

Dukang Distillers Holdings Limited

(Incorporated in Bermuda)

FIRST QUARTER FINANCIAL STATEMENTS ANNOUNCEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2017

PART I – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1. (a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

Group	Three months ended		Increase/ (Decrease) %
	30 Sep 2017 Unaudited RMB'000	30 Sep 2016 Unaudited RMB'000	
Revenue	20,093	170,468	(88.2)
Cost of sales	(16,691)	(117,099)	(85.7)
Gross profit	3,402	53,369	(93.6)
Other income	133	593	(77.6)
Selling and distribution expenses	(6,847)	(29,895)	(77.1)
Administrative expenses	(20,995)	(22,970)	(8.6)
Operating profit	(24,307)	1,097	(2,315.8)
Finance costs	(1,886)	(2,170)	(13.1)
Share of profit of an associate	62	528	(88.3)
Loss before income tax	(26,131)	(545)	4,694.7
Income tax credit/(expense)	357	(3,076)	(111.6)
Loss for the period, attributable to the owners of the Company	(25,774)	(3,621)	611.8
Other comprehensive income for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange gain on translation of financial statements of foreign operations	576	226	154.9
Total comprehensive income for the period, attributable to the owners of the Company	(25,198)	(3,395)	642.2

Notes:

- i. Loss before income tax is arrived at after crediting / (charging):

	Group		Increase/ (Decrease)
	Three months ended 30 Sep 2017 Unaudited RMB'000	30 Sep 2016 Unaudited RMB'000	
Interest income	133	469	(71.6)
Interest expenses	(1,886)	(2,170)	(13.1)
Depreciation of property, plant and equipment	(6,572)	(5,420)	21.3
Amortisation of prepaid land lease payments	(754)	(703)	7.3

1. (b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	GROUP		COMPANY	
	Unaudited	Audited	Unaudited	Audited
	As at	As at	As at	As at
	30 Sept 2017	30 Jun 2017	30 Sept 2017	30 Jun 2017
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Interests in subsidiaries	-	-	292,518	292,518
Interest in an associate	80,336	80,274	-	-
Property, plant and equipment	367,767	374,339	-	-
Prepaid land lease payments	139,785	140,539	-	-
Intangible assets	1,280	1,280	-	-
	589,168	596,432	292,518	292,518
Current assets				
Inventories	762,281	770,177	-	-
Amounts due from subsidiaries	-	-	534,926	548,094
Prepayments, deposits and other receivables	86,842	91,388	-	-
Cash and cash equivalents	155,047	190,213	16	16
	1,004,170	1,051,778	534,942	548,110
Current liabilities				
Trade payables	98,646	124,535	-	-
Amount due to an associate	4,284	2,962	-	-
Accrued liabilities and other payables	80,472	84,106	4,846	5,241
Bank and other loans, secured	113,000	113,000	-	-
Provision for income tax	105	1,221	-	-
	296,507	325,824	4,846	5,241
Net current assets	707,663	725,954	530,096	542,869
Total assets less current liabilities	1,296,831	1,322,386	822,614	835,387
Non-current liabilities				
Deferred tax liabilities	11,519	11,876	-	-
	11,519	11,876	-	-
Net assets	1,285,312	1,310,510	822,614	835,387
EQUITY				
Equity attributable to owners of the Company				
Share capital	279,499	279,499	279,499	279,499
Reserves	1,005,813	1,031,011	543,115	555,888
Total equity	1,285,312	1,310,510	822,614	835,387

1. (b)(ii) Aggregate amount of group's borrowings and debt securities.**Amount repayable in one year or less, or on demand:**

As at 30 September 2017	As at 30 June 2017
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Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
113,000	-	113,000	-

Amount repayable after one year:

As at 30 September 2017	As at 30 June 2017
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Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
-	-	-	-

Details of any collateral:

As at 30 September 2017, the Group's bank and other loans amounting to RMB 113.0 million were secured by charges over the Group's existing land use rights and leasehold buildings.

