

DAPAI INTERNATIONAL HOLDINGS CO. LTD.

(Company Registration No. 41211)

(Incorporated in Bermuda)

("Company")

RELEASE OF THE SPECIAL AUDIT REPORT BY THE SPECIAL AUDITOR

Unless otherwise defined, capitalised terms used herein shall bear the same meaning ascribed to them in the announcements of the Company on 16 February 2016, 4 March 2016, 5 April 2016, 5 September 2016, 8 September 2016, 14 December 2016, 3 March 2017 and 5 March 2017, 22 March 2017, 2 June 2017 and 22 June 2017 (the "Previous Announcements").

The Board refers to the Previous Announcements and wishes to inform shareholders on the results of the Special Audit Report.

1. BACKGROUND

- 1.1 On 11 November 2009, the Company announced the initiative to open 500 new retail outlets in first, second and third tier provinces in the People's Republic of China, namely Beijing, Fujian, Jiangsu, Shandong and Zhejiang, to expand the sales and distribution network of the Group. It has been said that the Group incurred RMB410 million for this initiative, comprising RMB250 million for the initial renovation, furniture and fitting costs and RMB160 million for the rental of the 500 outlets for the first two years. As set out in the Chairman's Statement of the Financial Year 2011 annual report, a substantial number of the 500 outlets had been closed.
- 1.2 On 14 December 2016, the Company announced on the SGX the results of the AUP Report relating to allegations concerning the Group which had previously come to the attention of the Audit Committee of the Company. The allegations relate to various transactions between the Group and certain sales distributors and renovation contractors, including but not limited to; transactions for sale of goods; renovation projects; and prepaid rentals. These transactions are alleged to have been fictitious and/or misrepresented. The AUP Report states, amongst others, that it was not fully verified whether the transactions referred to in the Allegations have been carried out and properly recorded.

2. APPOINTMENT OF THE SPECIAL AUDITOR AND SCOPE OF ENGAGEMENT

As stated in the Previous Announcements, the special auditor, KordaMentha Pte Ltd (the "**Special Auditor**") was engaged by the Board and the Audit Committee of the Company to further review and follow up on the outstanding matters pertaining to these alleged transactions arising from the AUP Report.

3. RELEASE OF THE SPECIAL AUDIT REPORT AND EXECUTIVE SUMMARY

The Board wishes to release the attached Special Audit Report prepared by the Special Auditor dated 3 July 2017.

In the meantime, shareholders of the Company and potential investors should exercise caution when dealing in the Company's shares, and where in doubt as to the action they should take, they should consult their financial, tax, legal or other professional advisers.

By Order of the Board

Chen Xizhong
Executive Chairman

7 July 2017