



DK

杜康控股

Dukang Distillers Holdings Limited

秉承技艺，文化底蕴
Superior foundation
A superior **prospect**

ANNUAL REPORT 2019



Superior
innovation

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Based in Henan Province, the People's Republic of China (the "PRC"), Dukang Distillers Holdings Limited (formerly known as Trump Dragon Distillers Holdings Limited) ("Dukang" or the "Group"), is a producer and seller of baijiu ("白酒") products.

As the first PRC baijiu enterprise listed overseas, the Company has its primary listing on the Mainboard of Singapore Exchange Securities Trading Limited since September 2008 and the listing of its Taiwan Depository Receipts on the Taiwan Stock Exchange since March 2011.

Originated from the brand 「Siwu」 ("四五"), the Group acquired Luoyang Dukang Holdings Limited ("洛阳杜康控股有限公司") in May 2010 and currently sells its products under the 「Dukang」 brand name.

Named after the forefather of baijiu and drawing upon a long history and rich cultural heritage of over five thousand years, the 「Dukang」 brand is poised to target the mid-to-high end baijiu market in the PRC.

The Group's products are sold via distributors mainly to supermarkets, flagship stores, specialty stores and restaurants.

The Group currently has an annual grain alcohol production capacity of 4,684 tonnes from 2,428 fermentation pools for the 「Dukang」 brand. With its distinctive taste and brewed using traditional methods, the 「Dukang」 brand has clinched national awards including China Intangible Cultural Heritage (2008), Henan Well-known Trademark (2008), China Well-known Trademark (2005), China Time-honoured Brand (2005), Top 10 Chinese Wine Brands (2001) and Star Enterprise of The National Wine Industry (1994).

In early 2013, the Group's 「Dukang」 brand was officially endorsed by the PRC government as one of the appointed baijiu to serve foreign dignitaries.



杜康控股

With more than 2000 years of history, "Dukang" ("杜康") is a well-known baijiu brand in and beyond Henan Province. Named after the forefather of baijiu - 杜康 ("Dukang"), the renowned "Dukang" brand name has a stronghold in Luoyang City.

We are committed to enhance the "Dukang" brand name via extensive marketing and branding activities. With its rich history and heritage, we believe "Dukang" will fully realise its brand potential and emerge as one of the top national baijiu brand names in the PRC.

"Dukang" products are positioned to target the mid-to-high end market in Henan Province, China.



品牌认知 Brand Recognition



Dukang No.1 (premium series)
杜康1号



Dukang No.2 (regular series)
杜二



Zone 12 Cellar -
Jiuzu Dukang Series
12窖区-
酒祖杜康系列



5 Star -
Mianrou Dukang Series
五星-
绵柔杜康系列



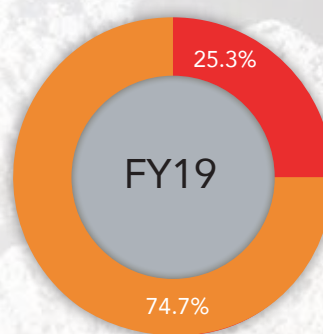
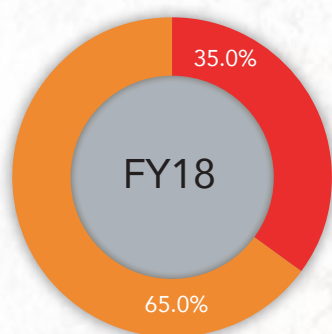
20 Years -
Guohua Dukang Series
20年-
国花杜康系列

Financial Highlights 财务概要

(RMB' million)

	FY19	FY18	FY17	FY16	FY15
Revenue	139.6	148.5	464.5	865.0	863.4
Gross Profit	48.4	41.7	121.1	301.0	213.4
Gross Profit Margin	34.7%	28.1%	26.1%	34.8%	24.7%
Net (Loss)/Profit	(69.4)	(222.0)	(112.4)	(10.7)	(561.4)
(Loss)/Earnings Per Share (RMB)	(0.87)	(2.78)	(1.41)	(0.13)	(7.03)*
Net Asset Value Per Share (RMB)	12.76	13.64	16.42	17.84	18.00*

* At the special general meeting of the Company held on 28 October 2015, shareholders of the Company had duly approved the share consolidation on the basis that every ten issued and unissued ordinary shares of par value of HK\$0.40 each to be consolidated into one ordinary share of par value of HK\$4.00 each effective from 20 November 2015 (fractional entitlements being disregarded). Comparative figures have been restated on the assumption that the share consolidation had been effective in prior years.



■ Luoyang Dukang Premium ■ Luoyang Dukang Regular

A pair of hands is shown holding a small, vibrant green plant with several leaves. The hands are positioned in the center of the frame, with the fingers gently cupping the plant. The background consists of large, jagged, grey rocks with a rough, porous texture. The lighting is bright and natural, casting soft shadows on the hands and the rocks. The overall composition is clean and focused on the plant and the hands.

Superior expansion

Chairman Statement 主席致辞

On behalf of the Board of Directors, Management and staff of Dukang Distillers Holdings Limited (“Dukang Distillers” or the “Company”, together with its subsidiaries, the “Group”), it is my pleasure to present our annual report for the financial year ended 30 June 2019 (“FY2019”).

The Year in Review

The Group’s revenue declined 6% year-on-year (“yoy”) from RMB148.5 million for FY2018 to RMB139.6 million for FY2019. This was mainly due to customer attrition as a result of the intensified baijiu market competition in the Henan Province during the year. The Group’s average selling prices (“ASP”) of Luoyang Dukang’s premium series increased 2.0% yoy while sales volume increased 6.0% yoy for FY2019. Sales volume of Luoyang Dukang’s regular series plunged 59.2% yoy despite a 66.4% jump in ASP for FY2019. The Group’s gross profit increased 16.1% yoy to RMB48.4 million while gross profit margin increased from 28.1% to 34.7%. The increase in gross profit margin was mainly due to the change in product mix.

Selling and distribution expenses increased by 42.7% or RMB13.3 million to RMB44.3 million, mainly due to an increase in advertising and promotional activities during the financial year under review. Administrative expenses for FY2019 increased by RMB5.7 million to RMB70.9 million mainly due to the Group’s corporate social responsibility and sustainability activities.

The Group managed to narrow its loss attributable to owners of the Company from RMB222.0 million for FY2018 to RMB69.4 million for FY2019 due to lower other expenses and impairment losses.



Outlook and Strategies

In the recent years, the Group has been facing disruptions and difficulties in fulfilling sales demand from distributors due to the implementation of emission reduction control measures causing disruptions in its baijiu production, resulting in high customer attrition rates of its baijiu products. The Group has also been experiencing declining profitability and reduced demand for its baijiu products due to the profound and lingering impact of the austerity measures and restrictions in the PRC.

The baijiu industry has become increasingly saturated with intensified market competition in Henan Province. In addition, the Company had previously highlighted the challenges faced by the Group such as the price war by the first-tier brands as well as the second- and third-tier players, and the significant changes in consumer trends from the traditional baijiu towards beer, wine and international spirits among the young consumers in China.

主席致辞 Chairman Statement



The situation was further aggravated by geopolitical events, such as the trade tensions and Brexit, which have infused greater uncertainty to the global economy. As a result, the global economy is projected to grow at a slower pace for 2019, amidst weakening financial market sentiment. In addition, Chinese consumer spending is likely to slow down for the rest of the year which will negatively impact sales of consumer discretionary products like baijiu.

In view of the Group's declining profitability and recent losses, the Board undertook a strategic review of investment and divestment opportunities with a view to improve the Group's financial position, unlock shareholder value and at the same time streamline its activities and businesses. Accordingly, the Board has proposed to dispose the loss-making baijiu business and enter into the kiwifruit cultivation and processing industry (the "Proposed Transactions"). For more information on the Proposed Transactions, please refer to the Company's announcement dated 17 November 2018.

Appreciation

I would like to thank our customers and shareholders for their unwavering support for the past one year. Next, I would like to extend my appreciation to the dedication of our management team, staff and business partners. Lastly, I would like to express my sincere gratitude to my fellow Directors for their guidance and contribution thus far.

Thank you.

Zhou Tao

Executive Chairman & Chief Executive Officer

Financial Review 财务回顾

The Group reported a 6.0% year-on-year (“yoy”) decrease in revenue to RMB139.6 million for FY2019 from RMB148.5 million for FY2018. This was mainly attributable to a 42.8% decrease in overall sales volume despite a 64.2% increase in average selling price (“ASP”).

The revenue of Luoyang Dukang’s Premium Series increased 8.1% yoy to RMB104.3 million for FY2019 from RMB96.5 million for FY2018. The sales volume of Luoyang Dukang Premium Series increased 6.0% yoy from 734 tonnes for FY2018 to 778 tonnes for FY2019. The ASP for Luoyang Dukang Premium Series increased 2.0% yoy from RMB131.5 per kilogram for FY2018 to RMB134.1 per kilogram for FY2019.

The sales of Luoyang Dukang Regular Series declined 32.1% yoy from RMB52.0 million for FY2018 to RMB35.3 million for FY2019. The sales volume of Luoyang Dukang Regular Series declined 59.2% yoy from 2,185 tonnes for FY2018 to 892 tonnes for FY2019. The ASP for Luoyang Dukang Regular Series increased 66.4% yoy from RMB23.8 per kilogram for FY2018 to RMB39.6 per kilogram for FY2019.

The sales mix from Luoyang Dukang Premium Series and Regular Series in terms of revenue for FY2019 was 74.7% and 25.3% respectively. The sales mix from Luoyang Dukang Premium Series and Regular Series in terms of sales volume for FY2019 was 46.6% and 53.4% respectively.

The Group’s overall gross profit (“GP”) for FY2019 increased by RMB6.7 million or 16.1% to RMB48.4 million. The overall gross profit margin (“GPM”) increased 6.6 percentage points from 28.1% to 34.7%, primarily due to the change in product mix.

The Group’s GP for Premium Series increased from RMB34.5 million to RMB40.4 million, while GP for Regular Series increased from RMB7.2 million to RMB8.0 million for FY2019. The GPM for Premium Series increased from 35.7% to 38.8% and GPM for Regular Series increased from 13.9% to 22.6% for FY2019.

The Group’s selling and distribution expenses increased by 42.7% or RMB13.3 million to RMB44.3 million for FY2019, mainly due to the increase in TV and radio commercial broadcast on channels in Henan province by RMB2.0 million and an increase in bus, rooftop and billboard advertising by RMB10.5 million for the sponsorship of two events, namely Yellow Emperor Worship Ceremony held in Xinzheng County in the jurisdiction of Zhengzhou City and Luoyang Peony Culture Festival.

Administrative expenses increased by RMB5.7 million to RMB70.9 million mainly due to: (i) a donation of approximately RMB2.2 million in respect of a poverty reduction campaign organised by the Chinese government; (ii) an increase in labour costs of approximately RMB2.9 million, which was classified under other expenses during the suspension of production in FY2018; and (iii) an increase in advisory fee on environmental engineering of approximately RMB0.6 million for our two production plants.

The Group’s other expenses decreased by RMB34.3 million to RMB0.9 million for FY2019, which represents provision of accrued interest for losses on litigations.





所有的相遇 都是“酒”别重逢

In view of the weak demand of the Group's products as mentioned above and the deteriorating operating results during the current financial year, the management has performed a review on the recoverable amount of the non-current assets, including prepaid land lease payments, property, plant and equipment, intangible assets and interest in an associate. As the recoverable amounts of the assets assessed by an independent and professionally qualified valuer were lower than its carrying values, impairment losses for a total of approximately RMB1.1 million on intangible assets and interest in an associate were recognised in FY2019, while RMB123.1 million on property, plant and equipment, intangibles asset and interest in an associate were recognised in FY2018.

Taking into account of the above mentioned, the loss attributable to the owners of the Company narrowed from RMB222.0 million for FY2018 to RMB69.4 million for FY2019.

Cash Flow Management

Cash and cash equivalents decreased by RMB18.5 million from RMB175.0 million for FY2018 to RMB156.5 million for FY2019. This was mainly due to net cash of RMB18.5 million used in operating activities, net cash of RMB1.4 million used in investing activities and net cash of RMB1.4 million generated from financing activities for FY2019.

Financial Position

For the period under review, the Group's total equity decreased from RMB1,089.1 million for FY2018 to RMB1,018.3 million for FY2019.

The Group's total assets decreased by RMB57.4 million to RMB1,322.5 million mainly due to the decrease of property, plant and equipment, inventories, prepayments, deposits and other receivables, and cash and cash equivalents.

Total liabilities increased from RMB290.9 million for FY2018 to RMB304.3 million for FY2019, mainly resulting from the increase of accrued liabilities and other payables, and amount due to an associate, which were partially offset by the decrease in trade payables, provision for income tax and deferred tax liabilities.

Board of Directors 董事会



Superior execution

Zhou Tao 周涛

Mr. Zhou Tao is the Executive Chairman and Chief Executive Officer of the Company. He was appointed to the Board on 28 February 2008 and was last re-elected on 27 October 2017. Mr. Zhou is responsible for the overall business direction and development as well as supervising the overall sales, marketing and branding activities of the Group. Mr. Zhou has over 20 years of sales and marketing experience in food and beverage companies, which included a stint as the Henan branch manager in 安徽口子窖酒业集团 (Anhui Kouzijiao Spirit Group), a well-known baijiu producer and seller in the PRC. In June 2005, Mr. Zhou joined the Group's former subsidiary, Henan Trump Dragon Siwu Wine Co., Ltd., as a Director and Deputy Managing Director and was responsible for its sales and marketing operations. In May 2007, Mr. Zhou was appointed as the Director of the Group's subsidiary, Henan Siwu Wine Sales Company Limited. Mr. Zhou graduated from 郑州大学 (Zhengzhou University) with a Bachelor's Degree in Finance in July 1992 and from 中国社会科学院研究生院 (the Graduate School of the Chinese Academy of Social Science) with a Certificate in Economics in December 1998.

Huo Lei 霍雷

Mr. Huo Lei was appointed as the Executive Director of the Company on 1 September 2014 and was last re-elected on 27 October 2017. Mr. Huo is responsible for the overall general administration and personnel management of the Group. Mr. Huo has been with the Group since he joined the Group's subsidiary, Henan Trump Dragon Siwu Wine Co., Ltd., in September 2005. From March 2000 to September 2003, Mr. Huo was a manager in 河南省农业综合开发广泰科技有限公司 (Henan Province Agriculture Development Guangtai Technology Co., Ltd.). From September 2003 to September 2005, he was a manager in the corporate management department of 河南省新世家置业有限公司 (Henan Province Xinshijia Property Development Co., Ltd.). Mr. Huo graduated from 郑州工业大学 (Zhengzhou University of Technology) with a Diploma in Electric System Automation in July 2000 and from the North West Agriculture and Forestry University, Shaanxi Province, with a Masters in Business Administration in June 2013.

董事会 Board of Directors

Tan Siok Sing (Calvin) 陈续臣

Mr. Tan Siok Sing (Calvin) was appointed as Independent Director of the Company on 26 June 2008 and re-designated as a Non-Executive and Non-Independent Director on 1 April 2011. Subsequently, he was re-designated as an Independent Director on 30 October 2012 and appointed as the Lead Independent Director on 1 June 2015. He was last re-elected on 26 October 2018. Mr. Tan is a member of the Audit Committee, Nominating Committee and Remuneration Committee. He is currently the Managing Director of Ironman Minerals & Ores Pte Ltd, an energy resource and minerals trading company. Prior to his current appointment at Ironman Minerals & Ores, Mr. Tan has more than 18 years of experience in the financial industry as the Executive Director in Millennium Securities Pte Ltd. Mr. Tan graduated from The University of Tennessee with a Masters in Business Administration in 1984. Mr. Tan is currently an Independent Director of EuroSports Global Limited and remained as a Director of Qingmei Group Holdings Limited which was recently delisted from the Main Board of the Singapore Exchange Securities Trading Limited on 19 August 2019.

Ho Teck Cheong 何德昌

Mr. Ho Teck Cheong was appointed as Independent Director of the Company on 1 April 2011 and was last re-elected on 27 October 2017. Mr. Ho is the Chairman of the Audit Committee and a member of the Nominating and Remuneration Committees. Mr. Ho graduated from McGill University, Montreal, Canada in 1982. Mr. Ho spent over 21 years in the banking industry where his last held position was with Santander Group as the Group Managing Director of its Asia Pacific region, responsible for Investment, Corporate and Private Banking.

Chia Seng Hee, Jack 杰克谢

Mr. Chia Seng Hee, Jack was appointed as Independent Director of the Company on 26 June 2008 and was last re-elected on 26 October 2018. He is the Chairman of the Nominating Committee and Remuneration Committee and a member of the Audit Committee. Mr. Chia graduated from the National University of Singapore with a Degree in Accountancy and from the International University of Japan with a Masters of Arts in International Relations. He is qualified as a Fellow of the Institute of Singapore Chartered Accountants. He also completed the General Manager Program at Harvard Business School. After 20 years in both the private and public sectors, substantially in Japan and China, with Arthur Andersen, Singapore Technologies, the Government of Singapore Investment Corporation (GIC) and the International Enterprise Singapore Board, Mr. Chia decided to embark on a career as a professional director, specializing in corporate governance. Mr. Chia's present directorships in other listed companies included Combine Will International Holdings Limited, Debao Property Development Ltd., mm2 Asia Ltd., and Ying Li International Real Estate Limited.

Jia Guobiao 贾国彪

Mr. Jia Guobiao was appointed as a Non-Executive and Non-Independent Director on 14 February 2014 and was last re-elected on 27 October 2017. He was the Chief Operating Officer of Synear Food Holdings Limited since June 2010. Mr. Jia joined Synear Frozen as Marketing Manager in 1999 and was subsequently appointed as the Assistant to Chairman of Henan Synear in December 2001. In 2006, he was appointed as Vice President (Operations) of Synear Food Holdings Limited. Mr. Jia joined Zhengzhou Huanghe Great View Royal Garden Co. Ltd as the Assistant to Chairman in April 2017. Mr. Jia graduated from 武汉大学 (Wuhan University) with a Degree in Law in 1990 and obtained a PhD in Literature from 中国人民大学 (Renmin University of China) in 2004.

