"Appendix A"

Q&A

Dutech Holdings Limited

Q1

For the financial year ended 31 December 2019, the group reported higher revenue of RMB 1.88 billion, up 3.2% from a year ago. The group achieved a net profit after tax of RMB 79.1 million, an increase of 48.9%. Earnings per share were RMB 22.19 cents, up from RMB 14.90 cents in FY2018.
Revenue from the Business Solutions segment increased by 12.3% to offset the drop in revenue from the High Security segment. The performance of each segment can be seen from Note 39 (pages 99 to 102 of the annual report).

Q1(a) :

High Security: Revenue from the segment declined 4.8% to RMB 921 million although segment profit increased to RMB 121 million. Are there signs that the long-term secular decline of the High Security business is faster than management's projections? Does management expect the COVID-19 pandemic to accelerate the decline in the High Security segment?

Answer to Q1(a):

We have a varied customer base for our high security segment. Whilst the banking and ATM customers have been on the decline for several years, there have been other opportunities in this segment.

We believe COVID-19 would influence and accelerate the decline in this segment.

Q&A

Dutech Holdings Limited

Q1

Q1(b) :

Business Solutions: Segment profitability was affected in FY2019 as the company recognized the impairment of right-of-use assets of RMB 9.5 million and impairment of intangible assets of RMB 32.5 million. In fact, the segment already recognized impairment of intangible assets of RMB 13.7 million in FY2018. These relate to the impairments recognized by the Metric entities relating to development costs (RMB 26.9 million), customer relationship (RMB 18.8 million) and ROU assets (RMB 9.5 million). The Metric entities were acquired in October 2016 for $4.5 million to allow the group to leverage its advanced software design capabilities, its good customer resources and for the synergies.

How has the operating environment evolved in the past three years since the acquisition? As disclosed in Note 15 (page 77 – Intangible assets), the Metric entities have reported significant losses and are in net liability positions. What were the lessons learned by management? How has the board/management fine-tuned its acquisition strategy?

Answer to Q1(b):

Since acquisition, we have been reviewing the strategies of Metric UK. We have also made significant changes to its leadership, organization and operations in the last year. As the business conditions of Metric is unfavourable, the Board felt it was necessary to impair the intangible assets and right-of-use assets. The Group continues to work closely in turning around the operations of Metric UK.

Q&A

Dutech Holdings Limited

Q2

In 2019, the group recorded revenue of RMB 1.88 billion and the group's cost of sales amounted to RMB 1.354 billion. Selling and distribution expenses were RMB 99.4 million while administrative expenses totaled RMB 273.9 million. These were 72.0%, 5.3% and 14.6% of revenue respectively.
Even though the amounts were as significant as RMB 1.354 billion, the company did not provide a breakdown or any further information in the notes to the financial statements. In 2015, when the group achieved revenue of RMB1.05 billion, the cost of sales, selling and distribution expenses and administrative expenses were 75.5%, 5.5% and 10.8% of revenue respectively.

Q2(a) :

Would the company consider providing a breakdown to the major cost items in the financial statement? Doing so will provide shareholders with more clarity on its cost structure and its competitiveness.

Answer to Q2(a):

The Group prepares its financial statements in accordance with the requirements of Singapore Financial Reporting Standards (International), which does not require a detailed breakdown of its costs of sales.

Cost structure is confidential business data and represents our competitiveness in the market. We do not believe additional disclosure of our cost of sales is advantageous to the Company.

Q&A

Dutech Holdings Limited

Q2

Q2(b) :

Even as revenue increased by 80% in the 5-year period, the group's cost of sales declined from 75.5% to 72.0%. Has the group been able to enjoy economies of scale in its production to lower its cost of sales significantly?

Answer to Q2(b):

In 2015, cost of sales represents 71.4% of revenue instead of 75.5%. Between 2015 to 2019, our cost of sales has slightly increased from 71.4% to 72.0% of revenue.

This is mainly due to the higher cost of sales in our Business Solution segment. Revenue contribution from Business Solution segment has increased from 31.1% in 2015 to 51.1% in 2019.

Q&A

Q2

Q2(c):

In fact, administrative expenses as a percentage of revenue has increased from 10.8% to 14.6%. Would management help shareholders understand the reasons for the increase? How can the group better manage its costs?

Answer to Q2(c):

In year 2015, our main operations were in China, administrative expenses as 10.8% of revenue, which almost remain similar percentage level of revenue in 2019.

