

DAPAI INTERNATIONAL HOLDINGS CO. LTD.

(Incorporated in Bermuda)

Company Registration No.: 41211

RESPONSE TO SGX-ST'S QUERIES ON UNAUDITED THIRD QUARTER AND NINE MONTHS FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 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. The Company announced that the gross profit margin in Q3 2016 declined to 15.2% to from 27.9% in Q3 2015. However, it also disclosed that the average selling price (“ASP”) has increased by 22% and that cost of sales “was directly correspondent to the contraction in sales volume”. Please reconcile and explain the reasons for the fall in gross market profit given that the ASP for the backpacks has increased.***

Reply:

As disclosed and discuss in the unaudited third quarter and nine months period ended 30 September 2016 financial statements and dividend announcement on 11 November 2016 (“Announcement”), the overall ASP for 3Q 16 had increase by 22.2%, however, the total volume of units sold was only approximately 0.4 million units (3Q 15: 1.0 million units). Even though there was an increase in ASP, with the lower volume of units sold, this did not bring about a significant impact on the overall sales revenue. With the lower volume of units sold, the cost of sales (raw materials and other materials costs) had also decline, which is directly correspondent to the contraction in sales volume.

It was also further explained in the Announcement that the gross profit margin in 3Q 16 had decline from 27.9% to 15.2%, which was due to the lower volume of units sold, whereby a higher portion of the fixed manufacturing overheads (mainly depreciation and labour) were allocated to the units produced and sold. These fixed overheads refer to the production workers’ labour costs and production line machineries’ depreciation charges, which had to be absorbed into the overall costs of sales, even though sales volume had decline significantly.

Although there was an increase in overall ASP of 22.2%, this increase was not sufficient to outweigh the proportion of the fixed production overheads during the period that been incurred and charged, thereby, dragging the overall gross profit margins down in 3Q 16 to 15.2% (3Q 15: 27.9%).

Query:

2. ***We note that the Company's selling and distribution expenses increased by 128.3%, from RMB0.79 million to RMB2.2 million when revenue fell 53.8%. Please provide a breakdown for the increase of RMB1.2 million as well as explain and elaborate on the material items.***

Replies:

RMB' million	3Q 16	3Q 15	Increase/ (decrease)	
Advertising and promotional expenses	0.6	0.1	0.5	(i)
Sales staff salaries and related expenses	0.3	0.4	(0.1)	(ii)
Delivery and related expenses	1.4	1.2	0.2	(iii)
Others	(0.1)	(0.7)	(0.6)	(iv)
	<u>2.2</u>	<u>1.0</u>	<u>1.2</u>	

- (i) This increase was due to an increase in participation of exhibitions and trade fairs during 3Q 16 to promote our OEM segment and to reach out to potential distributors and customers.
- (ii) A reduction of salaries and related costs of RMB0.1 million, which was due to a reduction in head count, as sales activities had significantly slowed down in 3Q 16.
- (iii) Increase in delivery and related expenses for the export of our OEM products of RMB0.2 million. This increase was due to a particular batch of exports that the customer had specifically requested for air freight, which costs more than the usual sea freight.
- (iv) The reduction in others was due mainly to a reduction in terms of reimbursements from customers of RMB0.6 million for certain logistical arrangements and also product samples made for them, when compared to 3Q 15.

Query:

3. ***We note that the Company's revenue fell by 53.8% despite an increase in advertising and promotional expense of RMB0.5 million.***

Please quantify the total cost of the Company's participation advertising and promotional expense and elaborate on the types of expenditures incurred and the reason for these significant cost increases despite a plunge in revenue.

Reply:

For 3Q 16, the Company had participated in several exhibitions and trade fairs held in several countries, which resulted in an increase in advertising and promotion expenses of RMB0.5 million (please refer to above table in query 2). The purpose for participating in these exhibitions was to promote our OEM segment and to reach out to potential distributors and customers.

These exhibitions are detailed as below:

RMB' million	3Q 16
Hong Kong- Gifts & Premium Fair and Mega Show Part 1	0.3
USA- International Outdoor Products	0.2
Germany- China Bags Show (CNBS)	0.1
	0.6

Query:

4. ***The Company announced an increase of RMB17.2 million in Administrative Expenses. This increase was partly due to the allocation of idle production staffs' salaries during production activities in August and September.***

Kindly quantify the amount attributed to the allocation of production staffs' salaries and provide details on the number of staff that were idle and its percentage as compared to the entire staff strength.

Please also elaborate on the reasons and the Company's production activities that resulted in the idle staff.

Reply:

The amount attributed to the allocation of production staffs' salaries amounted to approximately RMB1.2 million. These salaries relate to 290 production lines workers, which represents approximately 47% of the total production line work force.

Due to the continued reduction in the consumption of our backpacks products within the lacklustre domestic market, this brought about a negative impact on the overall sales of Dapai's products. With the decline in overall sales volume, this resulted in lesser production during the period and thus, bringing about the excess and idle capacity.

Query:

5. ***With regards to the provision of doubtful debts of RMB15.1 million for three of the Group's customers, please disclose***
- a. ***The nature of the doubtful debts***
 - b. ***The identity of the three customers***
 - c. ***The debt outstanding and aging of each of the customer.***

Replies:

- a. The doubtful debts were trade in nature.

b. & c. The identity, debts outstanding and aging of the three customers are:

Name	Amount (RMB' million)	Aging
Xiamen Huigang Trading Co. Ltd	5.1	More than 210 days
Shishi Dingcheng Trading Co. Ltd	2.5	More than 365 days
Quanzhou Huatian Trading Co. Ltd	7.5	More than 365 days
	15.1	

Query:

6. ***The Company announced that the Group will be consulting with its legal counsel to explore the most expedient way to recoup the trade debts. Please disclose details on the legal actions and the cost of the legal fees paid. How much of the debts had been collected arising from these legal actions.***

Reply:

As at date of this announcement, the Company is still in the midst of seeking legal advice from our legal counsel and had only sent legal demand letters to the above three customers. No estimate of the legal fees had been provided by the legal counsel as yet.

As at date of this announcement, no further amounts had been repaid by the three customers. The Board of Directors and the Management will keep all shareholders updated as and when further information arises.

Query:

7. ***Under Current Assets, the Company recorded Prepayments and other receivables of RMB23.4 million in Q3 FY2016, an increase of RMB5 million from FY2015 despite the fall in sales of 53.8%. Please provide***
- a. ***A breakdown of the of the Prepayments and other receivables***
- b. ***The nature of the underlying business of the other receivables and details of the transactions which required the amount of other receivables to be incurred.***

Replies:

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

	Amount RMB' million
Deposits	15.2
Other receivables	7.6
Prepayments	0.6
Total	23.4

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

	<i>Amount RMB'million</i>	<i>Nature of underlying transactions</i>
Deposits	15.2	These are deposit amounts paid to our existing suppliers to secure the delivery and to obtain favorable prices for our raw materials.
Other receivables	7.6	Other receivables relate mainly to VAT recoverable amounting to approximately RMB5.8 million 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.
Prepayments	0.6	Prepayments relates to the capitalization of professional fees paid to date for proposed reverse takeover exercise with Smart Traffic.
Total	<u>23.4</u>	

BY ORDER OF THE BOARD

Chen Xizhong
Executive Chairman

29 November 2016