Senior Management 公司高层

Shi Dongkai 史东凯

Mr. Shi is the General Manager (Finance) of the Group. He is responsible for overseeing the daily finance and accounting operations of the Group. Mr. Shi is currently the Securities Investment Manager of ZhengZhou Synear Food Products Company which involves in the development, production and sale of quick freeze food products since 2005. He was the Department Manager for Henan Synear Food Products Holdings Company from July 2001 to June 2005. Prior to that, he joined ZhengZhou Kangfuda Rental Company in March 1993. Mr. Shi graduated from 河南商业专科学校 (Henan Business College) in June 1990. In 2014, Mr. Shi has successfully become the Chinese Institute of Certified Public Accountants and graduated from 西安交通大学 (Xi'an Jiaotong University) with a Masters in Business Administration.

Ho Hin Yip 何衍业

Mr. Ho is the Financial Controller of the Group and Joint Company Secretary of the Company. He joined the Group in April 2012 and is responsible for the financial reporting and company secretarial matters of the Group. He has over 19 years of experience in audit and accounting. Mr. Ho graduated from The Chinese University of Hong Kong with a Bachelor's Degree in Professional Accountancy. He is a practicing member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Association of Chartered Certified Accountants in the United Kingdom.



Corporate Governance Report

The Board of Directors (the "Board") of Dukang Distillers Holdings Limited (the "Company") is committed to setting and maintaining high standards of corporate governance within the Company and its subsidiaries (the "Group") by adopting and complying, where possible, with the principles and guidelines of the Code of Corporate Governance 2012 (the "Code") with the aim to preserve and enhance the interests of all stakeholders.

The Company recognises that good corporate governance establishes and maintains a legal and ethical environment, which is essential for preserving and enhancing the interests of all stakeholders. This report describes the corporate governance framework and practices of the Company that were in place throughout the financial year under review, with reference to the Code. The Board confirms that the Company has, generally, adhered to the principles and guidelines of the Code where they are applicable, relevant and practicable to the Group. Any deviations from the guidelines of the Group or areas of non-compliance have been explained accordingly.

(A) Board Matters

Principle 1: The Board's Conduct of its Affairs

The Board, in addition to its statutory responsibilities, is primarily and collectively responsible for overseeing and supervising the management of the business and corporate affairs to ensure proper conduct of the business, affairs and the overall performance of the Group and long-term success of the Company to protect and enhance long-term shareholders' value. Board members are expected to act in good faith and exercise independent judgement in the best interests of the Group.

The functions of the Board include:

1. providing effective leadership, guiding and setting the strategic objectives and directions to ensure that the necessary financial and human resources are in place for the Group to achieve its objectives;
2. advising Management on major policy initiatives and significant issues and approving board policies, strategies and financial targets of the Company;
3. approving the Group's annual budgets, key operational matters, investment and divestment proposals, major funding proposals, corporate or financial restructuring, material acquisitions and disposal of assets, interested person transactions of a material nature and convening of shareholders' meetings;
4. reviewing the adequacy and effectiveness of the risk management systems and internal controls, including information technology controls, financial, operational and compliance controls, and to ensure that the areas of concern are addressed and recommendations of the Internal Auditors/Audit Committee ("AC") are implemented and monitor the progress of implementation;
5. approving all Board appointments or re-appointments and appointments of key management personnel as well as evaluating their performance and reviewing their compensation packages;
6. overseeing the proper conduct of the Company's business, setting the Group's values and standards (including ethical standards) to ensure that obligations to shareholders and other stakeholders are understood and met and reviewing the corporate governance processes;
7. reviewing the performance of Management and the Group towards achieving adequate shareholders' value, including but not limited to, the declaration of proposed interim and final dividends (if applicable), approval of announcement relating to financial results of the Group and the audited financial statements, release of annual reports and timely announcements of material transactions;
8. identifying the key stakeholder groups and recognise that their perceptions affect the Company's reputation; and
9. considering sustainability issues, e.g. environmental and social factors, as part of its strategic formulation.

Corporate Governance Report

Certain functions have been delegated by the Board to various Board Committees, namely the Audit Committee ("AC"), the Nominating Committee ("NC") and the Remuneration Committee ("RC"), which operate under clearly defined terms of reference. All Board Committees are chaired by an Independent Director and all of the members are Independent Directors.

The Board accepts that while these Board Committees have the delegated power to make decisions, execute actions or make recommendations in their specific areas respectively, and will report back to the Board with their decisions and/or recommendations, the ultimate responsibility for the decisions and actions rests with the Board.

The Board meets at least four times a year, on a quarterly basis. The Board and Board Committees' meetings are scheduled in advance to coincide with the announcement of the Group's quarterly results. Additional Board meetings will be convened when they are deemed necessary to address any significant issues that may arise in between the scheduled meetings. The Company's Bye-laws and Board Committees' terms of reference provide for Board and Board Committees' meetings to be held via telephone, electronic or other communication facilities which permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously. The Board and Board Committees also circulate written resolutions, when necessary, for approval by the relevant members of the Board and Board Committees.

In addition, at least once a year, the Board holds its Board and/or Board Committees' meetings at the Group's sites or where it has business presence and/or an AC member who is an Independent Director will visit the Group's sites and conduct physical inspection on the Group's property, plant and equipment. This allows the Board to develop a good understanding of the Group's businesses and promote active engagement with the Group's key management team.

Directors may request further explanations, briefing or discussion from Management on any aspect of the Group's operations or business. When circumstances require, Board members exchange views outside the formal environment of Board meetings. The Board conducts an annual review of its processes to ensure that it is able to carry out its functions in the most effective manner.

The matters reserved for the Board's decision and the types of material transactions that are likely to have a material impact on the Group's operating units and/or financial position as well as matters other than in the ordinary course of business, are as follows:

- Quarterly, half-year and full year financial results;
- The Group's strategic plans including long-term strategic plans;
- The Group's annual operating plan and budget;
- Potential joint venture, merger, acquisition, divestment or other changes in the Company's assets, if any;
- Management changes or changes in effective control of the Company, if any;
- Firm evidence of significant improvement or deterioration in near term earnings prospects, if any;
- Subdivision of shares or stock dividends, if any;
- Acquisition or loss of significant contract, if any;
- Significant new product or discovery, if any;
- Public or private sale of significant amount of additional securities of the Company, if any;
- Share Buyback, if any;
- Share Option or share schemes, if any;
- Scrip Dividend Scheme, if any;
- Interested Person Transactions, if any;
- Borrowing of a significant amount of funds, if any;
- Occurrence of an event of default under debt or other securities or financing or sale agreements, if any;
- Significant litigation, if any;
- Significant change in capital investment plans e.g. building of factories, increasing plant and machinery and increasing production lines, if any;
- Significant dispute(s) with customers or suppliers, or with any parties, if any;

Corporate Governance Report

- Material financial loss/damage caused by disaster and/or loss of credibility arising from corporate scandals and other fraudulent activities pursuant to any reports received under the Whistle Blowing Policy adopted by the Company, if any;
- Appointment and removal of Secretary, if any;
- Tender offer for another company's securities, if any; and
- Valuation of the Group's assets that has a significant impact on the Group's financial position and/or performance.

The number of meetings held by the Board and Board committees and attendance of the Directors at those meetings in respect of the financial year ended 30 June 2019 ("FY2019") are disclosed in the table below:

Meeting(s) of	Board	AC	NC	RC
Total meetings held for FY2019	4	4	1	1
Zhou Tao	4/4	–	–	–
Huo Lei	4/4	–	–	–
Tan Siok Sing (Calvin)	4/4	4/4	1/1	1/1
Chia Seng Hee, Jack	4/4	4/4	1/1	1/1
Ho Teck Cheong	4/4	4/4	1/1	1/1
Jia Guobiao	4/4	–	–	–

Principle 2: Board Composition and Guidance

As at the date of this report, the Board comprises six members holding the following offices:

Name	AC	RC	NC
Zhou Tao (Executive Chairman and Chief Executive Officer)	–	–	–
Huo Lei (Executive Director)	–	–	–
Ho Teck Cheong (Independent Director)	C	M	M
Chia Seng Hee, Jack (Independent Director)	M	C	C
Tan Siok Sing (Calvin) (Lead Independent Director)	M	M	M
Jia Guobiao (Non-Executive and Non-Independent Director)	–	–	–

Notes:

C – Chairman

M – Member

Presently, the Board comprises two Executive Directors and four Non-Executive Directors, three of whom are independent. Pursuant to Guideline 2.2 of the Code, the Independent Directors made up at least half of the Board where, *inter alia*, the Chairman of the Board and the Chief Executive Officer is the same person; the Chairman is part of the management team; and the Chairman is not an Independent Director.

The size and composition of the Board are reviewed annually by the NC to ensure that it is appropriate so as to facilitate effective decision-making. When reviewing the composition of the Board, the NC will also take into consideration that there is an appropriate mix of expertise and experience and the Board members collectively possess the relevant skills which the Group may tap on for assistance in furthering its business objectives.

The NC, with the concurrence of the Board, is of the opinion that the current size of the Board is appropriate, taking into account the nature and scope of the Group's operations, the requirements of the business and the need to avoid undue disruptions from changes to the composition of the Board and Board Committees.

Corporate Governance Report

As a group, the members of the Board bring with them an appropriate balance and diversity of skills, experience and knowledge of the Group. Their core competencies include accounting, finance, business, industry and management experience, strategic planning experience and are familiar with regulatory requirements. The diversity of the Directors' experience allows for the useful exchange of ideas and views. All Directors have extensive experience in jurisdictions outside Singapore, specifically the People's Republic of China ("PRC").

Whilst the current Board does not have gender diversity, this is an important aspect of the NC and Board's consideration, should there be any proposed new appointment(s) of member(s) to the Board. New Director(s), if any, will continue to be selected based on objective criteria set as part of the process for appointment of new Directors. Although the Board does not have a written policy with regards to diversity in identifying director nominees, it will consider the benefits of all aspects of diversity, including diversity of skills, experience, background, gender, age, ethnicity and other relevant factors. The NC will evaluate the suitability of the nominee or candidate based on his/her qualifications, business and related experience, commitment, ability to contribute to the Board process and such other qualities and attributes that may be required by the Board before making its recommendations to the Board.

Non-Executive Directors contribute to the Board process by monitoring and reviewing Management's performance against goals and objectives. Their views and opinions provide alternative perspectives to the Group's business. When challenging Management's proposals or decisions, they bring independent judgement to bear on business activities and transactions involving conflicts of interest and/or other complexities.

The Independent Directors and the Non-Executive and Non-Independent Director met up periodically of at least once every quarter without the presence of the other Directors and Management, or communicate via emails or telephone discussions on issues concerning the Company and will provide feedback to the Chairman, where necessary, after such meetings or communications.

The profiles of Board members are set out in the section entitled "Board of Directors" on pages 10 and 11 of the Annual Report.

Principle 3: Chairman and Chief Executive Officer

Mr. Zhou Tao, being the Executive Chairman and the Chief Executive Officer ("CEO") of the Company, plays a key role in developing the business of the Group and provides the Group with strong leadership and vision. He is also responsible for the Group's overall business strategies and policies, including but not limited to, the day-to-day running of the Group's operations.

As Chairman of the Board, Mr. Zhou Tao is responsible for the effectiveness of the Board. He ensures that Board meetings are held when necessary, assists in ensuring compliance with the Group's corporate governance guidelines, acts as facilitator at Board meetings, and monitors the translation of Board decisions into executive actions. He also ensures the quality, quantity and timeliness of information flow between the Board and Management and that the Board has sufficient opportunities for interaction and informal meetings with Management.

As the roles and responsibilities of both the Executive Chairman and the CEO are vested in Mr. Zhou Tao, the division of responsibilities of the Chairman and the CEO is not applicable. Despite this being a deviation from the guideline of the Code, the Board believes that vesting the roles of both Executive Chairman and CEO in the same person who is knowledgeable in the business of the Group provides the Group with a strong and consistent leadership and thus allows for more effective planning and execution of long-term business strategies. As the Group's business and operations are based in the PRC, Mr. Zhou's dual role as Executive Chairman and CEO will enable the Group to conduct its business more efficiently and ensure that the decision-making process of the Group would not be unnecessarily hindered.

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All major decisions made by Mr. Zhou Tao are reviewed by the Board. As such, the Board believes that there are adequate safeguards and checks in place to ensure that the process of decision-making by the Board is independent and based on collective decision without any individual exercising any considerable concentration of power of influence. As such, there is a balance of power and authority and, therefore, no one individual can control or dominate the decision-making process of the Company. The Board is not considering separating the roles of the Executive Chairman and the CEO at this moment. The NC will review the need to separate these roles from time to time and make its recommendations when necessary.

Taking cognizance that the Chairman and the CEO are the same person, the Board has appointed Mr. Tan Siok Sing (Calvin) as Lead Independent Director ("LID") on 1 June 2015, in accordance with the guidelines of the Code. Mr. Tan is available to shareholders and any other persons where they have concerns and for which contact through the normal channels of the Chairman and CEO or the Financial Controller has failed to resolve or is inappropriate. He will also facilitate periodic meetings with the other Independent Directors in board matters, when necessary and provides feedback to the Executive Chairman after such meetings.

His other specific roles as LID are as follows:

- a) act as liaison between the Independent Directors and the Executive Chairman and CEO, and lead the Independent Directors to provide non-executive perspectives in circumstances where it would be inappropriate for the Executive Chairman to serve in such capacity and to contribute a balanced viewpoint to the Board;
- b) advise the Executive Chairman of the Board as to the quality, quantity and timeliness of the information submitted by Management that is necessary or appropriate for the Independent Directors to effectively and responsibly perform their duties; and
- c) assist the Board and the Company's officers in better ensuring compliance with and implementation of corporate governance.

Principle 4: Board Membership

The terms of reference of the NC provide that the NC shall comprise at least three members and the LID shall be a member. All of whom, including the NC Chairman, are Independent Directors. The composition of the NC of the Company is as follows:

Chia Seng Hee, Jack	(Independent Director)	- NC Chairman
Tan Siok Sing (Calvin)	(Lead Independent Director)	- NC Member
Ho Teck Cheong	(Independent Director)	- NC Member

The NC is regulated by a set of written terms of reference, which are in line with the guidelines of the Code. The NC is responsible for, including but not limited to, the following under its terms of reference:

1. reviewing the Board structure, size and composition and making recommendations to the Board, where appropriate;
2. determining the process for search, nomination, selection and appointment of new Board members and assessing nominees or candidates for appointment or re-election to the Board, determining whether or not such nominee has the requisite qualifications and whether or not he is independent;
3. reviewing and recommending to the Board on the appointment and re-appointment of Directors (including Alternate Directors, if applicable) and the nomination of retiring Directors and those appointed during the year standing for re-election at the Company's annual general meeting ("AGM"), having regard to each Director's competencies, commitment, contribution and performance;

Corporate Governance Report

4. reviewing and determining, on an annual basis, the independence of Directors, bearing in mind the circumstances set forth in guidelines of the Code and any other salient factors;
5. ensuring all Directors submit themselves for re-election at regular intervals;
6. reviewing and evaluating whether or not Directors who have multiple board representations on various companies, are able to and has been adequately carrying out their duties as Directors of the Company, having regard to the competing time commitments that they face when serving on multiple boards of listed companies and other principal commitments and to recommend to the Board guidelines to address competing time commitments faced by Directors, if any, who serve on multiple boards;
7. evaluating the performance and effectiveness of the Board as a whole;
8. reviewing Board succession plans for the Executive Directors, in particular, the Chairman and the CEO, and progressive renewal of the Board by considering each Director's competencies, commitment, contribution and performance (e.g. attendance, preparedness, participation and candour); and
9. reviewing the training and professional development programs for the Board.

The NC has adopted a process for selection and appointment of new Directors which provides the procedure for identification of potential candidates, evaluation of candidates' skills, knowledge and experience, assessment of candidates' suitability. The curriculum vitae and other particulars/documents of the nominee or candidate will be reviewed by the NC based on his/her qualifications, business and related experience, commitment, ability to contribute to the Board process, such qualities and attributes that may be required by the Board, before making its recommendation to the Board. The Board believes that contributions from each Director go beyond his/her attendance at Board and Board Committees' meetings.

Newly appointed Executive Directors will be provided with Service Agreements setting out their term of office and terms of appointment. The Service Agreement, subject to the RC's recommendations, can be renewed for another three years after the expiry of the first term. For Non-Executive Directors, formal letters of appointment setting out their terms of appointment will be issued to new appointees to the Board.

All Directors, including newly appointed Directors, will receive an orientation that includes briefings by Management on the Group's structure, history, business, operations, visions, values and policies. Directors also have the opportunity to visit the Group's operational facilities and to meet with Management so as to gain a better understanding of the Group's business operations. Directors who do not have prior experience or are not familiar with the duties and obligations required of a listed company in Singapore, will undergo the necessary training. For FY2019, the Company did not appoint any new Director and/or first-time Director.

On an ongoing basis, the Board is updated on any amendments and requirements of the Singapore Exchange Securities Trading Limited ("SGX-ST") and other statutory and changes to regulatory requirements which may have an important bearing on the Company and the Directors' obligations to the Company, from time to time, or during Board meetings by the Company Secretaries or at separate seminars on the amendments and requirements of the SGX-ST and other statutory and regulatory changes which may have an important bearing on the Company and the Directors' obligations to the Company from time to time.

The NC has adopted the Code's definition of an independent director and guidelines as to relationships in determining the independence of a director. In addition, the NC requires each Non-Executive Director to assess his own independence by completing a Confirmation of Independence form which is drawn up in accordance with guidelines of the Code and state whether he considers himself to be independent despite having any of the relationships identified in the Code which would deem him not to be independent, if any.

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For FY2019, the NC had reviewed the independence of the independent directors and determined Mr. Tan Siok Sing (Calvin), Mr. Ho Teck Cheong and Mr. Chia Seng Hee, Jack to be independent and free from any of the relationships outlined in the Code. The Directors had confirmed their own independence. The Board concurred with the NC's views.

Mr. Jia Guobiao is considered a Non-Executive and Non-Independent Director as he is deemed to be directly associated with a 10% shareholder, Treasure Winner Holdings Limited.

Save as disclosed, none of the Directors on the Board are related and do not have any relationship with the Company or its related companies or its officers who could interfere or to be reasonably perceived to interfere with the exercise of their independent judgements.

