



DUTECH HOLDINGS LIMITED

(Incorporated in the Republic of Singapore)

Registration No. 200616359C

RESPONSES TO QUERIES RAISED BY SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE UNAUDITED FINANCIAL STATEMENTS FOR THE SECOND HALF YEAR AND FINANCIAL YEAR ENDED 31 DECEMBER 2020

The Board of Directors (the “**Board**”) of Dutech Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) refers to the Company’s Unaudited Financial Statements for the second half year and financial year ended 31 December 2020 released on 1 March 2021 and wishes to respond to the queries raised by Singapore Exchange Securities Trading Limited (“**SGX-ST**”) as follows:

SGX-ST’s Query 1:

The Company disclosed on page 3 of the Financial Statements that it has written down raw materials of RMB 7.1 million and made a provision for onerous contract of RMB 12.1 million, due the cancellation of a shipment by a key customer. In this regard, please disclose: (a) the action taken thus far and the Company’s plans to recover its losses; (b) whether the Company continues to transact with this customer and if so, the commercial reasons for doing so; (c) the Board’s assessment of the recoverability of the remaining receivables owed by the key customer.

The Company’s response:

The key customer referred to in the announcement operates in the casino entertainment industry which was significantly impacted by the COVID-19 pandemic with border closures and lockdowns imposed in numerous countries. The Company had attempted to utilise the raw materials for other products to minimise its loss but unfortunately, certain of the materials were specific to the customer and the specific order and therefore, the Company wrote down the value of these materials and made provision for any resulting onerous contracts with its suppliers.

In previous financial years, the Company has made significant investments in plant and equipment, technical know-how and human resources to meet the sales demand of this key customer. Taking into consideration of the past significant sales contribution from this key customer as well as the significant investment made by the Company to meet the requirements of this key customer, the Company has not and does not intend to cease transacting with this customer. The Company continues to be in negotiations with the customer and its suppliers on the losses incurred on the cancelled shipment and remains optimistic that the customer will continue to be a profitable account in a post-pandemic environment.

The outstanding receivables balance from this customer as at December 31, 2020 is approximately USD 1.2 million. The Company does not foresee any recoverability issues on the outstanding receivables and the Board concurs with the assessment of the Company. In addition, the Group procures credit insurance to mitigate any recoverability issues on its receivables.

SGX-ST's Query 2:

Please explain why interest income amounted to only RMB 6.0 million during the financial period ended 31 December 2020 when the Company has significant cash and bank balance amounting to RMB 499.1 million.

The Company's response:

As at 31 December 2020, approximately 74% of the Group's cash and bank balance of RMB 499.1 million were denominated in United States dollars and Euro dollars. As these deposits were offered with minimal returns of close to zero, the Company's interest income for the year ended 31 December 2020 approximates only RMB 6.0 million.

SGX-ST's Query 3:

Please disclose a breakdown of "trade payables" and "other payables and accruals" amounting to RMB 157 million and RMB 133 million respectively. For "other payables and accruals", please disclose the aging and nature of these other payables and accruals and whether the counterparties are related parties.

The Company's response:

The breakdown of "trade payable" is as below:

RMB'000	Amount
Trade payables for raw material purchase	130,673
Provision for onerous contracts	26,509
	157,182

The breakdown of other payables and accruals is as below:

RMB'000	Amount	Within a year	More than a year
Accrued payroll and bonus	53,952	53,952	-
Other employee benefits	21,547	16,427	5,120*
Accrued freight charges	7,739	7,739	-
Provision for warranties	6,878	6,878	-
Tax payables	5,151	5,151	-
Provision for idle land fee	5,283	5,283	-
Other creditors	5,445	4,583	862
Accrued expenses	27,481	27,481	-
Total	133,476	127,494	5,982

**The balance of other employee benefits over one year is staff union funds. Staff union funds is provided on 2 % of the total amount of gross wages and salaries according to the related regulation issued by All-China Federation of Trade Unions, which is mainly used for employee services and trade union activities. Due to the COVID-19 pandemic, most of the trade union activities were postponed, and as a result, accruals for staff union funds amounting to RMB 5.1 million was aged more than 1 year.*

None of these other payables and accruals are with counterparties that are related parties, save for the accrued payroll and bonus for the Executive Directors.

SGX-ST's Query 4:

Please provide the reason(s) for the significant borrowings of RMB 170 million by the Group when the Group recorded a cash and cash equivalent of RMB 499 million as at 31 December 2020.

The Company's response:

The breakdown of the Group's borrowings is as below:

	RMB'000
Lease liabilities	53,837
Government special COVID-19 loan	5,779
To finance the construction of warehouse or acquisition of freehold land and building	15,446
To finance the working capital	95,636
Total	170,698

Referring to above table, RMB 53.8 million was lease liabilities recognised in compliance with SFRS(I) 16 *Leases*; RMB 5.8 million was a special government loan granted to one of our German subsidiaries due to COVID-19 pandemic; Majority of the mortgage loans were obtained in the construction or acquisition of land and buildings and were being repaid according to the loan schedule. In addition, as disclosed in our announcement, the Group's sales are mainly transacted in USD while major purchases are transacted in RMB. For the purpose of operating activities, working capital loans amounting to RMB 48.5 million was obtained by a PRC subsidiary to finance the payment to suppliers. Working capital loans were also obtained by our UK subsidiary to meet their operating requirements. Certain of these loans were obtained in part to maintain the credit facilities availed to the Group entities.

Total borrowings of the Group have been reduced from RMB194.8 million on 31 December 2019 to RMB 170.7 million on 31 December 2020. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group believes a healthy level of borrowings is part of its liquidity risk management.

SGX-ST's Query 5:

Please provide the reason(s) for the significant trade payables and other payables and accruals of RMB 157 million and RMB 133 million when the Group recorded a cash and cash equivalent of RMB 499 million as at 31 December 2020.

The Company's response:

Majority of the trade payables and other payables (including accrued expenses) are not due and are within its credit terms. Based on the Group's cashflow management policy, the Group plans to schedule its payments to suppliers on a timely basis to fully maximise the credit terms granted by its suppliers.

On behalf of the Board

Dr Johnny Liu
Executive Chairman and CEO
10 March 2021