However in 2019, the Group has over 50% incomes from the subsidiaries outside of China, mostly from Europe, where administrative expenses is much higher than China.

Q&A

Dutech Holdings Limited

Q3

The group restated its FY2018 financial results due to the reclassification of net gain on "sales of raw materials" and "amortization of land use rights" previously presented under "Other income" and "Other expenses" to "Revenue" and "Cost of sales" respectively.

As shown in Note 43 (page 117 – Comparatives and prior year reclassifications), management stated that it had also reclassified "Government grant received" from cash flow from investing activities to operating activities, and amount due from a related party from financing activities to operating activities.
It was disclosed that such reclassification better reflects the substance of the transactions. Accordingly, the prior period comparatives have been reclassified to conform to such presentation.

Q3(a) :

Would the audit & risk committee ("ARC") help shareholders understand what has changed since the last financial year that necessitate the reclassifications of the transactions mentioned above?

Q&A

Dutech Holdings Limited

Answer to Q3(a):

The Group routinely procures and sells its raw materials, such as steel. The amount of such sales of raw materials approximate RMB9.2 million in FY2017, RMB6.8 million in FY2018 and RMB10.7 million in FY2019. As these are sales in the ordinary course of business, the ARC felt it was more appropriate to classify them as “revenue” with their corresponding costs captured in “cost of sales”.

The Group’s land use rights are predominantly used in our factory operations and is an essential cost in our manufacturing activities. Therefore, the ARC, after reviewing with the auditors, felt that it is more appropriate to include them in our “cost of sales” rather than as “other expenses”.

Government grants received for FY2018 and FY2019 were primarily for our research costs incurred. As research expenses are considered an operating cash flow, the ARC is of the opinion that the grant received for research should similarly be classified as an operating cash flow. In the earlier years, some of the government grants were subsidies for purchase of assets and therefore, the grants were accounted for as “investing cash flows”.

The amount due from a related party relates primarily to trade activities, such as buying and selling of materials, rental payments and therefore, it was also more appropriate for these cash flows to be classified as “operating cash flows” rather than “financing cash flows”.
The ARC had discussed and obtained the concurrence of the auditors in these reclassifications.

Q&A

Dutech Holdings Limited

Q3

Q3(b):

What was the level of involvement of the ARC in the review of the quarterly and annual financial statements to ensure the integrity of the financial statements?

Answer to Q3(b):

Please refer to page 20 of our Annual Report on the scope of ARC's review on the quarterly and annual financial statements.

Q3

Q3(c):

What changes have the ARC made to the group's reporting function and processes to further ensure the integrity of the financial statements?

Answer to Q3(c):

The Group has a team of qualified accounting professionals who is responsible for the group's financial reporting. Majority of the team members have more than 5 years of auditing experience in the big 4 firms. The Group also engages a reputable auditing firm in auditing its financial statements.

The ARC also works closely with management to ensure that the accounting treatment for non-routine transactions and new accounting standards are discussed and agreed as early as possible.

The ARC will continue to work with management to further streamline our processes to ensure the integrity of the financial statements.

Q&A

Dutech Holdings Limited

Q4

Note 39 – Revenue by Geographical segment. Sales to North and South America in 2019 increased compared to 2018. This seems surprising in light of the tariffs imposed on Chinese imports to the US.
How have these tariffs impacted sales in the US if at all?

How has the US-CHINA trade war affected the group's business?

Answer to Q4:

The trade war has adversely impacted almost all manufacturing companies' export business in China, including Dutech. However, we have started to implement various measures to cushion the negative impact, for example, we established manufacturing facilities in the Philippines and Vietnam to support our customers in the US. This has allowed us to retain most of our businesses and relationships with our US customers but this has also resulted in higher operating costs and logistical complexities. We are working continuously on various options to minimize these negative impact.

Q&A

Dutech Holdings Limited

Q5

Why is the company's revenue in China so much smaller than Europe and the Americas market? In fact the China revenue decreased compared to previous year (Page 102 of 5 AR).

What challenges is the company facing in growing its business in China and what is the plan to overcome them?

How would the launch of DuSafe affect the OEM business?

Answer to Q5:

Our High Security products are UL and CEN certified which are highly valued by our European and American customers. These customers are willing to pay a premium on these high quality products.

However, customers in the China market are less sensitive to these certifications and Dutech has no intention to enter into the lower end market and compete based on price.