Mr. Tan Siok Sing (Calvin) and Mr. Chia Seng Hee, Jack have both served on the Board for more than nine years from the date of their first appointment. The NC had conducted a rigorous review of their independence and contributions to the Board to determine if they still remain independent and carry out their duties objectively, taking into account the need for progressive refreshing of the Board. The review included but was not limited to the completion of a detailed questionnaire of their independence with a mixture of close-ended and open-ended questions in respect of whether there are any conflicts of interest or relationship that is/are likely to affect their independence; whether they continue to express his views objectively and seek clarification and amplification when deemed necessary; whether they continue to debate issues objectively; whether they continue to scrutinize and challenge Management on important issues raised at meetings and whether they are able to bring judgement to bear in the discharge of his duties as a Board member and committee member. The questionnaire was completed by each of the Director concerned.

The Board had observed the performance of Mr. Tan Siok Sing (Calvin) and Mr. Chia Seng Hee, Jack at Board meetings and other occasions and has no reasons to doubt their independence in the course of discharging their duties. Hence, the Board concurred with the NC's view that they are independent in character and judgement despite having been on the Board for more than 9 years. The Board acknowledges their combined strength of characters, objectivity and wealth of useful and relevant experience bring themselves to continue effectively as Independent Directors. The Board also acknowledges and recognises the benefits of the experience and stability brought by these long-serving Independent Directors and wishes to retain them for their strength of character, objectivity and wealth of extensive business experience, and their knowledge on the Group's business which would enable them to be effective Independent Directors, notwithstanding their long tenure.

Pursuant to Bye-law 86(1) of the Company's Bye-laws, every Director is required to retire at least once every three years and, shall be eligible for re-election. Any Director appointed by the Board to fill a casual vacancy is required to retire at the next AGM following his/her appointment and shall then be eligible for re-election at that meeting pursuant to Bye-law 85(6) of the Company's Bye-laws.

Mr Zhou Tao, Mr Huo Lei, Mr Ho Teck Cheong and Mr Jia Guobiao were last re-elected at the AGM held on 27 October 2017. Mr Chia Seng Hee, Jack and Mr Tan Siok Sing (Calvin) were last re-elected at the last AGM held on 26 October 2018. There was no new Director appointed by the Board during the year. As such, no Directors are due for re-election for FY2019 pursuant to Bye-law 86(1) and Rule 720(5) of the Listing Manual of the SGX-ST ("SGX-ST Listing Manual"), or required to retire pursuant to Bye-law 85(6) at the forthcoming AGM.

The NC had reviewed the multiple-board seats held by the Non-Executive Directors in listed companies to determine if they had been adequately carrying out their duties as a Director of the Company. The NC, having considered the confirmations received by the Non-Executive Directors, the details of their other commitments and multiple-board seats, and their contributions during the workings of the Board, is of the view that such multiple board representations do not hinder each Non-Executive Director from carrying out his duties as a Director of the Company. The NC is satisfied that sufficient time and attention have been accorded by these Directors to the affairs of the Company. The Board concurred with the NC's views.

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To allow for flexibility, there will not be a fixed maximum number of listed company board representations which Directors may hold. The NC and the Board are of the view that the number of directorships a Director can hold and his principal commitments should not be prescriptive as the time commitment for each company will vary.

The NC and the Board will review the number of listed company board representations of the Directors from time to time.

Directorships or chairmanships held by the Company's Directors in other listed companies are as follows:

Name of Director ⁽¹⁾	Date of first appointment / last re-election	Directorships in other listed companies	
		Current	Past 3 Years
Zhou Tao (Executive Chairman and CEO)	28 February 2008 / 27 October 2017	Nil	Nil
Huo Lei (Executive Director)	1 September 2014 / 27 October 2017	Nil	Nil
Jia Guobiao (Non-Executive and Non-Independent Director)	14 February 2014 / 27 October 2017	Nil	Nil
Tan Siok Sing (Calvin) (Lead Independent Director)	26 June 2008 / 26 October 2018	EuroSports Global Limited	Li Heng Chemical Fibre Technologies Limited ⁽²⁾ Changtian Plastic & Chemical Limited ⁽³⁾ Qingmei Group Holdings Limited ⁽⁴⁾
Ho Teck Cheong (Independent Director)	1 April 2011 / 27 October 2017	Nil	Li Heng Chemical Fibre Technologies Limited ⁽²⁾
Chia Seng Hee, Jack (Independent Director)	26 June 2008 / 26 October 2018	Combine Will International Holdings Limited Debao Property Development Ltd. mm2 Asia Ltd. Ying Li International Real Estate Limited	China Hongcheng Holdings Limited ⁽⁵⁾ AGV Group Limited ⁽⁶⁾ Shanghai Turbo Enterprises Ltd. ⁽⁷⁾ Lifebrandz Ltd. ⁽⁸⁾

(1) The principal commitment of the Directors, if any, is set out in the "Board of Directors" section in this Annual Report.

(2) Delisted on 2 February 2017.

(3) Delisted on 31 October 2017.

(4) Delisted on 19 August 2019.

(5) Delisted on 22 November 2016.

(6) Resigned with effect from 2 May 2018.

(7) Resigned with effect from 1 October 2018.

(8) Resigned with effect from 22 November 2018.

Alternate Directors, if any, bear all the duties and responsibilities of a Director and would be subject to the NC and the Board's review and approval before their appointment. Currently, no alternate Directors have been appointed in respect of any of the Directors.

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Principle 5: Board Performance

The Group has in place a system to assess the performance of the Board as a whole.

Currently, the Board does not assess the performance of each Director or at the Board Committee's level. The Board is of the view that given the Board's size, cohesiveness of Board members and attendance of Directors at Board Committees' meetings, there is no value-add in having assessments of Board Committees and individual Board members. To-date, no external facilitator has been used.

The Board, with the recommendation of the NC, had adopted a board evaluation performance form ("BPE") in line with the guidelines of the Code, which foster proactive board development, raise the performance bar relative to corporate best practices and ensure relevance in today's dynamic business environment.

The questions in the BPE were expanded to include remuneration matters, risk management and internal controls and shareholders' rights and responsibilities, which cover communications with shareholders and conduct of shareholders' meetings. An evaluation of the Board's performance for FY2019 was conducted by the NC. The evaluation exercise provided feedback from each Director, his views of the Board's conduct of affairs, composition and guidance, Chairman and Chief Executive Officer, Board membership and performance, access to information, remuneration matters on Procedures for Developing Remuneration Policies, Level and Mix of Remuneration and Disclosure on Remuneration, Accountability and Audit matters on responsibilities, risk management and internal controls, and Audit Committee, Shareholder Rights and Responsibilities – Communication with Shareholders and Conduct of Shareholders' meetings and the effectiveness of the Board as a whole. The results of the Board performance evaluation were collated and the findings were presented to the NC for discussion with comparatives from the previous year's results.

The NC was generally satisfied with the results of the Board performance for FY2019, which indicated areas of strengths and those that could be improved further. No significant problems were identified. The NC had discussed the results with Board members who agreed to work on those areas that could be improved further. The NC would continue to evaluate the process for such review and its effectiveness from time to time.

Notwithstanding the above, the Board is currently reviewing whether it is necessary to conduct separate assessments of its Board Committees and/or incorporate the assessments of its Board Committees pursuant to their own terms of reference and scope of duties into the existing Board performance evaluation.

The Board has also taken the view that the financial indicators recommended under the Code to be included as part of the performance criteria for Board evaluation are not appropriate as these are more of a measurement of Management's performance and, therefore, less applicable to the whole Board.

Principle 6: Access to Information

Board members are provided with complete, adequate and timely information on Board affairs and issues that require the Board's decision in order for them to make informed decisions. Information included background or explanatory information relating to matters to be brought before the Board, and an analysis on the Group's sales revenue, gross profit margins, advertising and promotion expenses, financial expenses and turnover ratio. To assist the Directors in discharging their duties, Management provides reports and financial statements to the Board on a regular basis. Board and Board Committees' papers are sent to Directors at least three working days before each meeting so that the Directors may better understand the matters prior to the meetings and discussions may be focused on questions that the Directors may have on these matters. Financial highlights of the Group's performance and development are presented on a quarterly basis at Board meetings. The Group's CEO, Senior Management, and the Financial Controller are present at these presentations to address any queries which the Board may have. Directors are entitled to request from Management and be provided with additional information as required in order for them to make informed decisions.

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All Directors have independent access to the Group's Senior Management and the Company Secretaries. All Directors are provided with complete and adequate information prior to Board meetings and on an on-going basis. The Company Secretaries provides secretarial support to the Board, ensure adherence to Board and Board Committees' procedures and relevant rules and regulations which are applicable to the Company are complied with. Under the direction of the Chairman, the Company Secretaries also ensure sufficient and pertinent information flows within the Board and its Board Committees and between Management and Non-Executive Directors. At least one of the Company Secretaries attends all Board and Board Committees' meetings. The appointment and the removal of the Company Secretaries is a matter reserved for the Board.

Where decisions to be taken require expert opinion or specialised knowledge, the Directors, either as a group or individually, may seek independent professional advice as and when necessary in furtherance of their duties at the Company's expense. The appointment of such independent professional advisor, if required, is subject to approval by the Board.

(B) Remuneration Matters

Principle 7: Procedures for Developing Remuneration Policies

The terms of reference of the RC provide that the RC shall comprise at least three members and all of whom shall be Non-Executive Directors. All of whom, including the RC Chairman, are Independent Directors. The composition of the RC of the Company is as follows:

Chia Seng Hee, Jack	(Independent Director)	- RC Chairman
Tan Siok Sing (Calvin)	(Lead Independent Director)	- RC Member
Ho Teck Cheong	(Independent Director)	- RC Member

The RC is regulated by a set of written terms of reference which are in line with the guidelines of the Code. The RC is responsible for, including but not limited to, the following under its written terms of reference:

1. reviewing and recommending to the Board a general framework of remuneration for the Directors of the Company and Key Management Personnel of the Group;
2. considering what compensation commitments in the Directors' and Key Management Personnel's service agreements, if any, would entail in the event of early termination with a view to be fair and avoid rewarding poor performance;
3. recommending to the Board any long-term incentive schemes which may be set up from time to time and to do all acts necessary in connection therewith;
4. recommending the appropriate remuneration of the Non-Executive Directors to the level of their contribution, taking into account factors such as their effort, time spent and their responsibilities and that they should not be overly compensated;
5. administering the Dukang Employee Share Option Scheme, and shall have all the powers set out in the said scheme; and
6. carrying out other duties as may be agreed by the RC and the Board.

The scope of the RC's review covers all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards and benefits-in-kind. The remuneration packages take into consideration the long-term interests of the Group, industry standards, and ensure that the interests of the Executive Directors are aligned with that of the shareholders. The recommendation of the RC for the Directors' remuneration would be submitted to the Board for endorsement. No Director or member of the RC is involved in deciding his own remuneration.

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If required, the RC will seek expert advice inside and/or outside of the Company on remuneration of all Directors and Key Management Personnel. The Company did not engage any remuneration consultant for FY2019.

Principle 8: Level and Mix of Remuneration

In reviewing and determining the remuneration packages of the Executive Directors and Key Management Personnel, the RC takes into consideration the prevailing economic situation, skills, expertise and contribution to the individual and Company's performance, the pay and employment conditions within the industry and in comparable companies. The remuneration packages are set such that the Directors and Key Management Personnel are adequately but not excessively remunerated.

Mr. Zhou Tao had entered into a Service Agreement as Deputy Chairman and CEO with the Company for an initial term of 3 years commencing from 5 September 2008 which was subject to review and renewal upon expiry or unless terminated by either party giving not less than three months' notice to the other. His Service Agreement was subsequently renewed on 4 September 2011 for a period of 3 years with no changes in the terms and conditions, save for his remuneration when he was re-designated Executive Chairman cum CEO on 28 March 2013, and was further extended for another 3 years commencing from 4 September 2014. Mr. Zhou's Service Agreement had been renewed for another 3 years commencing from 4 September 2017.

Mr. Huo Lei, an Executive Director of the Company, had entered into a Service Agreement with the Company for an initial term of 3 years commencing from 1 September 2014 which was subject to review and renewal upon expiry on 31 August 2017 or unless terminated by either party giving not less than three months' notice to the other. Mr. Huo's Service Agreement had been subsequently renewed for a period of 3 years commencing from 1 September 2017, with no changes in the terms and conditions.

The Company does not have any contractual provisions which allow the Company to reclaim incentive components of remuneration from Executive Directors and/or Key Management Personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company as such provisions will stifle the Company's ability to effectively attract and retain the right individuals.

The RC is of the view that the current remuneration of the Non-Executive Directors is appropriate, taking into account factors such as efforts and time spent, and responsibilities of the Directors, as well as attendance at meetings. They are not over-compensated to the extent that their independence may be compromised. Other than Directors' fees, which are subject to shareholders' approval at every AGM, the Non-Executive Directors do not receive any other forms of remuneration from the Company. The RC had recommended to the Board an amount of S\$310,000 as Directors' fees for the year ending 30 June 2020 ("FY2020"), payable half-yearly in arrears. This recommendation had been endorsed by the Board and will be tabled at the forthcoming AGM for shareholders' approval. The RC would also consider, if necessary, implementing schemes to encourage Non-Executive Directors to hold shares in the Company so as to better align the interests of such Non-Executive Directors with the interests of shareholders.

The RC had also carried out an annual review of the Executive Directors and Key Management Personnel's remuneration packages to ensure that their remuneration commensurate with their performance, giving due regard to the financial health and business needs of the Group. The review considers the Group and individual performance as well as relevant comparative remuneration in the market. For FY2019, the RC reviewed the remuneration packages of the Executive Directors and Key Management Personnel and had recommended the same for Board approval. The Board concurred with the RC's recommendations accordingly.

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Principle 9: Disclosure on Remuneration

The annual remuneration band of each individual Director and Key Management Personnel for FY2019 are set out below:

Name	Fees %	Salaries %	Variable/ Performance- related income/ bonus %	Benefits in kind %	Other long-term incentives %	Total %
Below S\$250,000						
<i>Executive Directors:</i>						
Zhou Tao	–	100	–	–	–	100
Huo Lei	–	100	–	–	–	100
<i>Non-Executive Directors:</i>						
Tan Siok Sing (Calvin)	100	–	–	–	–	100
Chia Seng Hee, Jack	100	–	–	–	–	100
Ho Teck Cheong	100	–	–	–	–	100
Jia Guobiao	100	–	–	–	–	100
<i>Key Management Personnel:</i>						
Ho Hin Yip	–	100	–	–	–	100
Shi Dong Kai	–	100	–	–	–	100

Notwithstanding Guideline 9.1 of the Code, as there were only 2 Key Management Personnel (who is not Directors or the CEO) during FY2019, disclosure is only made in respect of the remuneration of these 2 Key Management Personnel. The aggregate remuneration paid to these 2 key management personnel is approximately RMB1.0 million.

There are no termination, retirement and post-employment benefits that may be granted to Directors and the top 2 Key Management Personnel (who is not a Director or the CEO) for FY2019.

Due to the confidentiality and commercial sensitivity attached to remuneration matters, in particular those of our 2 Key Management Personnel, given the highly competitive environment the Group operates in, the Company does not fully disclose the remuneration of each individual Director and the Key Management Personnel. However, disclosures had been provided in applicable bands of S\$250,000 as above, with a breakdown in percentage of the remuneration earned through fees, salary, fixed component, variable component, benefits in kind, and/or other long term incentives.

The remuneration packages of the Executive Directors and the Key Management Personnel of the Company and its subsidiaries comprise base salaries.

The Company's employee share option scheme known as the Dukang Employee Share Option Scheme (formerly known as Trump Dragon Employee Share Option Scheme ("ESOS")) had expired after 10 years from the date of approval by the Shareholders on 10 July 2008 and no option of shares were granted since its inception. The Company did not renew the ESOS at the last AGM.

There were no employees of the Group who are immediate family members of a Director or the CEO for FY2019.

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(C) Accountability and Audit

Principle 10: Accountability

The Board aims to provide a balanced and understandable assessment of the Group's financial performance, position and prospects to the shareholders. Financial results are released on a quarterly basis to the shareholders within the timeline stipulated in the SGX-ST Listing Manual. All financial information presented in the results announcement or Annual Report have been prepared in accordance with the International Financial Reporting Standards and approved by the Board before being released through SGXNET.

In line with the SGX-ST Listing Manual, negative assurance statements were issued by the Board to accompany the Group's quarterly financial results announcements, confirming to the best of the Board's knowledge that nothing had come to their attention which would render the Company's quarterly results announcements to be false or misleading. The Company is not required to issue negative assurance statements for its full year results announcement.

Management provides the Board with information on the Group's performance, position and prospects on quarterly basis to ensure that they effectively discharge their duties. This is supplemented by updates on matters affecting the financial performance and business of the Group, if such event occurs.

The Company has also procured undertakings from all its Directors and Executive Officers in compliance with Rule 720(1) of the SGX-ST Listing Manual.

Principle 12: Audit Committee

The terms of reference of the AC provide that the AC shall comprise at least three members and all of whom shall be Non-Executive Directors. All of whom, including the AC Chairman, are Independent Directors. The composition of the AC of the Company is as follows:

Ho Teck Cheong	(Independent Director)	- AC Chairman
Tan Siok Sing (Calvin)	(Lead Independent Director)	- AC Member
Chia Seng Hee, Jack	(Independent Director)	- AC Member

The AC meets at least four times a year and, as and when deemed appropriate, to carry out its functions.

The AC has the authority to investigate any matter within its terms of reference. It has full access to and the co-operation of Management and also full discretion to invite any Director or Executive Officer to attend its meetings and give adequate resources to enable it to discharge its functions properly.

The Board is of the view that the AC members are appropriately qualified and have the necessary recent and relevant accounting or related financial management expertise and experience as the Board interprets such qualification in its business judgement, to discharge their duties and responsibilities. The AC members are not former partners or directors of or have any financial interest in the Company's existing audit firm or corporation.

