



dapai

达派

**DAPAI INTERNATIONAL
HOLDINGS CO. LTD.**

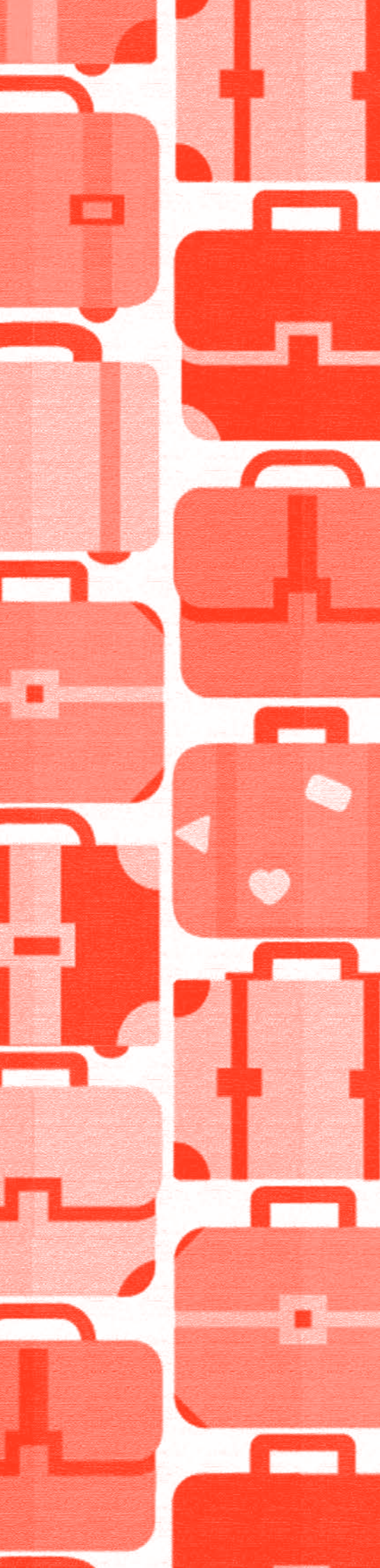
Annual Report 2016



The background of the entire page is a repeating pattern of red suitcases. The suitcases are in various shades of red and are arranged in a grid-like fashion, some facing forward and others slightly angled. They have different styles, including briefcases and larger trunks, with straps and buckles visible.

Contents

01	Corporate Profile
02	Chairman's Statement
03	Financial & Operations Review
10	Board of Directors
11	Key Management
12	Corporate Information
13	Corporate Governance Report
31	Directors' Statement
34	Independent Auditors' Report
37	Consolidated Statement of Comprehensive Income
38	Statements of Financial Position
39	Consolidated Statement of Changes in Equity
40	Consolidated Statement of Cash Flows
41	Notes to the Financial Statements
86	Shareholding Statistics
88	Notice of Annual General Meeting



Corporate Profile

Dapai International Holdings Co. Ltd. (达派国际控股有限公司) (“Dapai” or the “Group”), is one of the largest branded backpack company in the People’s Republic of China (PRC). The Group designs, develops, manufactures and sells backpacks under the DAPAI (“达派”) brand. It was listed on the Mainboard of SGX-ST on 18 April 2008 as China Zaino International Ltd.

Since its conceptualisation in 2001, DAPAI was named “2006 Top 12 Bag Brands in China” by the China Leather Industry Association and “Top 500 Asia Valuable Brand Award” by the Supervision and Management Centre of Asia International Brand Certification in 2007. The Group had previously engaged Tian Liang, an Olympic gold medallist-turned celebrity, as its official brand ambassador.

The Group’s products are targeted at the mid-range mass market consumer segment and are sold through distributor-own concessionary retail outlets in different provinces, autonomous regions and municipalities across China located within department stores, supermarkets and hypermarkets in PRC. The Group’s product collections are suited for different occasions, namely the sports, fashion, business and leisure. Our products suits different consumers’ tastes and needs and are retailed at an affordable price range.

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors and Management, I hereby present to you our audited financial results for the financial year ended 31 December 2016 ("FY 16").

Year in review

In FY 16, the Group registered a loss of RMB140.0 million on the back of revenue which fell 32.7% to RMB71.1 million (FY 15: RMB217.3 million). This was due to an overall decline in consumption of our Dapai brand of products as consumer sophistication continued to climb and preferences had swung towards renowned international brand names. OEM segment had also suffered due to the impact of the global political and economic uncertainties.

According to the National Bureau of Statistics of China, China's gross domestic product ("GDP") only expanded by 6.7 percent in 2016, lower than 6.9 percent in 2015 and was quoted to be the slowest in 26 years. The manufacturing industry, amongst the many diverse industries in China, had continued to weaken and had impacted the industry adversely. Poor consumer sentiments arising from the worries of job security and rising inflation did not gel well with the businesses and led to the poor performance in FY 16.

