

DAPAI INTERNATIONAL HOLDINGS CO. LTD.

(Company Registration No. 41211)

(Incorporated in Bermuda)

**LEASE OF FACTORY PREMISES AND SALE OF EXISTING INVENTORY IN HUIAN COUNTY, FUJIAN PROVINCE,
PEOPLE'S REPUBLIC OF CHINA**

INTRODUCTION AND TERMS OF LEASE

The Board of Directors of Dapai International Holdings Co. Ltd. ("**Company**" and together with its subsidiaries, "**Group**") wishes to announce that with reference to the announcement made on 11 November 2016- "Unaudited third quarter and nine months financial statements and dividend announcement for the period ended 30 September 2016", the Group highlighted that it was contemplating on exploring and implementing certain operational process consolidations so as to streamline operations, reduce costs and reposition itself to improve the ability of the Group to weather the current adverse operating conditions. This may result in a potential impairment charge in certain related asset classes during the remainder of the financial year, as excess idle capacity sets in.

The Company's subsidiary Dapai (China) Bags Co., Ltd. ("**Dapai Bags**"), has entered into a factory lease agreement (the "**Lease Agreement**") with Quanzhou Dachuangyuan Tourism Supplies Co. Ltd ("**Dachuangyuan**"), pursuant to which, Dachuangyuan would lease from Dapai Bags the factory premises located at Chengbei Industrial Zone, Luocheng Town, Huian County, Fujian Province, People's Republic of China, including ancillary office cum dormitory and factory space with an aggregate built-in area of approximately 30,857 square meters ("**Premises**") for a period of two (2) years from 20 December 2016 to 19 December 2018 at the annual rental of RMB2,592,000.00 (an average of RMB84.00 per square metre/ per annum).

The rental payable under the Lease Agreement was derived after referencing surrounding commercial properties, within a 10 kilometre radius of the Premises, listed on an internet rental advertisement portal. The rental rates ranged from RMB39.96 to RMB72.00 per square metre/ per annum. Therefore, the Board of Directors is of the view that the above rental rate per square metre/ per annum is reasonable.

INFORMATION ON DACHUANGYUAN

Dachuangyuan is a company incorporated in People's Republic of China. The principle activities of Dachuangyuan are that of manufacturing and distribution of luggage, clothing, shoes and ancillary products.

Ms Chen Xiuling, is the legal representative of Dachuangyuan and the registered capital of Dachuangyuan is RMB3,000,000.00.

RATIONALE

As disclosed previously by the Company's announcements on SGXNET dated 11 November 2016 that the Group was contemplating on exploring and implementing certain operational process consolidations so as to streamline operations, reduce costs and reposition itself to improve the ability of the Group to weather the current adverse operating conditions.

As the demand in both the domestic and OEM segments continues to remain weak and lacklustre, the Board of Directors is of the opinion that by leasing out the Premises would bring about cost savings and would lessen the financial impact on the Group's operations and cash flow going forward.

SALE OF EXISTING INVENTORY

During the negotiation of the lease for the Premises, Dachuangyuan had expressed interest in taking over the existing inventory (“**Inventory**”) of Dapai Bags. As Dachuangyuan’s business is of similar nature to Dapai Bags, it would be able to utilise the Inventory, with certain modifications and additional processing works. As these modifications and additional processing works require certain amount of costs, Dachuangyuan had requested for a discount to be applied to the Inventory.

Dachuangyuan had initially proposed for a 40% bulk purchase discount to be applied to the carrying costs of the Inventory, however, after negotiations with the Executive Chairman, it was agreed that a 30% bulk purchase discount will be given instead.

Below is a table detailing the Inventory and discount:

Category (RMB)	Carrying costs	Bulk purchase	Net amount
		30% discount	
Raw materials	6,223,967	(1,867,190)	4,356,777
Finished goods	12,892,676	(3,867,803)	9,024,873
	<u>19,116,643</u>	<u>(5,734,993)</u>	<u>13,381,650</u>

Dachuangyuan will be taking over the Inventory upon an “as and when basis”, which is dependent on their production schedule. The usual credit period of a standard sale transaction, of 90 days, will be applied to Dachuangyuan.

After the Board of Directors’ discussion and deliberation, it was deemed reasonable and beneficial to the Group as this will significantly reduce the potential risk of Inventory obsolescence and, thus, avoiding a larger negative impact on the financial performance of the Group in the current sustained slowdown in the domestic and global economy.

DECLARATION OF INTEREST

The Board of Directors confirm that they do not have any direct or indirect interest in Dachuangyuan or in the Lease Agreement and sale of Inventory.

By Order of the Board

Chen Xizhong
Executive Chairman

21 December 2016