The AC is regulated by a set of written terms of reference which are in line with the guidelines of the Code. The AC is responsible for, including but not limited to, the following under its terms of reference:

1. reviewing with the internal and external auditors their audit plans, evaluating the systems of internal controls, audit reports, their letters to Management and Management's response respectively;
2. reviewing the internal controls and procedures to ensure co-ordination between internal and external auditors, co-operation from Management and assistance given to facilitate their respective audits and discussing problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of Management, where necessary);

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3. reviewing and reporting to the Board at least annually the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls and risk management systems;
4. reviewing the quarterly and full year financial results of the Group before submission to the Board for approval so as to ensure the integrity of the Group's financial statements, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the SGX-ST Listing Manual and other relevant statutory or regulatory requirements;
5. reviewing and discussing with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations which has or is likely to have material impact on the Group's operating results or financial position, and Management's response;
6. reviewing annually the scope and results of the audit and its cost effectiveness, independence, objectivity and performance of the internal and external auditors;
7. reviewing arrangements by which staff of the Group and any other persons may in confidence, raise concerns about possible improprieties in financial reporting or, other matters;
8. nominating and reviewing the appointment or re-appointment of the internal and external auditors and matters relating to the resignation or dismissal of the auditors, if any;
9. reviewing interested person transactions (if any) falling within the scope of Chapter 9 of the SGX-ST Listing Manual;
10. reviewing potential conflicts of interest, if any;
11. undertaking such other reviews and projects as may be requested by the Board, and reporting to the Board its findings from time to time on matters arising which require the attention of the AC; and
12. generally undertaking such other functions and duties as may be required by the statutes or the SGX-ST Listing Manual, or by such amendments as may be made thereto from time to time.

The AC meets with the Group's internal and external auditors and Management to review accounting, auditing and financial reporting matters so as to ensure that an effective system of control is maintained.

In performing its functions for FY2019, the AC has:

- (i) held four meetings with Management.
- (ii) reviewed the internal and external audit plans, including the nature and scope of work before commencement of these audits.
- (iii) met up with the Group's internal and external auditors during the year under review without the presence of Management to discuss their findings set out in their respective reports to the AC. Both the internal and external auditors had confirmed that they had access to and received full cooperation and assistance from Management and no restrictions were placed on the scope of audits.
- (iv) reviewed and approved the consolidated statement of comprehensive income, statements of financial position, statements of changes in equity, consolidated cash flows and auditors' report.
- (v) conducted a review of the non-audit services provided by the external auditors and is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors as well as the cost effectiveness of the audit before confirming their re-nomination. The following fees amounting to RMB1,653,000 were approved:

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Audit fees	RMB1,601,000
Non-Audit fees	RMB52,000

The external auditors had also confirmed their independence in this respect.

- (vi) recommended the re-appointment of Messrs BDO Limited, Certified Public Accountants, Hong Kong (“BDO- HK”) and Messrs BDO LLP, Public Accountants and Chartered Accountants, Singapore (“BDO-SG”) to act jointly and severally as the Company’s Auditors.

BDO-HK is a member of BDO International Limited in Hong Kong and BDO-SG, which is registered with the Accounting and Corporate Regulatory Authority, is a member firm of BDO International Limited in Singapore.

The Board, with the concurrence of the AC, is of the view that the re-appointment of BDO-HK and BDO-SG to act jointly and severally as the Auditors has enabled the Company to comply with and meet the objective and spirit of Rule 712 of the SGX-ST Listing Manual.

- (vii) confirmed that the Company had complied with Rule 715 of the SGX-ST Listing Manual in relation to the appointment of the same auditing firm to audit its accounts, foreign-incorporated subsidiaries and associated companies. The Group’s subsidiaries and associated companies are disclosed under Notes 13 and 14 of the Notes to the Financial Statements on pages 70 to 74 of this Annual Report respectively.

The external auditors and/or the Group Financial Controller will keep the AC abreast of changes to accounting standards and issues, if any, which have a direct impact on the financial statements through updates and/or reports from time to time, where applicable or relevant. In addition, the AC is entitled to seek clarification from Management, the external auditors and/or internal auditor or seek independent professional advice, or attend relevant seminars at the Company’s expense from time to time to apprise themselves of accounting standards/financial updates.

The Group has put in place a whistle-blowing programme (“Whistle-Blowing Policy”) which provides well-defined and accessible channels in the Group through which employees and any other persons may raise concern about fraudulent activities, malpractices or improper conduct within the Group, in a responsible and effective manner. There were no whistle blowing reports received for FY2019.

Principles 11: Risk Management and Internal Controls

Principles 13: Internal Audit

The Board acknowledges that it is responsible for the overall internal control framework and the maintenance of a sound system of internal controls and an effective risk management system to safeguard shareholders’ interests and the Group’s assets, including determining the Company’s levels of risk tolerance and risk policies.

The Group’s control environment provides the foundation upon which all other components of internal controls are built upon. It provides discipline and structure, setting the tone of the organization and influencing the control consciousness of its staff. A weak control environment foundation hampers the effectiveness of even the best designed internal control procedures.

The adequacy and effectiveness of the internal control system and procedures at present are monitored by Management. The Company does not have a Risk Management Committee. However, Management regularly reviews the Company’s business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. Management reviews all significant control policies and procedures and highlights all significant matters to the AC and the Directors. The Group’s financial risk management is disclosed under Note 28 of the Notes to the Financial Statements on pages 83 to 87 of the Annual Report.

Corporate Governance Report

The Group's internal audit department ("internal auditors") carries out the internal audit functions. The internal auditors report directly to the AC Chairman. The role of the internal auditors is to support the AC in ensuring that the Group maintains a sound system of internal controls by monitoring and assessing the effectiveness of key controls and procedures. The AC will assess the adequacy of the internal audit function on an annual basis. Pursuant to Rule 1207(10C) of the SGX-ST Listing Manual, the AC is satisfied that the resources and experience of the internal auditors, headed by Mr. Chen Wei and his team assigned to the internal audit of the Group, are independent, effective and adequately resourced.

The AC, with the assistance of the internal and external auditors, reviews on an annual basis the adequacy and effectiveness of the Company's internal controls addressing financial, operational, compliance and informational technology risks, and risk management policies established by Management.

The internal and external auditors have, during the course of their audit, carried out a review of the adequacy and effectiveness of key internal controls within the scope of their audit. Any material non-compliance or weaknesses in internal controls noted during their respective audits and their recommendations are reported to the AC. The AC also reviews the adequacy and effectiveness of the actions taken by Management on the recommendations made by the internal and external auditors in this respect and ensures that there are adequate and effective internal controls in the Group and recommendations are implemented.

In line with the Code, the AC, with the concurrence of the Board, had adopted a Management Assurance Confirmation Statement ("Management Assurance Statement"). For FY2019, the Executive Chairman and CEO and the General Manager (Finance) had provided Management Assurance Statements for each quarter and full year, confirming that:

- (i) the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances;
- (ii) to the best of their knowledge, nothing has come to their attention as Management, which would render the interim financial statements to be false or misleading in any material aspect;
- (iii) they are aware of their responsibilities for establishing, maintaining and evaluating the effectiveness of the risk management and internal control systems of the Company;
- (iv) they are not aware of any known significant deficiencies in the risk management and internal control systems relating to preparation and reporting of financial data, or of any fraud; and
- (v) the internal controls, including financial, operational, compliance and information technology controls, and risk management systems are adequate and effective.

The Board recognises that no internal control system will preclude all errors and irregularities as a system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure to achieve the Group's objectives. The review of the Group's internal control system is a concerted and continuing process.

In view of the above, the Board, with the concurrence of the AC, is of the opinion that the internal controls, addressing financial, operational, compliance and information technology controls, and risk management systems are adequate and effective for FY2019. As recommended by the SGX-ST, an opinion of the Board with the concurrence of the AC on the adequacy and effectiveness of the internal controls, addressing financial, operational, compliance and information technology risks, and risk management systems is also set out in the Directors' Report under page 33 of the Annual Report.

Corporate Governance Report

(D) Communication with Shareholders

Principles 15: Communication with Shareholders

Principles 16: Conduct of shareholder meeting

The Group continues to keep all stakeholders informed of its corporate activities on a timely and consistent basis. In line with continuous disclosure obligations, the Company is mindful of the need for regular and proactive communication with its shareholders and to facilitate the exercise of ownership rights by all shareholders. Communication with shareholders is done via announcements and/or press releases on a timely basis through:

- (i) major developments of the Group;
- (ii) financial statements containing a summary of the financial information and affairs of the Group for the quarterly and full year via SGXNET;
- (iii) annual reports and circulars that are sent to all shareholders; and
- (iv) notices of and explanatory notes for general meetings.

The Company does not practice selective disclosure, and in the event of any inadvertent disclosure is made to a select group, the Company will make the same disclosure publicly to all others as promptly as possible.

Shareholders are invited and encouraged to attend general meetings to put forth any questions they may have on the motions to be debated and decided upon. If any shareholder is unable to attend these meetings, he is allowed to appoint up to 2 proxies to vote on his behalf at the meetings. The duly completed and original proxy form is required to be submitted not less than 48 hours before the general meeting and deposited at the Company Share Transfer Agent's office.

The notices of the general meetings are dispatched to shareholders, together with explanatory notes at least 14 clear days before each meeting for ordinary resolutions and at least 21 clear days for special resolutions to be passed. The notice is also advertised in a national newspaper.

At general meetings, each distinct issue is proposed as a separate resolution.

The Company welcomes shareholders to voice their views and seek clarification on issues relating to the Group's business as outlined in the agenda of the AGM notice and encourages shareholders' participation at AGMs.

The Chairman of the Board and the Chairmen of the AC, NC and RC are and will endeavour to attend if they are available, or otherwise their representatives will attend the AGM to attend to queries raised by the shareholders. The external auditors will also be present to assist the Directors in addressing any relevant queries by shareholders. The Company Secretary(ies) record(s) minutes of every general meetings and the minutes will be made available to the shareholders upon their request.

The Company would conduct its votings in general meetings by poll where shareholders are accorded rights proportionate to the shareholding and all votes are counted. The Board believes that this will enhance transparency of the voting process and encourage greater shareholder participation. An announcement of the detailed results showing the number of votes cast for and against each resolution and the respective percentages will be released via the SGXNET after the meeting. The Company currently employs paper polling as electronic polling is not practical and cost-effective.

Although the Company does not have an investor relations policy, other than communicating with Shareholders at AGMs, the Company has engaged an external Investor Relations ("IR") Manager to assist with its investor relations matters. Media, analysts, investors and shareholders may also contact the IR Manager or the Group Financial Controller and/or the Directors through the Company on any investor relations matters. The IR Manager can be contacted at ysngo45@gmail.com.

Corporate Governance Report

The Company does not have a policy on payments of dividends. The form, frequency and amount of dividends declared each year will take into consideration the Group's profit growth, cash position, positive cash generated from operations, projected capital requirements for business growth and other factors as the Board may deem appropriate. The Company endeavours to pay dividends and where dividends are not paid, the Company will disclose its reason(s) accordingly.

No dividend was declared for FY2019 as the Group is loss making.

Dealings in Securities

The Group had adopted an internal compliance code of conduct to provide guidance to its Directors, key officers and employees regarding dealings in the Company's securities and implications of Insider Trading (the "Securities Code") in compliance with Rule 1207(19) of the SGX-ST Listing Manual.

In line with the Group's internal compliance code, Directors, key officers and employees of the Group are prohibited from dealing in securities of the Company during the periods commencing two weeks before the release of the quarterly results and at least one month before the release of full year results and ending one day after the date of announcement of the relevant results. Directors and employees are also advised against dealing in the securities when they are in possession of any unpublished material price-sensitive information of the Group at all times. The Company confirms that it had adhered to its Securities Code for FY2019.

Directors and key officers are also encouraged not to deal in the Company's securities on short-term Considerations.

Interested Person Transactions

The Company has adopted an internal policy governing procedures for the identification, approval and monitoring of interested person transactions. All interested person transactions are subject to review by the AC at its quarterly meetings to ensure that such transactions are conducted on an arm's length basis and are not prejudicial to the interests of the shareholders.

The AC with the concurrence of the Board confirmed that there were no interested person transactions for FY2019 pursuant to the disclosure under Rule 920 of the SGX-ST Listing Manual:

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX-ST Listing Manual)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX-ST Listing Manual (excluding transactions less than S\$100,000)
Nil	Nil	Nil

The Group does not have a general mandate from the shareholders for interested person transactions.

Corporate Governance Report

Material Contracts

Since the end of the previous financial year, the Group did not enter into any material contracts involving the interests of the CEO, Directors, Controlling Shareholders and no such material contracts subsist at the end of the financial year, save for the Service Agreements entered into by the Executive Directors with the Company and the conditional acquisition and disposal agreement ("Agreement") entered into by the Company on 17 November 2018 with Keen Wind Limited ("Keen Wind", and together with the Company, "Parties") pursuant to which, subject to the terms and conditions of the Agreement:

- (a) Keen Wind will sell, and the Company will acquire, all the issued and paid-up shares in the capital of Great Resolute Limited ("Great Resolute") held by Keen Wind, representing 100% of the issued shares in Great Resolute ("Xingnong Acquisition"); and
- (b) the Company will dispose of, and Keen Wind will purchase, all the issued and paid-up shares in the capital of Sea Will International Limited ("Sea Will") held by the Company, representing 100% of the issued shares in Sea Will ("Dukang Disposal") (collectively, the "Proposed Transactions"). Following completion of the Proposed Transactions ("Completion"), Great Resolute and its subsidiaries (collectively, the "Xingnong Group") will be wholly-owned subsidiaries of the Company and the Company will cease to have any interest in Sea Will and all of its subsidiaries and associated company (collectively, the "Dukang Group"). As a result, the Company's business will comprise wholly of the business carried out by the Xingnong Group.

Directors' Report

The Directors present their report together with the audited consolidated financial statements of Dukang Distillers Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group") for the financial year ended 30 June 2019 ("FY2019").

Directors

The Directors of the Company in office at the date of this report are:

Zhou Tao (Executive Chairman and Chief Executive Officer)
Huo Lei (Executive Director)
Tan Siok Sing (Calvin) (Lead Independent Director)
Chia Seng Hee, Jack (Independent Director)
Ho Teck Cheong (Independent Director)
Jia Guobiao (Non-Executive and Non-Independent Director)

Share Options

The Company does not have any share option scheme.

Arrangements to enable Directors to acquire Shares or Debentures

During and at the end of the financial year, neither the Company nor any of its subsidiaries was a party to any arrangement whose objects are, or one of whose objects is, to enable the Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' Interests in Shares or Debentures

According to the Register of Directors' shareholdings, none of the Directors holding office at the end of the financial year had any interest in the share capital or debentures of the Company.

Directors' Service Contracts

Mr Zhou Tao had entered into a Service Agreement as Deputy Chairman and Chief Executive Officer ("CEO") with the Company for an initial term of 3 years commencing from 5 September 2008 which was subject to review and renewal upon expiry or unless terminated by either party giving not less than three months' notice to the other. His Service Agreement was subsequently renewed on 4 September 2011 for a period of 3 years with no changes in the terms and conditions, save for his remuneration when he was re-designated Executive Chairman cum CEO on 28 March 2013, and further extended for another 3 years commencing from 4 September 2014. Mr Zhou's Service Agreement had been renewed for another 3 years commencing from 4 September 2017.

Mr Huo Lei, an Executive Director of the Company, had entered into a Service Agreement with the Company for an initial term of 3 years commencing from 1 September 2014 which was subject to review and renewal upon expiry on 31 August 2017 or unless terminated by either party giving not less than three months' notice to the other. Mr Huo's Service Agreement had been subsequently renewed on 1 September 2017 for a period of 3 years commencing from 1 September 2017, with no changes in the terms and conditions.

Directors' Report

Directors' Contractual Benefits

Except for the Service Agreements detailed above and transactions disclosed in note 27 to the financial statements, no Director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest since the end of the previous financial year.

Audit Committee, Nominating Committee and Remuneration Committee

Details of the Company's Audit Committee ("AC"), Nominating Committee ("NC") and Remuneration Committee ("RC") are set out in the Corporate Governance Report on pages 13 to 31 of this Annual Report.

Compliance with Rule 1207(10) of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST Listing Manual").

The AC has reviewed the overall scope of both internal and external audits and the representations given by Management to the internal and external auditors. The AC has also met with the Company's internal and external auditors for FY2019 to discuss the results of their respective findings within their scope of work, evaluation of the Company's system of internal controls, where applicable and separately without the presence of Management. Details on the duties and functions carried out by the AC, adequacy and effectiveness of the internal controls and internal audit during the financial year under review are set out in pages 25 to 28 of the Corporate Governance Report.

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, and reviews performed by Management, the various Board Committees and the Board, the AC and the Board are of the opinion that the Group's internal controls, addressing financial, operational and compliance and information technology risks, and risk management systems, were adequate and effective as at 30 June 2019.

Auditors

The AC has recommended to the Board of Directors the re-appointment of BDO Limited, Certified Public Accountants, Hong Kong ("BDO Limited") and BDO LLP, Public Accountants and Chartered Accountants, Singapore ("BDO LLP") to act jointly and severally as the auditors of the Company at the forthcoming AGM.

BDO Limited and BDO LLP have expressed their willingness to accept the re-appointment to act jointly and severally as auditors of the Company.

ON BEHALF OF THE BOARD OF DIRECTORS

Zhou Tao
Director

Huo Lei
Director

26 September 2019

Statement by Directors

We, Zhou Tao and Huo Lei, being two of the Directors of the Company, do hereby state that, in the opinion of the Directors:

- (i) the accompanying consolidated statements of financial position of the Group and statement of financial position of the Company as at 30 June 2019, consolidated statement of comprehensive income, consolidated statements of changes in equity, consolidated statement of cash flows of the Group and the statement of changes in equity of the Company together with the notes thereto, set out on pages 40 to 90, are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 30 June 2019 and financial performance of the business, changes in equity and cash flows of the Group for the financial year then ended; and
- (ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The board of directors authorised these financial statements for issue on 26 September 2019.