1. (c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group	
	Three months ended	
	30 Sep 2017	30 Sep 2016
	Unaudited	Unaudited
	RMB'000	RMB'000
Cash flows from operating activities		
Loss before income tax	(26,131)	(545)
Adjustments for:		
Bank interest income	(133)	(469)
Interest expenses	1,886	2,170
Depreciation of property, plant and equipment	6,572	5,420
Amortisation of prepaid land lease payments	754	703
Share of profit of an associate	(62)	(528)
Operating (loss)/profit before working capital changes	(17,114)	6,751
Decrease in inventories	7,896	21,199
Decrease in prepayments, deposits and other receivables	4,546	820
Decrease in trade payables	(25,889)	(69,052)
(Decrease)/increase in accrued liabilities and other payables	(3,634)	9,744
Increase/(decrease) in amount due to an associate	1,322	(1,150)
Cash used in operations	(32,873)	(31,688)
Income taxes paid	(1,116)	(3,047)
Net cash used in operating activities	(33,989)	(34,735)
Cash flows from investing activities		
Interest received	133	469
Net cash generated from investing activities	133	469
Cash flows from financing activities		
Interest paid	(1,886)	(2,170)
Net cash used in financing activities	(1,886)	(2,170)
Net decrease in cash and cash equivalents	(35,742)	(36,436)
Cash and cash equivalents at beginning of period	190,213	595,627
Effect of foreign exchange rate changes	576	226
Cash and cash equivalents at end of period	155,047	559,417
Analysis of balances of cash and cash equivalents		
Cash at banks and in hand	155,047	559,417

1. (d)(i) A statement (for the issuer and group) showing either (a) all changes in equity or (b) changes in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Group	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Statutory reserves RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
Balance as at 1 July 2016	279,499	656,811	(150,101)	162,848	1,529	473,701	1,424,287
Loss for the period	-	-	-	-	-	(3,621)	(3,621)
Other comprehensive income							
Exchange gain on translation of financial statements of foreign operations	-	-	-	-	226	-	226
Total comprehensive income for the period	-	-	-	-	226	(3,621)	(3,395)
Balance as at 30 September 2016	279,499	656,811	(150,101)	162,848	1,755	470,080	1,420,892
Balance as at 1 July 2017	279,499	656,811	(150,101)	168,846	193	355,262	1,310,510
Loss for the period	-	-	-	-	-	(25,774)	(25,774)
Other comprehensive income							
Exchange gain on translation of financial statements of foreign operations	-	-	-	-	576	-	576
Total comprehensive income for the period	-	-	-	-	576	(25,774)	(25,198)
Balance as at 30 September 2017	279,499	656,811	(150,101)	168,846	769	329,488	1,285,312

COMPANY	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at 1 July 2016	279,499	656,811	120,523	(13,181)	(212,566)	831,086
Loss for the period	-	-	-	-	(1,830)	(1,830)
Other comprehensive income						
Exchange loss on translation of financial statements	-	-	-	1,898	-	1,898
Total comprehensive income for the period	-	-	-	1,898	(1,830)	68
Balance as at 30 September 2016	279,499	656,811	120,523	(11,283)	(214,396)	831,154
Balance as at 1 July 2017	279,499	656,811	120,523	(1,533)	(219,913)	835,387
Loss for the period	-	-	-	-	(1,970)	(1,970)
Other comprehensive income						
Exchange loss on translation of financial statements	-	-	-	(10,803)	-	(10,803)
Total comprehensive income for the period	-	-	-	(10,803)	(1,970)	(12,773)
Balance as at 30 September 2017	279,499	656,811	120,523	(12,336)	(221,883)	822,614

1. (d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

There was no change in the Company's share capital during the current financial period reported on. The Company had no outstanding convertibles and there were no shares held as treasury shares as at 30 September 2017.

