iii) Tax:** What is the reason for the increase in income tax expense from RMB2.56 million in FY2017 to RMB14.07 million in FY2018?
- (iv) Dividend:** The group has cash and bank balances of RMB335 million as at 31 December 2018, against total borrowings of RMB180.6 million. Cash generated from operations has also increased to RMB153.8 million compared to RMB32.7 million in the previous year. The company gave out an interim dividend of 1 cent per share in July 2018. **Has the board evaluated the optimal capital structure? Has the board deliberated on a higher dividend pay-out given the strong financial position of the group coupled with the strong cash flow from operations?** The interim dividend of 1 cent per share translates to approximately RMB17.8 million.