ON BEHALF OF THE BOARD OF DIRECTORS

Zhou Tao
Director

Huo Lei
Director

26 September 2019

Independent Joint Auditors' Report



To the shareholders of Dukang Distillers Holdings Limited
(incorporated in Bermuda with limited liability)

Opinion

We have audited the financial statements of Dukang Distillers Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 40 to 90, which comprise:

- the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 30 June 2019;
- the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group;
- the statement of changes in equity of the Company for the year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company give a true and fair view of the consolidated financial position of the Group and of the financial position of the Company as at 30 June 2019, and of the consolidated financial performance and consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore and the Hong Kong Institute of Certified Public Accountants ("HKICPA") Code of Ethics for Professional Accountants ("HKICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements, the ACRA Code and the HKICPA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Joint Auditors' Report

Key audit matter	Audit response
<p>1 Impairment assessment of property, plant and equipment, prepaid land lease payments, intangible assets and interest in an associate</p> <p>As at 30 June 2019, the Group had property, plant and equipment, prepaid land lease payments, net of impairment provision, of approximately RMB270,509,000 and RMB132,589,000 respectively, and intangible assets which have been fully impaired during the year, relating to the cash-generating unit of baijiu business ("Dukang Baijiu CGU"), and interest in an associate of approximately RMB13,671,000 (net of impairment provision), income stream of which is entirely dependent on the Dukang Baijiu CGU. Since the Group's baijiu business recorded a loss during the current financial year, management of the Group, with reference to valuations from an independent and professionally qualified valuer (the "Valuer"), performed impairment assessments to determine the recoverable amounts of these non-current assets.</p> <p>Based on the impairment assessment on the Dukang Baijiu CGU and the interest in an associate, the management of the Group recognised impairment loss of RMB280,000 on intangible assets and RMB819,000 on interest in an associate during the year ended 30 June 2019.</p> <p>This area is identified as a key audit matter due to the significance of the carrying values of the above-mentioned assets to the financial statements as a whole as well as the significant degree of judgement and estimation by the management involved in the assessment of their recoverable amounts.</p> <p>Refer to notes 4.7, 5(v), 14, 15, 16 and 17 of the accompanying financial statements.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> (i) Understanding and assessing the appropriateness of the valuation methodologies used by the management and key assumptions adopted for the valuations based on our knowledge of the business and industry; (ii) Evaluating the competence, capabilities and objectivity of the external valuer; (iii) Checking, on a sample basis, the accuracy and relevance of the input data used and the reasonableness of the key assumptions used in the valuations; (iv) Comparing the fair value less costs of disposal and value in use in determining the recoverable amounts of these non-current assets; and (v) Assessing the adequacy of the disclosures on the impairment assessment in the financial statements.

Independent Joint Auditors' Report

Key audit matter	Audit response
<p>2 Net realisable value of inventories</p> <p>The carrying value of inventories of the Group is RMB709,592,000 as at 30 June 2019. Inventories are stated at lower of cost and net realisable value. The assessment of net realisable value of inventories is based on estimates and judgements by management in respect of, amongst others, the current economic condition, historical sales record, ageing analysis and subsequent selling price of inventories.</p> <p>This area is identified as a key audit matter due to the significance of the carrying values of inventories to the financial statements as a whole, combined with the significant degree of judgment and estimation by the management involved in determining the net realisable value of inventories.</p> <p>Refer to notes 4.8, 5(ii) and 19 of the accompanying financial statements.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> (i) Understanding the management's process in identifying obsolete or slow-moving inventories and determining the net realisable value of the inventories; (ii) Discussing with management and assessing the basis of the management's estimation of costs necessary to convert the work-in-progress to finished goods, and the subsequent selling price of these finished goods; (iii) Comparing the carrying value of a sample of inventory items at the reporting date with their subsequent selling prices achieved, net of costs to completion and direct selling costs after the reporting date; (iv) Comparing the carrying value of a sample of inventory items without sales after the reporting date with the estimated selling price, with reference to market prices at the reporting date, latest sales record and historical gross margins achieved, net of estimated costs to completion and costs to sell. To assess the historical accuracy of management's estimation process, we compared, on sample basis, the actual selling prices achieved during the current year with the estimated selling prices of the respective inventories at the end of the previous financial year; and (v) Engaging an independent industry expert as the auditor's expert to review the report that is issued by the management industry valuer from the People's Republic of China.

Independent Joint Auditors' Report

Other Information in the Annual Report

The directors are responsible for the other information. The other information comprises all the information included in the Company's 2019 annual report, but does not include the financial statements and our joint auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a joint auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Joint Auditors' Report

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our joint auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our joint auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our joint auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent joint auditors' report are Khoo Gaik Suan from BDO LLP, and Cheung Or Ping from BDO Limited.

BDO LLP

Public Accountants and Chartered Accountants
Singapore

26 September 2019

BDO Limited

Certified Public Accountants
Hong Kong

26 September 2019

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	6	139,648	148,524
Cost of sales		(91,232)	(106,831)
Gross profit		48,416	41,693
Other income	7	5,932	734
Selling and distribution expenses		(44,346)	(31,080)
Administrative expenses		(70,879)	(65,221)
Other expenses		(858)	(35,201)
Impairment loss on interest in an associate	14	(819)	(67,340)
Impairment loss on property, plant and equipment	15	-	(54,757)
Impairment loss on intangible assets	17	(280)	(1,000)
Operating loss	8	(62,834)	(212,172)
Finance costs	9	(7,108)	(7,042)
Share of profit of an associate	14	770	786
Loss before income tax		(69,172)	(218,428)
Income tax expense	11	(181)	(3,606)
Loss for the year, attributable to owners of the Parent		(69,353)	(222,034)
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(1,407)	574
Total comprehensive income for the year, attributable to owners of the Parent		(70,760)	(221,460)
Loss per share for loss attributable to owners of the Parent during the year	12		
- Basic and diluted		RMB(0.87)	RMB(2.78)

Statements of Financial Position

As at 30 June 2019

Notes	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Interests in subsidiaries	13	-	793,606	793,606
Interest in an associate	14	13,720	-	-
Property, plant and equipment	15	294,659	-	-
Prepaid land lease payments	16	136,564	-	-
Intangible assets	17	280	-	-
		416,769	793,606	793,606
Current assets				
Inventories	19	709,592	-	-
Amounts due from a subsidiary	13	-	11,486	18,000
Prepayments, deposits and other receivables	18	39,682	-	-
Cash and cash equivalents	20	156,501	10	13
		905,775	11,496	18,013
Current liabilities				
Trade payables		55,987	-	-
Amount due to an associate	14	7,170	-	-
Accrued liabilities and other payables	21	114,325	5,836	6,070
Bank loans, secured	22	115,000	-	-
Provision for income tax		466	-	-
		292,948	5,836	6,070
Net current assets		612,827	5,660	11,943
Total assets less current liabilities		1,029,596	799,266	805,549
Non-current liabilities				
Deferred tax liabilities	23	11,306	-	-
Net assets		1,018,290	799,266	805,549
EQUITY				
Equity attributable to owners of the Parent				
Share capital	24	279,499	279,499	279,499
Reserves	25	738,791	519,767	526,050
Total equity		1,018,290	799,266	805,549

Zhou Tao
DirectorHuo Lei
Director

Statements of Changes In Equity

For the year ended 30 June 2019

GROUP

	Share capital	Share premium* (Note 25)	Merger reserve* (Note 25)	Statutory reserves* (Note 25)	Translation reserve*	Retained profits*	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 July 2017	279,499	656,811	(150,101)	168,846	193	355,262	1,310,510
Loss for the year	-	-	-	-	-	(222,034)	(222,034)
Other comprehensive income							
- Exchange differences on translation of foreign operations	-	-	-	-	574	-	574
Total comprehensive income for the year	-	-	-	-	574	(222,034)	(221,460)
Transfer to statutory reserves	-	-	-	721	-	(721)	-
Balance as at 30 June 2018 and 1 July 2018	279,499	656,811	(150,101)	169,567	767	132,507	1,089,050
Loss for the year	-	-	-	-	-	(69,353)	(69,353)
Other comprehensive income							
- Exchange differences on translation of foreign operations	-	-	-	-	(1,407)	-	(1,407)
Total comprehensive income for the year	-	-	-	-	(1,407)	(69,353)	(70,760)
Balance as at 30 June 2019	279,499	656,811	(150,101)	169,567	(640)	63,154	1,018,290

* These reserve accounts comprise the consolidated reserves of RMB738,791,000 (2018: RMB809,551,000) in the consolidated statement of financial position.

Statements of Changes In Equity

For the year ended 30 June 2019

COMPANY

	Share capital	Share premium** (Note 25)	Contributed surplus** (Note 25)	Translation reserve**	Accumulated losses**	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 July 2017	279,499	656,811	120,523	(1,533)	(219,913)	835,387
Loss for the year	-	-	-	-	(5,864)	(5,864)
Other comprehensive income						
- Exchange differences on translation of financial statements	-	-	-	(23,974)	-	(23,974)
Total comprehensive income for the year	-	-	-	(23,974)	(5,864)	(29,838)
Balance as at 30 June 2018 and 1 July 2018	279,499	656,811	120,523	(25,507)	(225,777)	805,549
Loss for the year	-	-	-	-	(6,709)	(6,709)
Other comprehensive income						
- Exchange differences on translation of financial statements	-	-	-	426	-	426
Total comprehensive income for the year	-	-	-	426	(6,709)	(6,283)
Balance as at 30 June 2019	279,499	656,811	120,523	(25,081)	(232,486)	799,266

** These reserve accounts comprise the Company's reserves of RMB519,767,000 (2018: RMB526,050,000) in the Company's statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 30 June 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Loss before income tax		(69,172)	(218,428)
Adjustments for:			
Bank interest income	7	(434)	(502)
Interest expenses	9	7,108	7,042
Depreciation of property, plant and equipment	8	25,951	26,176
Amortisation of prepaid land lease payments	8	3,975	3,975
Loss on disposal of property, plant and equipment	8	-	20
Impairment loss on interest in an associate	14	819	67,340
Impairment loss on property, plant and equipment	15	-	54,757
Impairment loss on intangible assets	17	280	1,000
Share of profit of an associate	14	(770)	(786)
Compensation to suppliers on purchases returns	8	-	3,246
Operating loss before working capital changes		(32,243)	(56,160)
Decrease in inventories		5,408	55,177
Decrease in prepayments, deposits and other receivables		5,017	46,689
Decrease in trade payables		(4,927)	(63,621)
Increase in accrued liabilities and other payables		6,838	5,125
Increase in amount due to an associate		2,064	2,144
Cash used in operations		(17,843)	(10,646)
Income taxes paid		(660)	(4,452)
Net cash used in operating activities		(18,503)	(15,098)
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,801)	(1,278)
Proceeds from disposals of property, plant and equipment		-	5
Interest received		434	502
Net cash used in investing activities		(1,367)	(771)
Cash flows from financing activities			
Proceeds from bank loans		115,000	115,000
Repayments of bank loans		(115,000)	(113,000)
Interest paid		(7,108)	(7,042)
Advance from a director	30	8,458	5,922
Net cash generated from financing activities		1,350	880
Net decrease in cash and cash equivalents		(18,520)	(14,989)
Cash and cash equivalents at beginning of year		175,039	190,213
Effect of foreign exchange rate changes		(18)	(185)
Cash and cash equivalents at end of year		156,501	175,039

Notes to the Financial Statements

For the year ended 30 June 2019

1. GENERAL CORPORATE INFORMATION

Dukang Distillers Holdings Limited (the "Company") was incorporated in Bermuda on 12 February 2008 under the Bermuda Companies Act as an exempted company with limited liability. The address of its registered office is located at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda. The principal place of business of the Company is located at 18/F, SUHE International Centre, East 62, Nongye Road, Jinshui District, Zhengzhou City, Henan Province, the People's Republic of China (the "PRC").

The Company's shares are listed on the Mainboard of the Singapore Exchange Securities Trading Limited (the "SGX-ST") and certain of its shares are listed as Taiwan Depositary Receipts on the Taiwan Stock Exchange Corporation.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 13 to the financial statements. The Company and its subsidiaries are referred to as the "Group" hereinafter.

The financial statements for the year ended 30 June 2019 were approved and authorised for issue by the board of directors on 26 September 2019.

2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretation Committee ("IFRIC") of the IASB. The financial statements also include the applicable disclosure requirements of the Listing Manual of the SGX-ST.

The financial statements have been prepared under the historical cost basis. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5 to the financial statements.

3 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1 Adoption of new and revised IFRSs

The Group has adopted the following amendments to IFRSs which are relevant to the Group's operations for the first time in the current year:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related amendments
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IAS 28, Investments in Associates and Joint Ventures
IFRIC 22	Foreign Currency Transactions and Advance Consideration

Notes to the Financial Statements

For the year ended 30 June 2019

3 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

3.1 Adoption of new and revised IFRSs (Continued)

Except as detailed below, the adoption of the new IFRSs has no material impact on the Group's financial statements.

IFRS 9 – Financial Instruments

(i) Classification and measurement of financial instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in consolidated financial statements.

The transition to IFRS 9 had no impact on the opening balance of accumulated losses.

IFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from IAS 39, except for financial liabilities designated at fair value through profit or loss ("FVTPL"), where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, IFRS 9 retains the requirements in IAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of IFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under IFRS 9, except for certain accounts receivable (that the accounts receivable do not contain a significant financing component in accordance with IFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised cost"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL. The classification of financial assets under IFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under IFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

Notes to the Financial Statements

For the year ended 30 June 2019

3 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

3.1 Adoption of new and revised IFRSs (Continued)

IFRS 9 – Financial Instruments (Continued)**(i) Classification and measurement of financial instruments (Continued)**

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investments fair value in other comprehensive income. This election is made on an investment—by—investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

Amortised cost Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

The following table summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's and the Company's financial assets as at 1 July 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Carrying amount as at 1 July 2018 under IAS 39	Carrying amount as at 1 July 2018 under IFRS 9
			RMB'000	RMB'000
<u>The Group</u>				
Deposits	Loans and receivables	Amortised cost	30	30
Cash and cash equivalents	Loans and receivables	Amortised cost	175,039	175,039
<u>The Company</u>				
Amounts due from a subsidiary	Loans and receivables	Amortised cost	18,000	18,000
Cash and cash equivalents	Loans and receivables	Amortised cost	13	13

Notes to the Financial Statements

For the year ended 30 June 2019

3 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

3.1 Adoption of new and revised IFRSs (Continued)

IFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets

The adoption of IFRS 9 has changed the Group's impairment model by replacing the IAS 39 "incurred loss model" to the "Expected Credit Losses (ECLs) model". IFRS 9 requires the Group to recognise ECLs for financial assets at amortised costs earlier than IAS 39.

Under IFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of ECLs

All of the Group's financial assets at amortised cost are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months ECLs. No impairment for these financial assets as at 1 July 2018 and during the year is recognised as the amount of impairment measured under the ECLs model is immaterial.

Notes to the Financial Statements

For the year ended 30 June 2019

3 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

3.1 Adoption of new and revised IFRSs (Continued)

IFRS 9 – Financial Instruments (Continued)

(iii) Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the consolidated statement of financial position as at 30 June 2018, but are recognised in the consolidated statement of financial position on 1 July 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in accumulated losses as at 1 July 2018. Accordingly, the information presented for the year ended 30 June 2018 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

The assessment of the determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application (the "DIA") of IFRS 9.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of accumulated losses at the date of initial application (that is, 1 July 2018). As a result, the financial information presented for 2018 has not been restated.

There was no material impact on the opening balance of accumulated losses.

Notes to the Financial Statements

For the year ended 30 June 2019

3 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

3.1 Adoption of new and revised IFRSs (Continued)

IFRS 15 – Revenue from Contracts with Customers (Continued)

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's sales of goods are set out below:

Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 30 June 2019
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Customers obtain control of the baijiu products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the baijiu products. There is generally only one performance obligation. Payments are usually received in advance.

Right of return

The Group's contracts with customers from the sales of goods provides customers a right of return (a right to be refunded in cash or exchange of product).

Right of return

Under IAS 18, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provide that all other revenue recognition criteria are met. If a reasonable estimate could not be made, such revenue would be deferred until the return period lapsed or a reasonable estimate could be made.

Under IFRS 15, right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right of return asset are recognised.

There was no material impact on the opening balance at 1 July 2018.

Notes to the Financial Statements

For the year ended 30 June 2019

3 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

3.2 Issued but not yet effective IFRSs

The Group has not applied the following new and revised IFRSs, which have been issued and are potentially relevant to the Group's operations but are not yet effective, in these financial statements.

IFRS 16	Leases ¹
IFRIC 23	Uncertainty Over Income Tax Treatments ¹
Amendments to IAS 1 and IAS 8	Definition of Material ²
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to IFRS 3	Definition of a Business ²
Amendments to IFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Annual Improvements to IFRSs 2015—2017 Cycle	Amendments to IFRS 3 "Business Combinations" ¹
Annual Improvements to IFRSs 2015—2017 Cycle	Amendments to IAS 12 "Income Taxes" ¹
Annual Improvements to IFRSs 2015—2017 Cycle	Amendments to IAS 23 "Borrowing Costs" ¹

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 January 2020

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred / removed. Early application of the amendments continue to be permitted.

The Group will apply the above new and revised IFRSs when they become effective. The Group is in the process of making an assessment of the impact of these new and revised IFRSs in the period of initial application. Further details of the expected impacts are discussed below.

IFRS 16 - Leases

IFRS 16, which upon the effective date will supersede IAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Notes to the Financial Statements

For the year ended 30 June 2019

3 ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

3.2 Issued but not yet effective IFRSs (Continued)

IFRS 16 - Leases (Continued)

As at the reporting date, the Group has no non-cancellable operating lease commitments. The Group does not expect the adoption would have any material impact on its financial position and results of operations.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented.

4.1 Business combination and basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest that represents a present ownership interest in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by IFRSs. Acquisition-related costs incurred are expensed.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Notes to the Financial Statements

For the year ended 30 June 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Business combination and basis of consolidation (Continued)

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, interests in subsidiaries together with advances from the Company which are neither planned nor likely to be settled in foreseeable future are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4.3 Associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and the entire carrying amount of the investment is subject to impairment test as detailed in note 4.7.

4.4 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial year in which they are incurred.