1. (d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

	As at	
	30 Sep 2017	30 Jun 2017
Total number of issued shares (excluding treasury shares)	79,828,927	79,828,927

1. (d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited or reviewed in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by the auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter)

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

Except for the adoption of the applicable new/revised International Financial Reporting Standards (IFRSs) which became effective for the financial period beginning on or after 1 July 2017, the Group has adopted the same accounting policies and methods of computations as stated in the audited financial statements for the year ended 30 June 2017. The adoption of these revised IFRSs for the current reporting period ended 30 September 2017 did not result in material changes to the Group's results.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

Please refer to Item 4 above.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	Group	
	Three months ended	
	30 Sep 2017	30 Sep 2016
	Unaudited	Unaudited
	RMB	RMB
Basic	(0.32)	(0.05)
Diluted	N/A	N/A

Basic loss per share for the period ended 30 September 2017 ("1QFY2018") was calculated based on the Group's loss for the period of approximately RMB 25,774,000 (Period ended 30 September 2016 ("1QFY2017"): loss for approximately RMB 3,621,000) divided by the weighted average number of 79,828,927 ordinary shares of

HK\$4.0 each ("Shares") (1QFY2017: 79,828,927 Shares) in issue during 1QFY2018.

7. Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:

- a) current financial period reported on; and**
- b) immediately preceding financial year.**

	Group		Company	
	As at 30 Sep 2017 RMB	As at 30 Jun 2017 RMB	As at 30 Sep 2017 RMB	As at 30 Jun 2017 RMB
Net asset value per ordinary share	16.10	16.42	10.30	10.46
Number of ordinary shares	79,828,927	79,828,927	79,828,927	79,828,927

Net asset value per ordinary share of the Group as at 30 September 2017 was calculated based on the Group's net assets of approximately RMB 1,285,312,000 as at 30 September 2017 (30 June 2017: approximately RMB 1,310,510,000) divided by 79,828,927 Shares (30 June 2017: 79,828,927 Shares).

Net asset value per ordinary share of the Company as at 30 September 2017 was calculated based on the net assets of approximately RMB 822,614,000 as at 30 September 2017 (30 June 2017: approximately RMB 835,387,000) divided by 79,828,927 Shares (30 June 2017: 79,828,927 Shares).

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following;

- a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal and cyclical factors; and**
- b) any material factors that affected the cash flow, working capital, assets and liabilities of the group during the current financial period reported on.**

Review of Group's Performance**1QFY2018 VS 1QFY2017****Revenue**Luoyang Dukang

<u>1Q FY2018</u>	Revenue RMB'million	Volume Tonnes	Average selling price RMB/Kg	<u>1Q FY2017</u>	Revenue RMB'million	Volume Tonnes	Average selling price RMB/Kg
Premium series	10.9	162	67.3	Premium series	22.6	157	143.9
Regular series	9.2	441	20.9	Regular series	147.9	4,643	31.9
Total	20.1	603	33.3	Total	170.5	4,800	35.5

Group revenue for 1QFY2018 decreased significantly by RMB 150.4 million or 88.2% to RMB 20.1 million. Due to the prolonged severe pollution and smog which caused a significant decline in the purchase of baijiu products by the distributors for the financial year ended 30 June 2017; the Group, in order to retain market share launched a sales promotion in the form of giving Dukang baijiu products from the Group existing inventory to distributors. As a result of this sales promotion, distributors were unable to digest the increase in inventory during 1QFY2018, thus causing a significant decline in sales for the period.

Gross profit and margin

The Group's gross profit decreased significantly by RMB50.0 million or 93.6% to RMB3.4 million.

Gross profit for premium series decreased from RMB 11.0 million to 2.3 million, while gross profit for regular series increased from RMB 42.4 million to RMB 1.1 million. GPM for premium series decreased significantly from 48.7% to 20.8% and GPM for regular series increased from 28.6% to 12.4%. Overall gross profit margin for 「Dukang」 products decreased from 31.3% to 16.9%. The continuing sales promotion during 1QFY2018 in the form of giving finished goods to distributors who placed orders contributed to the lower gross profit margin.

Other income

Other income decreased from RMB 0.6 million to RMB 0.1 million mainly due to a decrease in interest income during the period.

Selling and distribution expenses

Selling and distribution expenses decreased by 77.1% or RMB 23.0 million to RMB 6.8 million, mainly due to a decrease in TV and radio commercial broadcast on channels in Henan Province by RMB 18.0 million, and a decrease in bus and rooftop advertising in major Henan Province cities by RMB 5.5 million.

