

DUKANG DISTILLERS HOLDINGS LIMITED

(Incorporated in Bermuda)
(Company Registration No. 41457)

RESPONSE TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ("SGX-ST") ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015 ("RESULTS ANNOUNCEMENT")

In response to the queries raised by the SGX-ST in its email dated 4 September 2015, The Board of Directors of Dukang Distillers Holdings Limited (the "Company") together with its subsidiaries (the "Group") would like to provide the following additional information in relation to the Results Announcement dated 28 August 2015:-

Query 1

The Company reported significant impairment losses totaling RMB547.4 million in its FY June 2015 (FY2015) Results comprising:-

- a) Impairment loss on interest in an associate of RMB37.0 million
- b) Impairment loss on property, plant and equipment ("PPE") of RMB471.7 million
- c) Impairment loss on intangible assets of RMB38.7 million

For each of the above items impaired in (a) to (c) above, please provide the following information:-

- (i) The identity and the relevant track record of the valuer engaged by the Company to assess the "recoverable amounts" of the assets in listed companies. Has the valuer performed similar valuations for listed issuers and if not, the reason why the Company has engaged this valuer and explain why it is suitable for opining on such significant impairment amounts;
- (ii) The valuation methodologies and major assumptions used by the valuer in its assessments. Also, quantify the major changes in assumptions which resulted in the significant impairment losses on each of the PPE, interest in an associate and intangible assets; and
- (iii) Provide a breakdown of the major assets within the above classes that were impaired. For each major asset class, disclose the major assumptions used to arrive at the value-in-use and the main assumptions that changed from FY2014 which resulted in the significant impairment of PPE in FY2015.

Company's response

- (i) The Company engaged LCH (Asia-Pacific) Surveyors Limited (the "Valuer") to assess the "recoverable amounts" of the Group's non-current assets. The Valuer is independent of the Company and its subsidiaries and has been performing asset valuations for various purposes including similar valuations for listed companies in Hong Kong and Singapore. They are also experienced in the baijiu industry as they have valued the fixed assets of two of the Company's major subsidiaries in FY 2010.
- (ii) PPE was valued under the premise of "fair value less cost of disposal" ("FVLCOD"). Examples of cost of disposal are legal costs, stamp duty and other transactional taxes, costs of removing

and direct incremental costs to bring an asset into condition for its sale. The FVL COD of PPE was determined by using market approach which considers prices recently paid or offered for similar assets, with adjustments made to the indicated market prices to reflect the condition and utility of the appraised assets relative to the market comparative. The valuation has been made on the assumption that the asset is sold in the market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to affect the value of the property interest.

The non-current asset of the Group's associate (the "Associate") represents a trademark "Dukang" which is exclusively licensed to the Group for sale of trademarked products (the "Trademark"). In determining the recoverable amount of the Group's interest in an associate, the directors of the Company are of the view that since the Trademark is a very significant asset of the Associate, the recoverable amount of the Group's share of the Trademark essentially equals to that of interest in an associate.

Intangible assets represent the intellectual property rights in and associated with the name, brand and logo of "Ruyang Dukang".

The assessments of the Trademark and the intangible assets are determined using the relief from royalty method under the income approach, based on the future cash flow projections covering a five-year period. The key assumptions used for the cash flow projections include the budgeted turnover and expenses during each of the forecasting periods based on historical operating results, the expected market development and royalty rates with reference to similar licensing agreement of comparable trademark. The discount rate applied to the projected cash flows, which reflect specific risks relating to the Trademark and the intangible assets, is derived using the Capital Asset Pricing Model.

In accordance with IAS 36, recoverable amount is defined as the higher of the value in use ("VIU") and FVL COD. As at 30 June 2014, no impairment loss were recognised in profit or loss in respect of the interest in an associate, PPE and intangible assets as the VIU of each of these assets were higher than the carrying amounts of the respective assets. As at 30 June 2015, the recoverable amounts of these assets were determined based on FVL COD calculation. The VIU calculations are to be detailed in our reply to Query 1(iii).

(iii) The breakdown of the major impaired assets is as follows:

	Carrying amount RMB'000	Impairment losses RMB'000	Net carrying amount RMB'000
Property, plant and equipment	857,330	471,729	385,601
- Leasehold buildings	716,069	364,329	351,740
- Plant and machinery	121,990	106,285	15,705
- Furniture, fixtures and office equipment	1,907	1,115	792
- Motor vehicles	972	-	972
- Construction in progress	16,392	-	16,392
Intangible assets	40,000	38,720	1,280
Interest in an associate	156,027	36,957	119,070

In determining the recoverable amounts of the Group's non-current assets, the PPE, prepaid land lease payments and the intangible assets have been allocated by the management to the

cash-generating unit in relation to baijiu products under Luoyang Dukang Holdings Limited and its subsidiaries (the “Dukang Baijiu CGU”). As at 30 June 2014, the VIU of the Dukang Baijiu CGU and the interest in an associate were higher than its respective carrying amounts.

The VIU calculation of the Dukang Baijiu CGU uses cash flow projections based on financial budgets approved by the senior management covering a five-year period with a gross profit rate of 36.9% and a discount rate of 11.8%. The cash flows beyond the five-year period are extrapolated using a 5.0% growth rate. Management determined the gross profit rate and the growth rate based on past experience and future expected market trends.