Notes to the Financial Statements

For the year ended 30 June 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.4 Property, plant and equipment (Continued)

Depreciation is provided to write off the cost of property, plant and equipment, less any estimated residual values, using the straight-line method, over the following estimated useful lives:

Leasehold buildings	Over the shorter of lease terms and useful lives of 20 – 50 years
Plant and machinery	2 - 10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	3 - 5 years

CIP, which represents buildings under construction, is stated at cost less accumulated impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

4.5 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating lease charges as the lessee

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

Prepaid land lease payments

Prepaid land lease payments represent up-front payments to acquire long term interests in the usage of land held under an operating lease in Mainland China. They are stated at cost less accumulated amortisation and impairment losses, if any. These prepaid land lease payments are amortised over the lease period of 46 to 50 years using straight-line method.

Notes to the Financial Statements

For the year ended 30 June 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level, as described below in note 4.7 to the financial statements. Such intangible assets are not amortised.

Trademark

The trademark was regarded as having an indefinite useful life because the trademark legal right is capable of being renewed indefinitely at insignificant cost and the trademarked products are expected to generate net cash inflows indefinitely. The trademark is stated at cost less any impairment losses.

4.7 Impairment of non-financial assets

Prepaid land lease payments, property, plant and equipment, intangible assets, interest in an associate, prepayments and the Company's interests in subsidiaries are subject to impairment testing.

Intangible assets with indefinite useful life are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss recognised for cash-generating unit is charged on a pro rata basis to the assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable), whichever is the higher.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash-generating unit, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

Notes to the Financial Statements

For the year ended 30 June 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.8 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average basis, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

4.9 Financial assets

(A) Accounting policies applied from 1 July 2018

The Group's and the Company's financial assets include deposits, amounts due from a subsidiary and cash and cash equivalents.

A financial asset (unless it is an account receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. An account receivable without a significant financing component is initially measured at the transaction price.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments at amortised cost.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Impairment loss on financial assets

The Group recognises loss allowances for ECLs on the financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

Notes to the Financial Statements

For the year ended 30 June 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 Financial assets (Continued)

(A) Accounting policies applied from 1 July 2018 (Continued)

Impairment loss on financial assets (Continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers a financial asset to be default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The Group considers a financial asset to be credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

Notes to the Financial Statements

For the year ended 30 June 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 Financial assets (Continued)

(B) Accounting policies applied until 30 June 2018

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the Group's previous accounting policy.

The Group's and the Company's financial assets include deposits, amounts due from a subsidiary and cash and cash equivalents. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

The Group's and the Company's financial assets are classified into the category of loans and receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Derecognition of financial assets occurs when the contractual right to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with IAS 39.

Impairment of financial assets

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group and the Company about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

Notes to the Financial Statements

For the year ended 30 June 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.9 Financial assets (Continued)

(B) Accounting policies applied until 30 June 2018 (Continued)

Impairment of financial assets (Continued)

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but are not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

4.10 Financial liabilities

The Group's and the Company's financial liabilities include bank loans, trade payables, accrued liabilities and other payables and amount due to an associate.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Borrowings

Borrowings include bank loans and are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Notes to the Financial Statements

For the year ended 30 June 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Financial liabilities (Continued)

Other financial liabilities

These include trade payables, accrued liabilities and other payables and amount due to an associate and are recognised initially at their fair values and subsequently measured at amortised costs, using the effective interest method.

4.11 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4.12 Revenue recognition

(A) Accounting policies applied from 1 July 2018

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

Notes to the Financial Statements

For the year ended 30 June 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Revenue recognition (Continued)

(A) Accounting policies applied from 1 July 2018 (Continued)

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(i) Sale of baijiu products

Customers obtain control of the baijiu products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the baijiu products. There is generally only one performance obligation. Payments are usually received in advance. In the comparative period, revenue from sale of goods is recognised on transfer of risks and rewards of ownership, which was taken as at the time of delivery and the title is passed to customer.

The Group's contracts with customers from the sales of baijiu products provide customers a right of return (a right to be refunded in cash or exchange of product). The right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right of return assets are recognised. In the comparative period, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provide that all other revenue recognition criteria are met. If a reasonable estimate could not be made, such revenue would be deferred until the return period lapsed or a reasonable estimate could be made. There was no material impact on the opening balance at 1 July 2018.

Contract assets and liabilities

A contract asset represents the Group's right to consideration in exchange for products or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

(ii) Interest income

Interest income is accrued on a time basis on the principal outstanding using the effective interest rate method.

Notes to the Financial Statements

For the year ended 30 June 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Revenue recognition (Continued)

(B) Accounting policies applied until 30 June 2018

Revenue comprises the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, on the following bases:

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the buyer has accepted the goods; and
- (ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

4.13 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

4.14 Accounting for income tax

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries and associate, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

Notes to the Financial Statements

For the year ended 30 June 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.15 Employee benefits

Retirement benefits

Pursuant to the relevant regulations of the government in Mainland China, the subsidiaries operating in Mainland China have participated in central pension schemes (the "Schemes") operated by local municipal governments, whereby the subsidiaries in the PRC are required to contribute a certain percentage of the basic salaries of their employees to fund their retirement benefits. The local municipal governments undertake to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries in the PRC. The only obligation of the Group with respect to the Schemes is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to profit or loss as incurred. There are no provisions under the Schemes whereby forfeited contributions may be used to reduce future contributions.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

4.16 Foreign currency translation

The functional currency of the Company is Hong Kong dollars ("HK\$"). The financial statements are presented in RMB, which is the functional currency of the principal subsidiaries of the Group whose operations are principally conducted in Mainland China.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity. When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

Notes to the Financial Statements

For the year ended 30 June 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.17 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

4.18 Cash and cash equivalents

Cash and cash equivalents include cash at banks (including financial institution) and in hand and short-term bank deposits with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

4.19 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

4.20 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).

Notes to the Financial Statements

For the year ended 30 June 2019

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.20 Related parties (Continued)

- (b) An entity is related to the Group if any of the following conditions apply: (Continued)
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

4.21 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

No separate analysis of segment information by business or geographical segments is presented as the Group's major business comprises manufacture and sale of baijiu products in Mainland China. The Group's revenue, assets and capital expenditure are principally attributable to a single geographical region, which is Mainland China.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- (i) Depreciation

The Group depreciates its property, plant and equipment in accordance with the accounting policy stated in note 4.4. The estimated useful lives reflect the management's estimate of the periods that the Group intends to derive future economic benefits from the use of these assets. The carrying amount of the Group's property, plant and equipment as at the end of the financial year is disclosed in note 15 to the financial statements.

Notes to the Financial Statements

For the year ended 30 June 2019

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(ii) Net realisable value of inventories

These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at each reporting date. The carrying amount of the Group's inventories is disclosed in note 19 to the financial statements.

(iii) Impairment of receivables and amounts due from a subsidiary

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history and financial conditions of the Group's debtors and the current market condition. When the Group's management determines that there are indicators of significant financial difficulties of the debtors such as default or delinquency in payments to the Group, allowance for impairment are estimated. The Group's management reassesses the impairment of receivables at each reporting date. Where the actual outcome or expectation in the future is different from the original estimates, such differences will affect the carrying value of receivables and thus the impairment loss in the period in which such estimate is changed.

At each reporting date, management determines whether there is change in credit risk of the amounts due from a subsidiary since initial recognition. Management considers various operating performance ratios as well as liquidity ratios of the subsidiary. There is no significant increase in credit risk as at 30 June 2019.

(iv) Provision for taxes

The Group is mainly subject to various taxes in Mainland China including enterprise income tax, consumption tax, value-added tax ("VAT") and other surtaxes. Significant judgement is required in determining the amount of the provision for taxes, the timing of payment of related taxes and the interpretation of tax regulations. The Group carefully evaluates the tax implications of every material transaction and recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made. The carrying amounts of the Group's provision for income tax, other taxes recoverable and other taxes payable as at 30 June 2019 were RMB466,000 (2018: RMB660,000), RMB3,706,000 (2018: RMB5,826,000) and RMB19,071,000 (2018: RMB12,841,000) respectively. The carrying amount of the Group's deferred tax liabilities is disclosed in note 23 to the financial statements.

(v) Impairment of non-financial assets

The Group and the Company assess whether there are any indicators of impairment or reversal of impairment of all non-financial assets at each reporting date. Intangible assets with indefinite useful life are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. All non-financial assets are tested for reversal of impairment when there are indicators that previously recognised impairment losses may no longer exist or may have decreased. When assessing impairment, management determines the recoverable amount of an asset or cash generating unit, which is the higher of its fair value less costs of disposal and its value in use. Management may need to estimate the expected future cash flows from the asset or cash-generating unit and determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of the Group's and the Company's non-financial assets are set out in notes 13 to 17 to the financial statements.

Notes to the Financial Statements

For the year ended 30 June 2019

6. REVENUE

Revenue from contracts with customers within the scope of IFRS 15 recognised is as follows:

	Group	
	2019	2018
	RMB'000	RMB'000
Revenue recognised at a point in time		
Sale of baijiu products	139,648	148,524

7. OTHER INCOME

	Group	
	2019	2018
	RMB'000	RMB'000
Bank interest income	434	502
Miscellaneous	988	232
Grant income	4,510	-
	5,932	734

8. OPERATING LOSS

The Group's operating loss is arrived at after charging/(crediting):

	Group	
	2019	2018
	RMB'000	RMB'000
(a) Employee benefit expenses		
Directors' remuneration	3,327	3,031
Salaries, wages and other benefits	43,947	38,831
Retirement benefits scheme contributions	9,380	10,304
	56,654	52,166
(b) Cost of sales		
Cost of inventories recognised as an expense	70,828	81,161
Consumption tax [#]	20,404	25,670
	91,232	106,831

Consumption tax charged to the Group is in proportion to the revenue and volume of baijiu products sold by the Group.

Notes to the Financial Statements

For the year ended 30 June 2019

8. OPERATING LOSS (Continued)

	Group	
	2019	2018
	RMB'000	RMB'000
(c) Other items:		
Depreciation on owned assets	25,951	26,176
Amortisation of prepaid land lease payments*	3,975	3,975
Net foreign exchange (gain)/loss	(1)	1
Contingent rents under an operating lease	-	662
Impairment loss on interest in an associate	819	67,340
Impairment loss on property, plant and equipment	-	54,757
Impairment loss on intangible assets	280	1,000
Loss on disposal of property, plant and equipment	-	20
Compensation to suppliers on purchases returns (note)**	-	3,246
Temporary production suspension costs**	-	15,200
Provision for losses on litigation**	858	16,755

* Included in cost of sales.

** Included in other expenses.

Note:

During the year ended 30 June 2018, according to terms mutually agreed between the Group and certain of its third party suppliers, certain work in progress were returned to the suppliers and compensation are to be settled by the Group to these suppliers by way of delivery of the Group's baijiu products at values based on a percentage of the amounts of the inventories returned. Accordingly, an estimated amount of RMB3,246,000 was recognised by the Group as a provision for compensation to suppliers. Such terms have expired on 30 June 2018.

9. FINANCE COSTS

	Group	
	2019	2018
	RMB'000	RMB'000
Interest on bank loans	7,108	7,042

Notes to the Financial Statements

For the year ended 30 June 2019

10. DIRECTORS' REMUNERATION

For the years ended 30 June 2019 and 2018, the remuneration of the directors of the Company analysed into the following bands is disclosed in compliance with paragraph 1207(11) of Chapter 12 of the Listing Manual of SGX-ST:

	Executive directors	Non-executive directors	Total
For the year ended 30 June 2019			
Below S\$250,000 (equivalent to RMB1,268,000)	2	4	6
For the year ended 30 June 2018			
Below S\$250,000 (equivalent to RMB1,119,000)	2	4	6

11. INCOME TAX EXPENSE

	Group	
	2019 RMB'000	2018 RMB'000
Current tax – Mainland China		
- Charge for the year	1,058	4,007
- Over-provision in respect of prior years	(592)	(116)
	466	3,891
Deferred tax (note 23)	(285)	(285)
Income tax expense charged to profit or loss	181	3,606

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands ("BVI"), the Group is not subject to any taxation under these jurisdictions during the years presented.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the years presented.

The provision for Mainland China income tax has been made at the statutory income tax rate of 25% on the assessable profits of the PRC subsidiaries of the Group in accordance with the PRC Enterprise Income Tax Law.

Notes to the Financial Statements

For the year ended 30 June 2019

11. INCOME TAX EXPENSE (Continued)

Reconciliation between income tax expense and accounting loss at applicable tax rate is as follows:

	2019 RMB'000	2018 RMB'000
Loss before income tax	(69,172)	(218,428)
Tax at the applicable tax rate of 25%	(17,293)	(54,607)
Effect of non-taxable and non-deductible items, net	2,196	22,700
Deferred tax assets on temporary difference not recognised	15,870	35,629
Over provision in respect of prior years	(592)	(116)
Income tax expense charged to profit or loss	181	3,606

12. LOSS PER SHARE

Basic loss per share is calculated based on the Group's loss attributable to owners of the Company of RMB69,353,000 (2018: RMB222,034,000) divided by the weighted average number of 79,828,927 (2018: 79,828,927) ordinary shares in issue during the year.

Diluted loss per share for the years ended 30 June 2019 and 2018 were the same as basic loss per share as the Group has no potentially dilutive ordinary shares in issue during these years.

13. INTERESTS IN SUBSIDIARIES

	Company	
	2019 RMB'000	2018 RMB'000
Unquoted equity shares, at cost	284,253	284,253
Amounts due from subsidiaries	509,353	509,353
	793,606	793,606

The directors of the Company had assessed for impairment in value of interests in subsidiaries. In the opinion of the directors, no allowance for impairment in value of interests in subsidiaries is required.

As at 30 June 2018, management re-assessed that the settlement of certain of the amounts due from subsidiaries are neither planned nor likely to occur in the foreseeable future and the directors considered that the amounts form part of the net investments in the subsidiaries and accordingly, amounts of RMB509,353,000 were reclassified as non-current assets.

The current portion of amounts due from a subsidiary are non-trade in nature, unsecured, interest-free and expected to be settled within one year.

Notes to the Financial Statements

For the year ended 30 June 2019

13. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries at the reporting date are set out below:

Name	Date and place of incorporation/ establishment	Principal activities and place of business	Issued/ registered and paid-up capital	Equity interest held by the Group	
				2019	2018
<u>Directly held:</u>					
Sea Will International Limited	22 January 2007, BVI	Investment holdings, BVI	US\$10,000	100%	100%
<u>Indirectly held:</u>					
Trump Dragon Investment Limited	5 December 2003, Hong Kong	Investment holdings, Hong Kong	HK\$10,000	100%	100%
Henan Zhongxin Haifu Ltd. 河南中新海富商贸有限公司	8 May 2006, the PRC	Sale and marketing of baijiu products, Mainland China	US\$45,000,000	100%	100%
Hugefield Holdings Limited	21 January 2009, BVI	Investment holdings, BVI	US\$50,000	100%	100%
Greater Fortune Investments Limited	5 March 2009, Hong Kong	Investment holdings, Hong Kong	HK\$10,000	100%	100%
Henan Siwu Wine Sales Company Limited 河南四五酒业销售有限公司	29 September 2009, the PRC	Sale and marketing of baijiu products, Mainland China	US\$300,000	100%	100%

Notes to the Financial Statements

For the year ended 30 June 2019

13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Date and place of incorporation/ establishment	Principal activities and place of business	Issued/ registered and paid-up capital	Equity interest held by the Group	
				2019	2018
<u>Indirectly held:</u>					
Luoyang Dukang Holdings Limited 洛阳杜康控股有限公司	24 November 2009, the PRC	Investment holdings, Mainland China	RMB600,000,000	100%	100%
Ruyang Dukang Distillers Company Limited ("Ruyang Dukang") 汝阳杜康酿酒有限公司	16 November 2008, the PRC	Manufacture and sale of baijiu products, Mainland China	RMB165,000,000	100%	100%
Henan Dukang Distillers Company Limited 河南杜康酒业股份有限公司	20 November 2003, the PRC	Manufacture and sale of baijiu products, Mainland China	RMB145,800,000	100%	100%
Ruyang Siji Trading Company Limited 汝阳四季商贸有限公司	4 June 2009, the PRC	Trademarks management, Mainland China	RMB100,000	100%	100%
Luoyang Dukang Sales Company Limited 洛阳杜康酒销售有限公司	22 April 2010, the PRC	Sale and marketing of baijiu products, Mainland China	RMB1,000,000	100%	100%
Luoyang Dukang Baiyi Wine Sales Company Limited 洛阳杜康佰亿酒业销售有限公司	19 April 2013, the PRC	Sale and marketing of baijiu products, Mainland China	RMB20,000,000	100%	100%

The financial statements of the above subsidiaries were audited by BDO Limited for statutory purpose or group consolidation purpose.

Notes to the Financial Statements

For the year ended 30 June 2019

14. INTEREST IN AN ASSOCIATE

	Group	
	2019 RMB'000	2018 RMB'000
At beginning of year	13,720	80,274
Share of profit of an associate	770	786
Impairment loss	(819)	(67,340)
At end of year	13,671	13,720

The following are the particulars of the associate, which is an unlisted corporate entity.

Name of associate	Place of establishment and business	Principal activities	Registered and paid-up capital	Equity interest held by the Group	
				2019	2018
Yichuan Dukang Jiuzu Asset Management Limited ("Yichuan Jiuzu") 伊川杜康酒祖资产管理 有限公司	The PRC/ Mainland China	Trademarks management	RMB100,000	49%	49%

The Group's associate is accounted for using the equity method in the consolidated financial statements. The financial statements of the associate are coterminous with those of the Group.

The following table illustrates the summarised financial information of the Group's associate, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	2019 RMB'000	2018 RMB'000
Current assets	7,221	5,126
Non-current asset	300,000	300,000
Current liabilities	(1,533)	(1,009)
Net assets	305,688	304,117

Reconciliation to the Group's interest in an associate:

Proportion of the Group's ownership	49%	49%
Group's share of net assets of associate	149,787	149,017
Accumulated impairment	(136,116)	(135,297)
Carrying amount of the investment	13,671	13,720

Other disclosures

Revenue	2,095	2,141
Profit and total comprehensive income for the year	1,571	1,604
Dividends received from associate	-	-

Notes to the Financial Statements

For the year ended 30 June 2019

14. INTEREST IN AN ASSOCIATE (Continued)

The Group has not incurred any contingent liabilities or other commitments relating to its interest in an associate.