Administrative expenses

Administrative expenses decreased by RMB 2.0 million to RMB 21.0 million as a result of the Group's cost-saving efforts during this challenging time.

Finance costs

Finance costs decreased by RMB 0.3 million mainly due to a decrease in the average balance of bank loans during the period compared to 1QFY2017.

Share of profit of an associate

Share of profit of an associate decreased as a result of decrease in license fee income of the Group's associate arising from the decrease in sale of the products under the "Dukang" brand.

Income tax credit/(expense)

The income tax credit for 1QFY2018 represents the effect of reversal of deferred tax liabilities amounting to RMB 0.4 million.

For 1QFY 2017, The provision for PRC enterprise income tax is calculated based on the statutory income tax rate as determined in accordance with the relevant PRC income tax rules and regulations for the financial years presented. The applicable rate for all PRC subsidiaries was 25%.

Loss for the period

Taking into account of the above mentioned factors, the loss attributable to the owners of the Company amounted to RMB 25.8 million for 1QFY2018 (1QFY2017: loss of RMB 3.6 million).

Review of Group's Financial Position**As at 30 September 2017****Trade payables**

Trade payables decreased by RMB 25.9 million, mainly due to lower amount of raw materials purchased in 1QFY2018 compared to 4QFY2017.

Cash and cash equivalents

RMB 34.0 million used in operating activities for 1QFY2018 was mainly the result of:

- a decrease in trade payables of RMB 25.9 million
- a decrease in accrued liabilities and other payables of RMB 3.6 million; and
- an operating loss before changes in working capital of RMB17.1 million, which was offset by:
 - a decrease in inventories of RMB 7.9 million;
 - a decrease in prepayments, deposits and other receivables of RMB 4.5 million; and
 - an increase in amount due to an associate of RMB 1.3 million.

RMB 1.9 million used in financing activities during 1QFY2018 was contributed by the interest payment.

As a result of the above, cash and cash equivalents decreased by RMB 35.2 million to RMB 155.0 million, down from RMB 190.2 million as at 30 June 2017.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Although there was no deviation from the information disclosed in paragraph 10 of the previous results announcement, the Company had released a profit guidance announcement to the Singapore Exchange Securities Trading Limited on 3 November 2017 in view of its significantly lower overall revenue and earnings in 1QFY2018 compared to 1QFY2017.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The baijiu market continues to be challenging for the second- and third-tier baijiu producers in China due to intense competition from first-tier baijiu brands and a variety of western alcoholic beverages.

In addition, the Group's baijiu production during the winter months may be affected due to the implementation of emission reduction control measures by the Chinese government. China's smog is a recurring problem during winter as more coal is burnt to supply heat to individual homes as well as commercial businesses during winter. This could potentially affect the Group's baijiu sales during the typical peak season.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

No.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

No.

(c) Date Payable

Not applicable.

(d) Books Closure Date

Not applicable.

12. If no dividend has been declared/recommendeded, a statement to that effect.

No dividend has been declared.

PART II – ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT

(This part is not applicable to Q1, Q2, Q3 or Half Year Results)

13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.

Not applicable.

14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.

Not applicable.

15. A breakdown of sales

Not applicable.

16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.

Not applicable.

17. If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Group does not have a general mandate from shareholders for IPTs.

18. Confirmation that the issuer has procured undertakings from all its directors and executive officers under Rule 720(1)

The Company has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

**BY ORDER OF THE BOARD
DUKANG DISTILLERS HOLDINGS LIMITED**

**ZHOU TAO
CHAIRMAN
14 November 2017**

**CONFIRMATION BY DIRECTORS PURSUANT TO RULE 705(5) OF THE LISTING
MANUAL OF SGX-ST**

On behalf of the Board of Directors, we, Zhou Tao and Huo Lei, confirm that to the best of our knowledge, nothing has come to the attention of the Board of Directors of Dukang Distillers Holdings Limited, which may render the financial statements for the first quarter ended 30 September 2017 to be false or misleading in any material aspect.

**For and on behalf of the Board of Directors of
Dukang Distillers Holdings Limited**

**Zhou Tao
Director**

**Huo Lei
Director**

14 November 2017