

DUKANG DISTILLERS HOLDINGS LIMITED

(Incorporated in Bermuda)

(Company Registration Number: 41457)

CLARIFICATION ON HALF YEAR FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2020

The Board of Directors (the “**Board**”) of Dukang Distillers Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refer to the queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 15 April 2021 in relation to the Company’s Half Year Financial Statements for the financial period ended 31 December 2020 (“**HY2021 Financial Statements**”), and wishes to clarify the following:

SGX-ST’s queries

With reference to the Company’s HY2021 Financial Statements, please provide an answer for the following:

- a) It is noted on page 3 of the results announcement that the unaudited “Inventories” financial statement account line item amounted to RMB 757,838,000 as at 31 December 2020. Please provide information on the Group’s inventory turnover days.

Company’s response to query (a)

The average inventory turnover days for the period ended 31 December 2020 is 9,015 days. Aged grain alcohol amounted to RMB658.5 million, which accounted for approximately 87.0% of the inventory balance as at 31 December 2020. It is commonly known within the baijiu industry that the market value of grain alcohol will increase with its age. These grain alcohols will not turn obsolete when aged and could be kept long period of time if stored properly. As a result, the Group has a high inventory level of aged grain alcohol, in particular premium grade which is mainly for seasoning use of the baijiu products for its premium series.

- b) Please disclose a breakdown of the unaudited “Accrued liabilities and other payables” financial statement account line item amounting to RMB 111,828,000 as at 31 December 2020. For other payables, please disclose the aging and nature of these other payables and whether counterparties are related parties.

Company’s response to query (b)

The breakdown of the unaudited accrued liabilities and other payables as at 31 December 2020 are as follows:

Items	Note	RMB ' 000
Accrued liabilities and provisions for daily operations		30,296
Provision of losses on litigation	1	19,858
Payables to contractors		12,258
Value-added tax and other tax payables		23,879
Other payables	2	<u>25,537</u>
		<u><u>111,828</u></u>

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Note 1: For details, please refer to the disclosure note no. 31 on pages 105 to 106 of the Company's FY2020 Annual Report.

Note 2: The Group's other payables mainly represents payables to a director of the Company for certain expenses, mainly in relation to offshore professional fees paid on behalf of the Company of approximately RMB24.9 million, since FY2013. The amount is unsecured, interest-free and repayable upon demand.

- c) It is noted on page 3 of the results announcement that the unaudited "Bank loans, secured" financial statement account line item amounted to RMB 115,000,000 as at 31 December 2020. Please disclose:
- i. Details of the loan, including the term of the loan, interest on loans and maturity dates;
 - ii. A breakdown of the lenders and their identities;
 - iii. When were the loans obtained and approved by the Board including the Audit Committee; and
 - iv. The use of proceeds from the loan.

Company's response to query (c)

- i. The loan amount is RMB115 million and for a tenure of 1 year commencing from 6 January 2020 to 5 January 2021 at an interest rate of 6.53%. The bank loan is secured by charges over the Group's existing land use rights, leasehold buildings and guaranteed by a director.
 - ii. The lender is the Bank of Zhengzhou Co Ltd.
 - iii. This loan was obtained in October 2013 by the Group's subsidiary and necessary approval had been obtained from the board of the subsidiary. It is renewed annually with no significant changes to the terms of the loan. It was successfully renewed in January 2021 and is due in January 2022.
 - iv. The loan is for working capital purposes.
- d) Given the Group's unaudited current liabilities of RMB 292,555,000 as at 31 December 2020, and cash and cash equivalents balance of only RMB 74,259,000 and noting that the Group incurred unaudited losses of RMB 33,803,000 for the half-year ended 31 December 2020, please disclose the Board's assessment:
- i. Whether the Group's current assets are adequate to meet its short-term liabilities of RMB 292,555,000, including its bases of assessment; and
 - ii. How the Group intends to fulfil its significant payment obligations in the next 12 months. Where the Group has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Group is on track to fulfilling these obligations.

Company's response to query (d)

As mentioned in the Company's response to query (a) above, the Group's aged grain alcohol amounted to approximately RMB658.5 million. If the Group has capital needs, the aged grain alcohol as current assets are expected to be realisable within two months.

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Moreover, the Group's aggregate available borrowing facilities amounted to RMB310 million. Such facilities are not drawn down as at 31 December 2020, remain available for use until September 2022 and are secured by the Group's inventories.

In addition, the Group is actively carrying out marketing and promotional activities of its products and launching of new baijiu products such as “小封坛”. With the improvement of the COVID-19 situation in the People's Republic of China, the Group does not foresee any financing issues in respect of its business operation and working capital needs. The Group also implemented tighter cost saving measures on its selling and distribution expenses and administrative expenses.

Taking into consideration of the above factors, the Board is satisfied that the Group's current assets would be adequate to meet its short-term liabilities.

Management is cautiously optimistic over the Group's ability in fulfilling its significant payment obligations in the next 12 months, and has worked out the necessary repayment plans. The Company is on track to fulfil such obligations.

In view of the Group's trend of declining profitability and losses in recent years, the Board undertook a strategic review in FY2018 and proposed to dispose the loss making baijiu business and enter into the kiwifruit cultivation and processing industry (the “Proposed Transactions”). The Company is holding a special general meeting on Thursday, 6 May 2021 at 2.30 p.m. (Singapore Time) to seek shareholders' approval on the Proposed Transactions. For more information on the Proposed Transactions and the rationale and the financial effects thereof, please refer to the Company's Circular to shareholders dated 31 March 2021.

By Order of the Board

Zhou Tao
CEO and Executive Chairman
21 April 2021