The amount due to an associate is unsecured, interest-free and repayable by cash on demand.

The financial statements of the Group's associate were audited by BDO Limited for group consolidation purpose.

Impairment testing

The non-current asset of Yichuan Jiuzu mainly includes a trademark which is exclusively licenced to the Group for sale of trademarked products (the "Trademark") and the licence fee payable by the Group is determined based on the agreed royalty rate on the Group's revenue generated by the trademarked products. During the year ended 30 June 2019, in light of the impairment indicators identified for the interest in an associate where the revenue generated from the Group's baijiu products under the Trademark were adversely and continuously impacted by the unfavourable market conditions in Mainland China, which contributed to the drop in the main income stream of Yichuan Jiuzu, i.e. licence fee income from the Group, the directors reviewed the recoverability of the carrying amount of interest in an associate as at 30 June 2019.

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 Yichuan Jiuzu, the recoverable amount of the Group's share of the Trademark essentially equals to that of interest in an associate. The recoverable amount of the Trademark has been determined by the directors based on the fair value less costs of disposal calculation with reference to the professional valuation report issued by an independent and professionally qualified valuer using relief-from-royalty income approach. The calculation uses the cash flow projection, royalty rate and discount rate adopted by the management (Level 3 hierarchy). The values assigned to the key assumptions represent management's assessment of future trends and are based on both external sources and internal sources (historical data) and are summarised below.

- A pre-tax discount rate of 20% (2018: 22.0%) was used which reflects the specific risks associated with the Trademark.
- Revenue was based on anticipated selling prices and was projected based on the historical operating results, the five year forecasts and royalty rates with reference to similar licensing agreements of comparable trademarks.
- The cash flows beyond the five-year period until the expiry of the Trademark is extrapolated using a growth rate of 0% (2018: 1.8%), which is the long-term estimated average growth rate for Yichuan Jiuzu.

As at 30 June 2019, since the recoverable amount of the interest in an associate (i.e. the Group's share of the Trademark) is lower than its carrying amount, a further impairment loss of RMB819,000 (2018: RMB67,340,000) has been recognised in profit or loss for the year ended 30 June 2019 to write down the carrying amount to its recoverable amount.

Notes to the Financial Statements

For the year ended 30 June 2019

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	CIP RMB'000	Total RMB'000
At 1 July 2017						
Cost	821,495	156,601	4,699	3,997	30,718	1,017,510
Accumulated depreciation and impairment	(492,058)	(143,066)	(4,483)	(3,564)	-	(643,171)
Net carrying amount	329,437	13,535	216	433	30,718	374,339
Year ended 30 June 2018						
Opening net carrying amount	329,437	13,535	216	433	30,718	374,339
Additions	606	546	-	-	126	1,278
Disposals	-	(23)	(2)	-	-	(25)
Depreciation	(23,865)	(2,052)	(214)	(45)	-	(26,176)
Impairment	(22,983)	(901)	-	(29)	(30,844)	(54,757)
Closing net carrying amount	283,195	11,105	-	359	-	294,659
At 30 June 2018 and 1 July 2018						
Cost	822,101	157,079	4,695	3,997	30,844	1,018,716
Accumulated depreciation and impairment	(538,906)	(145,974)	(4,695)	(3,638)	(30,844)	(724,057)
Net carrying amount	283,195	11,105	-	359	-	294,659
Year ended 30 June 2019						
Opening net carrying amount	283,195	11,105	-	359	-	294,659
Additions	-	1,289	239	-	273	1,801
Depreciation	(23,649)	(2,048)	(210)	(44)	-	(25,951)
Closing net carrying amount	259,546	10,346	29	315	273	270,509
At 30 June 2019						
Cost	822,101	158,368	4,934	3,997	31,117	1,020,517
Accumulated depreciation and impairment	(562,555)	(148,022)	(4,905)	(3,682)	(30,844)	(750,008)
Net carrying amount	259,546	10,346	29	315	273	270,509

Notes to the Financial Statements

For the year ended 30 June 2019

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

- (i) All property, plant and equipment held by the Group are located in Mainland China. As at 30 June 2019, certificates of ownership in respect of certain buildings of the Group in Mainland China with an aggregate net carrying amount of RMB69,964,000 (2018: RMB70,283,000) had not been issued by the relevant authorities. The directors anticipate that these certificates, based on the advice from the Group's legal advisors, will be issued in the near future and are of the opinion that the aforesaid matter did not have any significant impact on the Group's financial position as at 30 June 2019.
- (ii) As at 30 June 2019, the Group's leasehold buildings at the net carrying amount of RMB31,483,000 (2018: RMB34,723,000) were pledged to secure bank loans (note 22).
- (iii) The Group carried out reviews of the recoverable amounts of the property, plant and equipment under the CGU of the baijiu business of the Group (the "Dukang Baijiu CGU") as at the reporting dates. The recoverable amounts of property, plant and equipment were determined by the directors based on the fair value less costs of disposal calculations with reference to professional valuation reports issued by an independent and professionally qualified valuer based on the fair value less costs of disposal calculation on an individual basis using direct comparison approach by making reference to the current prices or asking prices of similar assets in similar locations (level 3 hierarchy). There has not been a change in valuation technique during the year. The recoverable amounts of property, plant and equipment are higher than its carrying amounts as at 30 June 2019, no reversal of impairment has been recognised in profit or loss during the year as the amount of reversal of impairment measured under the fair value less costs of disposal calculations is immaterial. As at 30 June 2018, as the recoverable amounts of property, plant and equipment are lower than its carrying amounts, impairment losses of RMB22,983,000, RMB901,000, RMB29,000 and RMB30,844,000, which are allocated to leasehold buildings, plant and machinery, motor vehicles and construction in progress, respectively, have been recognised in profit or loss for the year ended 30 June 2018 to write down the carrying amounts to the recoverable amounts.

Notes to the Financial Statements

For the year ended 30 June 2019

16. PREPAID LAND LEASE PAYMENTS

	Group		
	Land use rights	Long-term prepaid rentals	Total
	RMB'000	RMB'000	RMB'000
At 1 July 2017			
Cost	139,813	16,490	156,303
Accumulated amortisation	(14,114)	(1,650)	(15,764)
Net carrying amount	125,699	14,840	140,539
Year ended 30 June 2018			
Opening net carrying amount	125,699	14,840	140,539
Amortisation	(3,700)	(275)	(3,975)
Closing net carrying amount	121,999	14,565	136,564
At 30 June 2018 and 1 July 2018			
Cost	139,813	16,490	156,303
Accumulated amortisation	(17,814)	(1,925)	(19,739)
Net carrying amount	121,999	14,565	136,564
Year ended 30 June 2019			
Opening net carrying amount	121,999	14,565	136,564
Amortisation	(3,700)	(275)	(3,975)
Closing net carrying amount	118,299	14,290	132,589
At 30 June 2019			
Cost	139,813	16,490	156,303
Accumulated amortisation	(21,514)	(2,200)	(23,714)
Net carrying amount	118,299	14,290	132,589

Notes to the Financial Statements

For the year ended 30 June 2019

16. PREPAID LAND LEASE PAYMENTS (Continued)

- (i) Land use rights and long-term prepaid rentals represented the Group's leasehold interests under operating leases in land located in Mainland China. As at 30 June 2019, the Group's land use rights at the net carrying amount of RMB56,748,000 (2018: RMB59,619,000) were pledged to secure bank loans (note 22).
- (ii) The Group was in the process of obtaining the land use right certificates for the Group's leasehold land with net carrying amounts of RMB41,290,000 as at 30 June 2019 (2018: RMB42,427,000). The directors of the Company, based on the advice from the Group's legal advisors, are of the opinion that the Group has obtained the right to use these lands and there will be no legal obstacle for the Group to obtain the relevant land use right certificates.
- (iii) A review on the recoverable amounts of the land use rights has been conducted by the directors of the Company as at 30 June 2019 and 2018. The recoverable amounts have been determined by the directors with reference to professional valuation reports issued by an independent and professionally qualified valuer based on the fair value less costs of disposal calculations on an individual basis using direct comparison approach on the assumption of the sale of the land use rights with the benefit of vacant possession and by referring to recent asking price and transactions of comparables on a price per square metre basis. Since the recoverable amounts of these land use rights are higher than their carrying amounts, no provision for impairment has been made in current year (2018: nil).

17. INTANGIBLE ASSETS

	Group	
	2019	2018
	RMB'000	RMB'000
Trademark, at cost	40,000	40,000
Accumulated impairment	(40,000)	(39,720)
Net carrying amount	-	280

The Group classified its trademark as intangible assets with indefinite useful life. The Group completed its annual impairment review on the recoverable amount of the trademark as at the reporting dates. Such recoverable amount has been determined by the directors based on the fair value less costs of disposal calculation with reference to the professional valuation report issued by an independent and professionally qualified valuer using relief-from-royalty income approach. The calculation uses cash flow projection, royalty rate and discount rate adopted by the management (Level 3 hierarchy). The values assigned to the key assumptions represent management's assessment of future trends and are based on both external sources and internal sources (historical data) and are summarised below.

- A pre-tax discount rate of 20% (2018: 22.0%) was used which reflects the specific risks associated with the trademark.
- Revenue was based on anticipated selling prices and projected based on the historical operating results, the five year forecasts and royalty rates with reference to similar licensing agreement of comparable trademark.
- The cash flows beyond the five-year period until the expiry of trademark is extrapolated using a growth rate of 0% (2018: 1.8%), which is the long-term estimated average growth rate for the Dukang Baijiu CGU.

Since the recoverable amount of the trademark is lower than its carrying amount, impairment loss of RMB280,000 (2018: RMB1,000,000) has been recognised in profit or loss in current year to write down the carrying amount of trademark to its recoverable amount as at 30 June 2019.

Notes to the Financial Statements

For the year ended 30 June 2019

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2019	2018
	RMB'000	RMB'000
Prepayments	35,946	38,843
VAT receivables	3,706	5,826
Deposits	30	30
	39,682	44,699

Included in prepayments are balances of RMB29,728,000 (2018: RMB37,892,000) which arose from returns of purchased and fully paid raw materials to the Group's suppliers in prior financial years.

19. INVENTORIES

	Group	
	2019	2018
	RMB'000	RMB'000
Raw materials	14,668	20,371
Work in progress	662,267	661,107
Finished goods	32,657	33,522
	709,592	715,000

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash at banks and in hand. The Group had cash and bank balances denominated in RMB amounting to RMB156,029,000 (2018: RMB174,458,000) which were deposited with banks in Mainland China and held in hand. RMB is not freely convertible into foreign currencies. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

The Company did not have cash and bank balances denominated in RMB at the reporting date.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The weighted average effective interest rate on cash placed with banks for the year ended 30 June 2019 was 0.35% (2018: 0.35%) per annum.

Notes to the Financial Statements

For the year ended 30 June 2019

21. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Accrued liabilities and provisions	53,098	50,730	5,836	6,070
VAT and other payables	61,227	46,910	-	-
	114,325	97,640	5,836	6,070

As at 30 June 2019, the Group's other payables include an amount of RMB22,438,000 (2018: RMB13,423,000) due to a director of the Company. The amount, which mainly represented certain expenses paid on behalf of the Group by the director, is unsecured, interest-free and repayable on demand.

Included in accruals and other payables are the following amounts denominated in currencies other than the functional currencies:

	2019 RMB'000	2018 RMB'000
HKD	12,101	8,105
SGD	6,656	3,894
TWD	525	-
USD	305	-

22. BANK LOANS, SECURED

	Group		Group	
	2019 Effective interest rate per annum RMB'000	2018 Effective interest rate per annum RMB'000	2019 Effective interest rate per annum RMB'000	2018 Effective interest rate per annum RMB'000
Current				
Bank loans	6.53% 115,000	6.53% 115,000	6.53% 115,000	6.53% 115,000

The Group's interest-bearing bank loans are secured by the Group's leasehold buildings, land use rights as disclosed in notes 15 and 16 respectively, and guaranteed by a director, and repayable within one year.

Notes to the Financial Statements

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23. DEFERRED TAXATION

Deferred tax liabilities are attributed to the differences between fair values of identifiable assets and liabilities and their carrying values which arose from acquisition of subsidiaries.

The movement of the deferred tax liabilities is as follows:

	Group	
	2019	2018
	RMB'000	RMB'000
At beginning of the year	11,591	11,876
Credited to profit or loss (note 11)	(285)	(285)
At end of the year	11,306	11,591

As at 30 June 2019, the Group has deductible temporary differences of RMB283,129,000 (2018: RMB288,225,000) mainly arising from impairment losses recognised in respect of property, plant and equipment. The Group also has unrecognised estimated tax losses of RMB344,246,000 (2018: RMB275,658,000) arising from its certain subsidiaries. These estimated tax losses will expire in the next one to five financial years for offsetting against future taxable profits of the subsidiaries in which the losses arose. No deferred tax asset has been recognised in relation to these items as it is unpredictable whether taxable profit will be available against which these items can be utilised.

As at 30 June 2019, temporary differences relating to the undistributed profits of subsidiaries and associate amounted to RMB662,657,000 (2018: RMB667,472,000). No deferred tax liabilities have been recognised as at 30 June 2019 and 30 June 2018 as the Group is in a position to control the dividend policies of these entities and it is probable that these profits will not be distributed to non-PRC entities in the foreseeable future.

24. SHARE CAPITAL

	Par value	Number of ordinary shares (in '000)	RMB'000
Authorised:			
At 1 July 2017, 30 June 2018 and 2019 (HK\$4.00 per share)	HK\$4.0	100,000	371,239
Issued:			
At 1 July 2017, 30 June 2018 and 2019 (HK\$4.00 per share)	HK\$4.0	79,829	279,499

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

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For the year ended 30 June 2019

25. RESERVES

Group

(a) Share premium

The share premium account arises on shares issued at a premium.

(b) Statutory reserves

Statutory reserves comprise statutory surplus reserve and enterprise expansion reserve of the subsidiaries established in the PRC. In accordance with the relevant laws and regulations of the PRC, the Group may be required to transfer 10% of its profit after tax to the statutory surplus reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital. In addition, the Group may be required to make an allocation from its profit after tax to the enterprise expansion reserve. The enterprise expansion reserve may be used for expansion of production facilities or increase in registered capital.

(c) Merger reserve

The merger reserve of the Group represents the difference between the nominal value of the issued capital of the Company and the nominal value of the issued capital and share premium of the subsidiaries acquired pursuant to the Company's group restructuring exercise on 10 July 2008 (the "Reorganisation").

Company

The contributed surplus of the Company arose as a result of the Reorganisation and represented the excess of the consolidated net assets of the subsidiaries then acquired over the nominal value of the Company's shares issued in exchange thereof.

26. COMMITMENTS - GROUP

Capital commitments

The Group had the following outstanding capital commitments:

Contracted, but not provided for, in respect of:

- Property, plant and equipment, including CIP

Group	
2019	2018
RMB'000	RMB'000
53,734	54,007

Notes to the Financial Statements

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27. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with a related parties at rates and terms agreed between the parties:

	2019	2018
	RMB'000	RMB'000
Licence fees payable/paid to an associate	2,095	2,141
Expenses paid on behalf of the Group by a director of the Company	8,372	5,834

The amount represented licence fees payable/paid to an associate, Yichuan Jiuzu. The licence fees were made according to the terms of the licence agreement.

The outstanding balances as at 30 June with related parties are disclosed in Notes 14 and 21 to the financial statements.

- (b) Compensation of key management personnel

Key management includes members of the board of directors and other members of senior management of the Group. The compensation paid or payable to key management personnel is shown below:

	2019	2018
	RMB'000	RMB'000
- Short term employee benefits	4,699	4,249
- Retirement scheme contributions	139	86
	4,838	4,335

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group does not have written risk management policies and guidelines. However, the board of directors of the Company meets periodically to analyse and formulate measures to manage the Group's exposure to market risk (including principally changes in interest rates and currency exchange rates), credit risk, business risk and liquidity risk. Generally, the Group employs conservative strategies regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivative or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

Notes to the Financial Statements

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28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

28.1 Summary of financial assets and liabilities by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	Group		Company	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Amortised cost				
- Deposit	30	-	-	-
- Amounts due from a subsidiary	-	-	11,486	-
- Cash and cash equivalents	156,501	-	10	-
Loans and receivables				
- Deposits	-	30	-	-
- Amounts due from subsidiaries	-	-	-	18,000
- Cash and cash equivalents	-	175,039	-	13
	156,531	175,069	11,496	18,013
Financial liabilities				
Financial liabilities measured at amortised cost				
- Trade payables	55,987	60,914	-	-
- Accrued liabilities and other payables	73,009	63,202	5,836	6,070
- Bank loans, secured	115,000	115,000	-	-
- Amount due to an associate	7,170	5,106	-	-
	251,166	244,222	5,836	6,070

28.2 Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group does not have significant exposure to foreign currency risk as the Group's businesses are principally located in Mainland China and the Group's transactions are mainly conducted and denominated in RMB, which is the functional currency of majority of the Group's subsidiaries. The Group reviews its foreign currency exposures regularly and does not consider its foreign currency risk to be significant.

The Company does not have significant exposure to foreign currency risk as at 30 June 2019 and 30 June 2018.

Notes to the Financial Statements

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28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

28.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of the changes in market interest rates.

The Group's interest rate risk arises mainly from bank deposits and bank loans. Bank deposits at floating interest rate expose the Group to cash flow interest rate risk. Loans at fixed interest rate expose the Group to fair value interest rate risk. The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk. The policies to manage interest rate risk have been followed by the Group since prior years and are considered to be effective.

Sensitive analysis - Group

The interest rates of the Group's bank deposits and bank loans are disclosed in notes 20 and 22 to the financial statements, respectively. At 30 June 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, which was considered reasonably possible by management, with all other variables held constant, would decrease/increase the Group's loss for the year and increase/decrease the retained profits by RMB1,171,000 (2018: RMB1,309,000).

28.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers and other counterparties and deposits paid in the ordinary course of its operations and its investing activities.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. The Group's and the Company's substantial cash and bank balances as at 30 June 2019 and 30 June 2018 are mainly maintained with two authorised and reputable major banks in Mainland China. The Board of Directors monitors the credit ratings of counterparties regularly. Impairment of cash and cash equivalents have been measured based on 12-month expected credit loss model. At the reporting date, the Group did not expect any material credit losses from non-performance by these banks which are assigned with investment grade ratings of generally at least Baa2 by international credit-rating agencies.

