

DAPAI INTERNATIONAL HOLDINGS CO. LTD.
(Incorporated in Bermuda)
Company Registration No.: 41211

RESPONSE TO SGX-ST'S QUERIES ON UNAUDITED SECOND QUARTER AND HALF YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2016

The Board of Directors of Dapai International Holdings Co. Ltd. (the “**Company**”, and together with its subsidiaries, collectively the “**Group**”) refers to the queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) regarding the subject matter above, and wishes to provide its response as follows:-

Query:

1. *In the “Unaudited Second Quarter and Half Year Financial Statements and Dividend Announcement for period ended 30 June 2016” (the “Announcement”) announced by the Company, the Company disclosed “Prepayments and other receivables amounted to RMB23.7 million .. as at 30 June 2016”.*

Please provide further disclosure on the following:

- a. Provide aging and breakdown between prepayments and other receivables; and*
- b. Explain nature of underlying transactions for other receivables.*

Replies:

- 1a. The table below details the aging and breakdown between prepayments and other receivables:

	Amount RMB'000	Aging Less than 30 days	30-60 days	60-90 days	90-120 days	Beyond 120 days
Deposits	15,869	2,847	7,348	157	49	5,468
Other receivables	7,345	1,272	264	101	-	5,708
Accrued interest	424	424	-	-	-	-
Prepayments	24	-	-	24	-	-
Total	23,662	4,543	7,612	282	49	11,176

The aging for the above prepayments and other receivables are within acceptable terms of the Group's operating policies as some of the deposits are placed with certain suppliers for a longer period due to regular and frequent purchases with them.

- 1b. The table below details the nature underlying transactions for prepayments and other receivables:

	Amount RMB'000	Nature of underlying transactions
Deposits	15,869	These are deposit amounts paid to our existing suppliers for the purchases of raw materials and for delivery in subsequent months.
Other receivables	7,345	Other receivables relate mainly to VAT recoverable amounting to approximately RMB5.7 million (aging more than 120 days) which had been carried forward since previous financial years, and is available for offset against future VAT payable. The remaining are individual smaller amounts which relates to advance payments for trade fairs, logistics companies, marketing agents, and other miscellaneous operating and administrative matters.
Accrued interest	424	Interest earned from the advances to third party for the period from 14 March 2016 to 30 June 2016 at 6.96% per annum.
Prepayments	24	Prepayments are of individually immaterial amounts.
Total	<u>23,662</u>	

Query:

2. ***In the Announcement, the Company announced that “Advances to third party relates to the remaining portion of a short term bridging loan, for operational cashflow and working capital purposes, amounting to RMB 22.0 million in 1Q 16, advanced to a supplier of the Group”.***

Please provide further disclosure on the following:

- a. Provide identity on who this supplier is;***
- b. Why does the Company provide financial support to this supplier;***
- c. What does this supplier supply to the Company and how much was supplied in the past;***
- d. What is the financial situation of this supplier such that the Company has to advance a loan to this supplier;***
- e. Has the Board approved the loan; and***
- f. Is this entity included in any suppliers where prepayments and other receivables amounting to RMB 23.7 million as at 30 June 2016 are recorded? If so, how much was the total amount advanced and prepaid to this entity?***

Replies:

- 2a. The supplier is Quanzhou Lixin Trading Co. Ltd (the “Supplier”).
- 2b. As disclosed in the Company’s announcement dated 24 May 2016, the reasons for the Company to provide this Supplier financial support are for the Supplier to manage its operational cashflow and working capital position, while maintaining relationship with this particular supplier. In addition, the advances to the Supplier was for the start-up of its manufacturing facilities and once the Supplier is able to directly manufacture and supply the relevant raw materials, the Group plans to work with the Supplier, if the prices are competitive and favorable to the Group. The Company provided the interest bearing loan to the Supplier as a means to foster better business relationship. In evaluating the credit risk related to the advances to the Supplier, the Executive Chairman, together with the local PRC management has noted that:
- the Supplier has worked with the Group for several years and is of reliable and creditable financial standing;
 - this being a short term (3 months) loan; and
 - the loan bears higher interest (6.96% per annum), comparing to the average interest (approximately 5.0% to 6.0% per annum) that the Group is currently servicing for its bank borrowings.

Based on the above, the Executive Chairman, together with the local PRC management, had assessed the above loan to be of acceptable risk. In addition, the interest income to be earned will assist in partially defraying the Group’s overall interest expenses for FY 2016.

As disclosed in the Announcement dated 8 August 2016, the advances to the Supplier (together with interest) had since been fully collected on end July 2016.

- 2c. The Supplier is currently in the trading and distribution, import and export of textile and ancillary raw materials for the manufacturing of fashion clothing, backpacks, luggage, carriers and other related products. The Group had, over the years, been in contact with the Supplier to source for raw materials, however, the prices quoted had not been as competitive due to the fact that they are not manufacturer of the raw materials.

With in-depth knowledge of the industry, the Supplier had in many occasions recommended other suppliers with the capabilities to meet the Group’s demand and quality expectations. The Supplier had even in several occasions referred some of the current suppliers, whom the Group is still working closely with now. Going forward, once the Supplier is able to directly manufacture and supply the relevant raw materials, the Group plans to work with the Supplier, if the prices are competitive and favorable to the Group.

This loan is a single, non- recurring, advance which the Company charged interest. As mentioned in the Announcement dated 8 August 2016, the advances to the Supplier (together with interest) had since been fully collected on end July 2016.

- 2d. Based on the understanding of the Executive Chairman and the local PRC management, the financial situation of this Supplier was that it urgently needed short term bridging financing for their operational cashflow and working capital purposes. The Supplier is in the midst of application for bank loans, to start its own manufacturing facilities, in order to start production of the said textile and ancillary raw materials. However, due to the delay in the approval and disbursements of the bank loans, the Supplier needed short term bridging loans for their working capital purposes.
- 2e. The advances to the third party had been approved by the Executive Chairman and local PRC management of the subsidiary company, and subsequently reported to the Board of Directors ("BOD") of the Company during first quarter BOD meeting in FY2016. The BOD requested the chief financial officer and the management to closely monitor and follow-up on the repayments and to ensure that the repayments are made promptly.
- 2f. The advances to the Supplier, amounting to RMB10.0 million was disclosed under "Advances to third party" as at 30 June 2016. Save for the accrued interest arising from the advances, amounting to approximately RMB0.4 million, which was included in prepayments and other receivables, there were no further advances and prepayments to the Supplier. As disclosed in the announcement dated 8 August 2016, these outstanding amounts (principal plus interest) had since been collected in full.

BY ORDER OF THE BOARD

Chen Xizhong
Executive Chairman

22 August 2016