The VIU calculation of the Group’s interest in an associate uses cash flow projections based on financial budgets approved by the senior management covering a five-year period with a royalty rate of 1.5% and a discount rate of 11.8%.

Since the VIU of the Dukang Baijiu CGU and the Group’s interest in an associate were higher than their carrying amounts, no impairment losses were recognised in profit or loss for the financial year ended 30 June 2014.

In view of the continuous weakening of the baijiu industry due to the austerity measures in China and significant changes in the economic and political environment in the PRC which adversely affected the demand for the Group’s baijiu products in the financial year under review, the Group suffered a 40.5% and 148.2% decline in revenue and profit/loss before taxation during the current financial year. Accordingly, the management determined that the VIU of the Dukang Baijiu CGU and the interest in an associate are no longer higher than their respective carrying amounts and thus performed impairment reviews on these assets based on FVLCOB calculations as of 30 June 2015. The FVLCOB of these assets have been determined by the Valuer using various approaches which have been mentioned in our reply to Query 1(ii) above.

Query 2

Disclose details and identity of the associate which carried the impairment loss of RMB37.0 million. Provide a discussion on the background and reasons for the impairment and what has changed since FY2014 which resulted in the significant impairment in FY2015.

Company’s response

The associate, Yichuan Dukang Jiuzu Asset Management Limited (“Yichuan Trademark Co.”), was established in 2009 solely for the registration of the “Dukang” Trademark. Yichuan Trademark Co. granted an irrevocable, perpetual and exclusive license of the intellectual property rights in and associated with the name, brand and logo of “Dukang” to the Group in exchange for a license fee, which was determined as 1.5% of sales.

Reasons for the impairment and the related rationale have been mentioned in our reply to Query 1(iii) above.

Query 3

Disclose details what the intangible asset is and provide a breakdown of the costs incurred to acquire the intangible asset. Provide a discussion on the background and reasons for the impairment of the intangible assets and what has changed since FY2014 which resulted in the significant impairment in FY2015.

Company's response

Intangible assets represent the intellectual property rights in and associated with the name, brand and logo of "Ruyang Dukang" acquired as a result of the acquisition of the Luoyang Dukang Holdings Limited in FY2010.

Reasons for the impairment and the related rationale have been mentioned in our reply to Query 1(iii) above.

Query 4

The Company also incurred a loss on disposal of PPE of RMB2.8 million and a write-off of PPE of RMB10.7 million. To provide details on the terms of disposal of the PPE which resulted in the loss of RM13.5 million to the Company.

Company's response

The Group has been relocating its production facilities from the existing Yichuan factory (the "Old Site") to the new Yichuan factory (the "New Site") during the year as detailed in the Company's announcement dated 13 February 2015 (the "Relocation"). The loss on disposal of PPE of RMB2.8 million was resulted from the sale of scrapped structures of the Old Site when the factory has been partially demolished in FY2015. The write-off of PPE of RMB10.7 million included certain plants and structures of brew house which are incapable of being relocated to the New Site pursuant to the Relocation. The management has written off those items as those are not held for use in production of goods and no future economic benefits are to be expected.

Query 5

Please provide details on the prepaid land lease payments of RMB118.8 million, including details on:

- (i) the size of the land,
- (ii) when the prepayment was made;
- (iii) the consideration for the acquisition;
- (iv) the vendor's identity;
- (v) the material terms of the sale and purchase agreement;
- (vi) when the acquisition will be completed and the reasons for any delays faced by the Company; and
- (vii) how the acquisition will be funded.

Company's response

Prepaid land lease payments (comprising land use rights and long-term prepaid rentals) represent up-front payments to acquire long term interests in the usage of land held under an operating lease in the PRC. They are stated at cost less accumulated amortisation and impairment losses, if any. The up-front payments are amortised over the lease period on a straight-line basis. All of the land are under medium-term leases.

The details are as follows:

Period of completion of upfront payments and taxes	Size (square m)	Vendor	Usage	Valid Until	Cost (including taxes) (RMB'000)	Carrying amount as at 30 Jun 2015 (RMB'000)
4Q FY2015	206,666.60	Yichuan County Land Resources Bureau	Industrial	March 2065	29,347	29,347
1Q FY2013 2Q FY2012	29,195.78 11,242.95	Ruyang Municipal Bureau of Land Resources and Housing	Industrial	May 2058	11,525	10,202
4Q FY2011	64,542.30	Ruyang Municipal Bureau of Land Resources and Housing	Industrial	March 2071	16,490	15,391
4Q FY2010 (Note a)	67,894.43 37,755.43 168,270.56 57,894.11 7,966.50 9,211.58	Ruyang Municipal Bureau of Land Resources and Housing	Industrial	July 2058	71,348	63,837

118,777

Note a:

Acquired as a result of the acquisition of Luoyang Dukang Holdings Limited, its subsidiaries and associated companies in 4Q FY2010.

BY ORDER OF THE BOARD

Zhou Tao
CEO and Executive Chairman
10 September 2015