The Group has no significant concentration of credit risk due to its large customer base. In respect of deposits, and the Company's balance with a subsidiary, the management makes periodic as well as individual assessment on the recoverability based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information starting from 1 July 2018. The management believes that there is no material credit risk inherent in the Group's outstanding balance of deposits, as well as the Company's outstanding balances with a subsidiary.

For amounts due from a subsidiary, Board of Directors has taken into account information that it has available internally about this subsidiary past, current and expected operating performance and cash flow position. Board of Directors monitors and assess at each reporting date on any indicator of significant increase in credit risk on the amounts due from a subsidiary, by considering its performance ratio and any default in external debts. The risk of default is considered to be minimal as this subsidiary has sufficient cash to repay its debts. Therefore, amounts due from a subsidiary has been measured based on 12-month expected credit loss model and subject to immaterial credit loss.

The credit policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

None of the Group's and Company's financial assets are secured by collateral or other credit enhancement.

Notes to the Financial Statements

For the year ended 30 June 2019

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

28.5 Business risk

The Group's primary businesses are the manufacturing and sale of baijiu products. The Group's financial results are influenced by the changes in prices of baijiu, as well as by the Group's ability to maintain or renew all requisite certificates and business licences from relevant regulatory authorities in the PRC which the Group requires to operate in the manufacturing and sale of baijiu products.

28.6 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables, accrued liabilities and other payables, bank loans and amount due to an associate, and also in respect of its cash flow management. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, trade financing and capital market financing. Liquidity risk is monitored on an on-going basis.

The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risks.

The tables below analyse the Group's and Company's financial liabilities into relevant maturity grouping based on the remaining contractual maturities at the reporting date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

Group

	Carrying amount	Within one year or on demand	Total undiscounted amount
	RMB'000	RMB'000	RMB'000
As at 30 June 2019			
Trade payables	55,987	55,987	55,987
Accrued liabilities and other payables	73,009	73,009	73,009
Bank loans, secured	115,000	118,700	118,700
Amount due to an associate	7,170	7,170	7,170
	251,166	254,866	254,866
As at 30 June 2018			
Trade payables	60,914	60,914	60,914
Accrued liabilities and other payables	63,202	63,202	63,202
Bank loans, secured	115,000	118,824	118,824
Amount due to an associate	5,106	5,106	5,106
	244,222	248,046	248,046

Notes to the Financial Statements

For the year ended 30 June 2019

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

28.6 Liquidity risk (Continued)

Company

	Carrying amount	Within one year or on demand	Total undiscounted amount
	RMB'000	RMB'000	RMB'000
As at 30 June 2019			
Accrued liabilities and other payables	5,836	5,836	5,836
As at 30 June 2018			
Accrued liabilities and other payables	6,070	6,070	6,070

28.7 Fair value measurements

The fair values of deposits, amounts due from a subsidiary, cash and cash equivalents, trade payables, accrued liabilities and other payables, bank loans and amount due to an associate approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy"):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

29. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing goods which commensurate with the level of risk.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group, prevailing and projected capital expenditures and projected strategic investment opportunities.

In order to maintain or adjust the capital structure, the Group and the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Notes to the Financial Statements

For the year ended 30 June 2019

29. CAPITAL MANAGEMENT (Continued)

The Group regards total equity presented on the face of the consolidated statement of financial position as capital, for capital management purpose. The amount of capital as at 30 June 2019 amounted to RMB1,018,290,000 (2018: RMB1,089,050,000), which the management considers as optimal having considered the projected capital expenditures and the forecast strategic investment opportunities.

The Group is subject to the requirement to maintain statutory reserves as disclosed in Note 25(b) to the financial statements. The Group is in compliance with this externally imposed capital requirement for the financial years ended 30 June 2019 and 30 June 2018.

30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank loans	Amount due to a director
	RMB'000	RMB'000
At 1 July 2017	113,000	7,723
Changes from financing cash flows	2,000	5,922
Foreign exchange movement	-	(222)
At 30 June 2018 and 1 July 2018	115,000	13,423
Changes from financing cash flows		
- Proceeds from bank loans	115,000	-
- Repayments of bank loans	(115,000)	-
- Advance from a director	-	8,458
Foreign exchange movement	-	557
At 30 June 2019	115,000	22,438

Notes to the Financial Statements

For the year ended 30 June 2019

31. LITIGATION

The Group had a dispute with an independent third party (the "Plaintiff"), who is the assignee of alleged original creditor's right in respect of loans of RMB14.3 million, over certain borrowing arrangements entered into between Mr. Gao Feng, the then chairman of the Company (the "1st defendant"), and an original creditor. It was alleged that (i) a subsidiary (the "subsidiary" or "2nd defendant") as well as a former subsidiary (the "former subsidiary" or "3rd defendant") are obliged to repay the alleged borrowings as the Plaintiff presented certain receipts (the "borrowing receipts") which were signed by the 1st defendant and the original creditor and were stamped with company chops of 2nd defendant and 3rd defendant, (ii) the company chops of 2nd defendant and 3rd defendant that were stamped on the borrowing receipts were forged, and (iii) the defendants failed to repay the borrowed amount on time. Legal action was taken by the Plaintiff against the defendants in May 2016 for the claim of the borrowed amount.

Subsequent to the date of authorisation of the financial statements for the year ended 30 June 2016, the subsidiary received the civil judgement from the People's Court of Huiji District of Zhengzhou City (the "First Judgement") which ruled against the subsidiary and ordered both the subsidiary and the former subsidiary to repay the alleged loan principal of RMB14.3 million and accrued interest. The subsidiary later filed an appeal to Zhengzhou Intermediate People's Court against the judgement. In January 2017, the subsidiary received the judgment from Zhengzhou Intermediate People's Court (the "Second Judgement") where the court overruled decision on the First Judgement on the basis that the basic facts are unclear in the First Judgement and decided that (i) the decision made on the First Judgement is rescinded and (ii) the case is remanded to the People's Court of Huiji District of Zhengzhou City for retrial.

On 9 February 2018, the subsidiary received the civil judgement from the People's Court of Huiji District of Zhengzhou City (the "Third Judgement") which ruled against the subsidiary and ordered both the subsidiary and the former subsidiary to repay the alleged loan principal of RMB14.3 million and accrued interest. The subsidiary later filed an appeal to Zhengzhou Intermediate People's Court against the Third Judgement. The appeal hearing in regard to the Third Judgement was taken place on 3 July 2018 and no judgement has yet been handed down up to the date of authorisation of the financial statements for the year ended 30 June 2018. The directors, based on all facts and circumstances and legal advice, has set up a provision in relation to the Third Judgement in the total amount of RMB16,297,000 (including alleged loan principal, accrued interest and other legal costs) as at 30 June 2018.

On 22 October 2018, the subsidiary received the civil judgement from Zhengzhou Intermediate People's Court which ruled out the subsidiary from the Third Judgement and ordered the former subsidiary as the only defendant to repay the alleged loan principal of RMB14.3 million and accrued interest (the "Forth Judgement"). The Plaintiff later filed an appeal to Henan High People's Court against the Forth Judgement on 11 February 2019.

This legal case has no further development since then, The directors, based on all facts and circumstances and legal advice, has made additional provision for accrued interest of RMB858,000 for the year ended 30 June 2019.

Notes to the Financial Statements

For the year ended 30 June 2019

32. PROPOSED TRANSACTIONS

On 17 November 2018, the Company entered into a conditional acquisition and disposal agreement (the "Agreement") with Keen Wind Limited ("Keen Wind"). Subject to the terms and conditions of the Agreement, the Company and Keen Wind have entered into the below transactions (collectively, the "Proposed Transactions"):

- (a) Keen Wind will sell, and the Company will acquire, all the issued and paid-up shares in the capital of Great Resolute Limited ("Great Resolute") held by Keen Wind, representing 100% of the issued shares in Great Resolute; and
- (b) The Company will dispose of, and Keen Wind will purchase, all the issued and paid-up shares in the capital of Sea Will International Limited ("Sea Will") held by the Company, representing 100% of the issued shares in Sea Will ("Dukang Disposal").

Pursuant to the Agreement, the completion of the Proposed Transactions is subject to certain conditions to be fulfilled.

As at the reporting date, these conditions are yet to be completed, including the approval from the requisite majority of the independent shareholders as well as the SGX-ST in relation to the Proposed Transactions. In addition, the relevant formal transaction circular has yet to be submitted to SGX-ST for review and approval, and the independent shareholders meeting has yet to be held. Accordingly, the directors of the Company consider that the Proposed Transactions have yet to be completed as at the reporting date.

For details of the Proposed Transactions, please refer to the announcement dated 17 November 2018.

Shareholders' Information

As at 13 September 2019

Class of shares	:	Ordinary shares of HK\$4.00 each
Authorised share capital	:	HK\$400,000,000.00
Issued and fully paid-up capital	:	HK\$319,315,727.20
Number of Shares issued	:	79,828,927
Voting rights	:	One vote per share

The Company does not hold any Treasury Shares and subsidiary holdings.

STATISTICS OF SHAREHOLDINGS

Size of Shareholding		Number of Shareholders	%	Number of Shares	%
1	- 99	8	0.73	264	0.00
100	- 1,000	333	30.44	218,430	0.27
1,001	- 10,000	607	55.48	2,359,541	2.96
10,001	- 1,000,000	140	12.80	9,408,702	11.79
1,000,001	and above	6	0.55	67,841,990	84.98
		1,094	100.00	79,828,927	100.00

SUBSTANTIAL SHAREHOLDERS AS AT 13 SEPTEMBER 2019

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
Bright Sing Group Limited ⁽¹⁾	11,448,449	14.34	-	-
Kaifeng Tian Feng Mills Co., Limited ⁽¹⁾	-	-	11,448,449	14.34
Dou Wu ⁽¹⁾	-	-	11,448,449	14.34
Zhengzhou Yingbao Enterprise Management Consulting Co., Ltd ⁽¹⁾	-	-	11,448,449	14.34
Yang Qingwei ⁽¹⁾	-	-	11,448,449	14.34
Wang Weiqing ⁽¹⁾	-	-	11,448,449	14.34
Treasure Winner Holdings Limited ⁽²⁾	23,551,551	29.50	-	-
Wang Peng ⁽²⁾	-	-	23,551,551	29.50
Keping Guo	8,635,560	10.82	-	-

Notes:

- (1) Bright Sing Group Limited is the nominee for Kaifeng Tian Feng Mills Co., Limited ("Kaifeng") and is directly interested in the 11,448,449 ordinary shares in the Company. Kaifeng is 20% owned by Dou Wu and 80% owned by Zhengzhou Yingbao Enterprise Management Consulting Co., Ltd ("Zhengzhou Yingbao"). Zhengzhou Yingbao is in turn 60% owned by Wang Weiqing and 40% owned by Yang Qingwei. Accordingly, each of Dou Wu, Zhengzhou Yingbao, Wang Weiqing and Yang Qingwei is deemed interested in the 11,448,449 ordinary shares in the Company.
- (2) Treasure Winner Holdings Limited ("Treasure Winner") is wholly-owned by Mr Wang Peng and as such, Mr Wang Peng is deemed interested in 23,551,551 ordinary shares in the Company.

Shareholders' Information

As at 13 September 2019

SHAREHOLDERS' INFORMATION (CONT'D)

TWENTY LARGEST SHAREHOLDERS AS AT 13 SEPTEMBER 2019

No.	Name of Shareholders	Number of Shares	%
1.	CITIBANK NOMINEES SINGAPORE PTE LTD	23,252,101	29.13
2.	UOB KAY HIAN PRIVATE LIMITED	21,691,718	27.17
3.	TREASURE WINNER HOLDINGS LIMITED	17,500,000	21.92
4.	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	2,881,700	3.61
5.	PHILLIP SECURITIES PTE LTD	1,396,620	1.75
6.	DBS NOMINEES (PRIVATE) LIMITED	1,119,851	1.40
7.	OCBC SECURITIES PRIVATE LIMITED	993,010	1.24
8.	LIM KIM HONG	750,000	0.94
9.	HENRY QUEK PENG HOCK	444,755	0.56
10.	MERRILL LYNCH (SINGAPORE) PTE. LTD.	417,004	0.52
11.	HAH TIING SIU	367,770	0.46
12.	RAFFLES NOMINEES (PTE.) LIMITED	305,600	0.38
13.	TAN PING	273,700	0.34
14.	YEAP LAM HONG	272,000	0.34
15.	GOH BEE LAN	227,060	0.28
16.	WANG YISHENG	218,000	0.27
17.	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	205,677	0.26
18.	MAYBANK KIM ENG SECURITIES PTE. LTD.	198,700	0.25
19.	LEE LIAT SENG @ PETER LEE	170,000	0.21
20.	LIU JIN	165,630	0.21

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

45.34% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the "Meeting") of Dukang Distillers Holdings Limited ("the Company") will be held at Indiana Room, Level 4, Raffles City Convention Centre, 80 Bras Basah Road, Singapore 189560 on Friday, 25 October 2019 at 2.30 p.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Financial Statements of the Company for the financial year ended 30 June 2019 together with the Auditors' Report thereon. **(Resolution 1)**
2. To approve the payment of Directors' fees of S\$310,000 for the financial year ending 30 June 2020, to be paid half-yearly in arrears (FY2019: S\$310,000). **(Resolution 2)**
3. To re-appoint BDO Limited, Certified Public Accountants, Hong Kong and BDO LLP, Public Accountants and Chartered Accountants, Singapore to act jointly and severally as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 3)**
4. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolution as Ordinary Resolution, with or without any modifications:

5. **SHARE ISSUE MANDATE**

That pursuant to Bye-law 12(3) of the Company's Bye-Laws and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), authority be given to the Directors of the Company to issue shares ("Shares") whether by way of rights, bonus or otherwise, and/or make or grant offers, agreements or options (collectively, "Instruments") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares at any time and upon such terms and conditions and to such persons as the Directors may, in their absolute discretion, deem fit provided that:

- (a) the aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty percent (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, of which the aggregate number of Shares and convertible securities to be issued other than on a pro rata basis to all shareholders of the Company shall not exceed twenty percent (20%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company;
- (b) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (a) above, the total number of issued shares (excluding treasury shares and subsidiary holdings) shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) of the Company as at the date of the passing of this Resolution, after adjusting for:
 - (i) new shares arising from the conversion or exercise of convertible securities;
 - (ii) new shares arising from exercising share options or vesting of Share awards outstanding or subsisting at the time this Resolution is passed;
 - (iii) any subsequent bonus issue, consolidation or subdivision of shares;

Notice of Annual General Meeting

- (c) and that such authority shall, unless revoked or varied by the Company in general meeting, continue in force (i) until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier or (ii) in the case of shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution, until the issuance of such shares in accordance with the terms of such convertible securities.

[See Explanatory Note (i)]

(Resolution 4)

By Order of the Board

Ho Hin Yip
Toh Li Ping, Angela
Company Secretaries

9 October 2019

Explanatory Notes to Resolutions to be passed –

- (i) The Ordinary Resolution 4 proposed in item 5 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue Shares and convertible securities in the Company up to an amount not exceeding fifty percent (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to twenty percent (20%) may be issued other than on a pro rata basis.

Notes:

1. A Shareholder being a Depositor whose name appears in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289) is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.
2. If a Depositor wishes to appoint a proxy/proxies to attend the Meeting, then he/she must complete and deposit the Depositor Proxy Form at the office of the Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place #32-01 Singapore Land Tower Singapore 048623, not less than forty-eight (48) hours before the time of the Meeting.
3. If the Depositor is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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BOARD OF DIRECTORS

Executive:

Zhou Tao (Executive Chairman and Chief Executive Officer)

Huo Lei (Executive Director)

Non-Executive:

Tan Siok Sing (Calvin) (Lead Independent Director)

Ho Teck Cheong (Independent Director)

Chia Seng Hee, Jack (Independent Director)

Jia Guobiao (Non-Executive and Non-Independent Director)

AUDIT COMMITTEE

Ho Teck Cheong (Chairman)

Chia Seng Hee, Jack

Tan Siok Sing (Calvin)

NOMINATING COMMITTEE

Chia Seng Hee, Jack (Chairman)

Tan Siok Sing (Calvin)

Ho Teck Cheong

REMUNERATION COMMITTEE

Chia Seng Hee, Jack (Chairman)

Tan Siok Sing (Calvin)

Ho Teck Cheong

JOINT COMPANY SECRETARIES

Toh Li Ping, Angela

Ho Hin Yip

ASSISTANT COMPANY SECRETARY

Conyers Corporate Services (Bermuda) Limited

BERMUDA SHARE REGISTRAR

Conyers Corporate Services (Bermuda) Limited

Clarendon House

2 Church Street

Hamilton HM11, Bermuda

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11, Bermuda

BUSINESS OFFICE

18/F, SUHE International Centre, East 62, Nongye Road,
Jinshui District, Zhengzhou City, Henan Province

The People's Republic of China

Telephone number: (86) 371 8751 8038

Fax number: (86) 371 8751 8096

SHARE TRANSFER AGENT

Boardroom Corporate & Advisory Services Pte. Ltd.

50 Raffles Place #32-01

Singapore Land Tower

Singapore 048623

TAIWAN DEPOSITARY RECEIPTS AGENT

Far Eastern International Bank (Trust Department)

20th Floor, No. 207, Section 2, Dunhua South Road

Da An District, Taipei City 106, Taiwan

JOINT AUDITORS

BDO Limited

Certified Public Accountants

25th Floor Wing On Centre

111 Connaught Road Central

Hong Kong

BDO LLP

Public Accountants and Chartered Accountants, Singapore

600 North Bridge Road #23-01

Parkview Square, Singapore 188778

AUDIT PARTNER-IN-CHARGE

BDO Limited – Cheung Or Ping

Appointed wef financial year 30 June 2019

BDO LLP – Khoo Gaik Suan

Appointed wef financial year 30 June 2018



Dukang Distillers Holdings Limited

18/F, SUHE International Centre, East 62, Nongye Road, Jinshui District,
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SGX-ST stock code: BKV | TWSE TDR code: 911616 | DKNK SP (Bloomberg) | DDHL.SI (Reuters)