DuSafe has multiple models, which can be applicable to OEM and end consumers, with different specifications. Our Dusafes are designed for different applications and have different colors and features, depending on the model.

Q&A

Dutech Holdings Limited

Q6

What are the targeted customers for Dutech new generation of parking solutions that integrates Automatic Number Plate Recognition?

Could you elaborate on the business model and who is paying for this new parking solution (government, private landlords or individual car owners)?
Which are your targeted countries to market this solution?
What are the feedback by the early adopters of this solution?

Answer to Q6:

ANPR has been widely used in parking industry. We have seen an increasing demand for this by private parking landlords.

Our target customers include schools, factories and offices who have regular incoming and outgoing vehicles.

ANPR allows the landlords to provide a convenient parking solution, saving both time for the users as well as labour costs for the carpark owner.

The Group is currently working on opportunities in the UK market.

Q&A

Dutech Holdings Limited

Q7

Note 10 states that Metric Group continues to report losses and was in a net liability position as of December 31st 2019. At the AGM in 2019 the viability of these subsidiaries going forward was discussed.

Please comment on how the management regards the future prospects of these subsidiaries currently compared to a year ago.

Answer to Q7:

Since acquisition, we have been reviewing the strategies of Metric UK. We have also made significant changes to its leadership, organization and operations in the last year. The Group continues to work closely in turning around the operations of Metric UK.

We are pleased to report that we have managed to reduce the headcount from 151 in early 2019 to 125 recently. We have also replaced the CEO and CFO in the last couple of months. The company has saved GBP 1m through cost cutting and staff reduction.

Q&A

Dutech Holdings Limited

Q8

a. Cash balance/ Dividends: Dutech's cash balance as at 31 December 2019 is about RMB448 million (~ S$90 million), which is actually more than the company's current market capitalization. Why is the company hoarding cash and not paying it out to shareholders?
b. Based on the cash flow statement, net repayment of borrowings for FY2019 is about RMB60 million. Why has total borrowings on the balance sheet not decreased correspondingly?

Answer to Q8:

The Board has a prudent cash management policy, which has proved to be a useful policy especially in the current pandemic situation.

The Group's cash is held by various entities to meet their operating requirements. Due to strict capital and treasury controls in China, transfer of funds to/from overseas entities may not always be straightforward or expedient and therefore, it is important for each entity to be cash flow positive and to borrow in their domestic country if necessary. This also offers a natural currency hedge for the Group.

Our strong cash position is also a pre-requisite in securing certain city and government projects, such as TVM for public transportation segments.

Q&A

Dutech Holdings Limited

Q9

What is the management plan for keeping the high cash level? What is the management's strategy to unlock shareholders' value in the coming years?

Answer to Q9:

See answer to Q8.

The Company acquired a few companies from the insolvency court. If we see Mergers and Acquisitions （M&A） opportunities in near future, we may continue to grow our business by M&A especially if the valuation of these companies are relatively low.

Q&A

Dutech Holdings Limited

Q10

Is there going to be any quarterly report or updates on the business situations? Company has been silent on this issue.

Can the company consider including a business or operation review section in the AR to help minority shareholders better understand the achievements and challenges of the various business units?

Answer to Q10:

We will make the necessary announcement as required by SGX regulations.

Q&A

Dutech Holdings Limited

Q11

The share buyback mandate was given in last AGM and nothing was done even with the very low stock price. This year you are still asking for the share buyback mandate.

Is this for show or are you serious in doing it?

Answer to Q11:

We will continue to evaluate and will effect the share buyback if we believe it is appropriate to do so.

Q&A

Dutech Holdings Limited

Q12

How is our company affected by COVID-19?

How is the overall outlook for the 2020?

If there is no 1st quarter report, is the company planning to issue any interim dividend (maybe mid-year) this year given that 2019 business was pretty good.

Shareholders are expecting a dividend as the company has more than ample cash to do so even with the tough economic conditions this year.

Answer to Q12:

COVID-19 has a significant impact on the world economy and has certainly impacted our business and our customers. In Q1 2020, we saw a decline of approximately 40% in our Business Solutions segment although the Group registered a slight increase in our home safes and gun safes business. On an overall basis, we expect to see a decrease in our revenue although we remain cautiously optimistic that we will continue to be EBITDA positive.

The Board will continue to evaluate the situation in determining whether to declare an interim dividend this year.