

DUKANG DISTILLERS HOLDINGS LIMITED

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

REALLOCATION OF THE USE OF BALANCE PROCEEDS FROM ISSUANCE OF TAIWAN DEPOSITARY RECEIPTS

The Board of Directors (the “**Board**”) of Dukang Distillers Holdings Limited (the “**Company**”) wishes to announce the following:-

1. In accordance with the Company’s Prospectus dated 2 March 2011 (“**Prospectus**”) relating to the issuance of 130,000,000 Taiwan Depositary Receipts (“**TDR**”) for 130,000,000 ordinary shares of the Company, the intended usage of the TDR proceeds was as follows:-

| Intended Usage | Required Capital (RMB’000) |
|-----------------------------|-------------------------------|
| Capacity expansion plan | 144,654 (NTD654,487,000) |
| Land purchase | 18,048 (NTD81,658,000) |
| Bank loan repayments | 65,000 (NTD294,093,000) |
| Set-up of offices in Taiwan | 9,118 (NTD41,254,000) |
| Total | 236,820 (NTD1,071,492,000) |

The currency translation was based on the spot quote by Bank of Taiwan on March 1, 2011 at NTD/RMB of 4.5245.

2. As disclosed in the Company’s first quarter results announcement for the financial period ended 30 September 2014 released on 14 November 2014, the progress of the usage of the TDR proceeds is as follows:-

| Intended usage | Proceeds (RMB’000) | Amount utilised (RMB’000) | Balance (RMB’000) |
|----------------------------------|-----------------------|------------------------------|----------------------|
| Expansion of production capacity | 175,764 | 175,764 | - |
| Purchase of land use rights | 18,048 | 17,390 | 658 |
| Repayment of bank loans | 65,000 | 65,000 | - |
| Establishment of Taiwan office | 9,118 | 6,335 | 2,783 |
| Total | 267,930 | 264,489 | 3,441 |

3. Due to the slowdown of the economic growth in the People’s Republic of China (“**PRC**”), the PRC’s ongoing anti-corruption campaign which has been affecting its baijiu market and the PRC government’s clampdown on luxury gifting, lavish banquets and receptions, the demand for premium baijiu had decreased tremendously. As a result, many baijiu manufacturers underwent product reshuffling to accommodate their supply to a different target group, the PRC’s grass-roots market. Lower demand for baijiu coupled with a product shift had caused a decrease in average selling price across the industry, resulting in lower profit margins. In view thereof, the Company will not proceed with the setting up of an office in Taiwan so as to focus on the Henan and other key markets in the PRC.

4. The relevant administrative fees relating to the purchase of land use rights would be required to be paid after the land certificate has been obtained. However, as the efficiency of the relevant administrative offices could not be estimated, it had caused delays in obtaining the land certificate. Notwithstanding the above, the Company will pay the relevant administrative fees out of its internal resources in the future, when the land certificate has been obtained.

Accordingly, the balance amounting to RMB3,441,000 ("**Balance Proceeds**") from the intended usage for purchase of land use rights and establishment of a Taiwan office will be reallocated as advertising and promotional activities in the PRC market.

The Balance Proceeds was expected to be fully utilised on or before 31 December 2014 and the Company will make further announcements on the utilisation of the Balance Proceeds in due course.

By Order of the Board

Dukang Distillers Holdings Limited
Zhou Tao
Executive Chairman and Chief Executive Officer

26 December 2014