On the back of the slowing and lacklustre economy, manufacturing activities had declined during the year, which resulted in the Group seeking leasing opportunities to lighten the financial burden in FY 16. Since the second half of FY 16, overall activities had slowed down and resulted in certain plant and equipment and factory premise being idle. The Group had evaluated the situation and decided in order to minimise operating losses, leased out Huian's plant and equipment, and factory premises to a third party in mid-December 2016. The financial impact of the lease will only be felt in the new financial year 2017.

In view of the deteriorating market demand and poor sales performance in FY 16, which resulted in excess and idle production capacity, the Group had also undergone a valuation exercise in accordance with the Singapore Financial Reporting Standards No. 36 – Impairment of Assets. The Board had appointed independent professional valuers to conduct a comprehensive review of the carrying value of its non-current assets and to assess the value of the Group's land use rights, property, plant and equipment and investment properties. Arising from the aforementioned review and after careful assessment, a substantial write-down of the book value of the non-current assets as at 31 December 2016 had to be made to comply with the relevant accounting standards and this had a significant negative impact on the financial results of FY 16.

In relation to the announcements made previously on the SGX-ST regarding the proposed placement ("Placement"), which had since been completed in April 2016 and the memorandum of understanding ("MOU") with the controlling shareholder of Smart Traffic Co. Ltd. ("Smart Traffic"),

in connection with the potential reverse takeover of the Company and subsequently seek to transfer the listing of an quotation for the shares from the SGX-ST Main Board to the SGX-ST Catalist, the MOU had been terminated and both parties had ceased negotiations and will not proceed with entry into any definitive agreements in December 2016.

Please refer to the Company's announcement dated 7 December 2016, titled "Memorandum of Understanding - Termination" for more information.

Looking forward

The weakness in the manufacturing industry is expected to continue in 2017 and the overall economic landscape is likely to continue to present more challenges. Specifically, the manufacturing industry tends to be highly susceptible to shocks in the global economy and is characteristically plagued by rising operating costs.

Given intense competition, cost pressures and a slowing Chinese economy, the Management will continue to enforce stringent cost controls to soften the Group's impact from these challenges. The Group has also been maintaining and renewing its short term borrowings when they fall due and the Management is currently not aware of any adverse circumstances that might cause the financial institutions to withdraw the credit facilities granted to the Group. As at the date of this report, the Group still has unutilised credit facilities with its principal bankers and the Group believes that it will be able to meet its short term obligations and to continue to operate as a going concern.

With references to announcements made on the SGX-ST, the Company had, on 5 March 2017, submitted an application to the SGX-ST for a further extension of time under Rule 1314 of the Listing Manual to exit the financial watch-list, and the application was approved on 21 March 2017 for a further three (3) months until 4 June 2017. For more information, please refer to the Company's announcement dated 22 March 2017, titled "Application for Further Extension of Time to meet requirements under Rule 1314 of the Listing Manual of the SGX-ST to exit from SGX-ST Watch-List".

A Word of Appreciation

Having experienced a tough year in FY 16, I wish to express my sincere thanks to all our shareholders, customers and business associates for their patience and continued support throughout the years. I would like to express my deepest appreciation to our Management and staff for their dedication, commitment and perseverance in all they have done, to strengthen the foundation of the Group as we move forward.

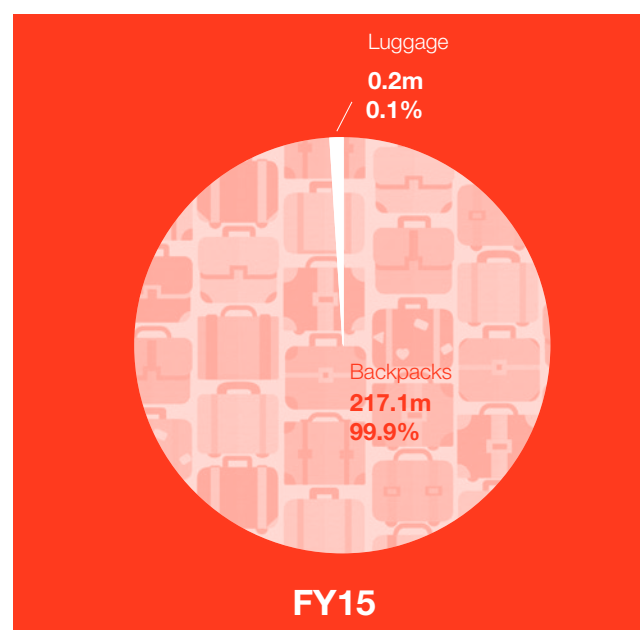
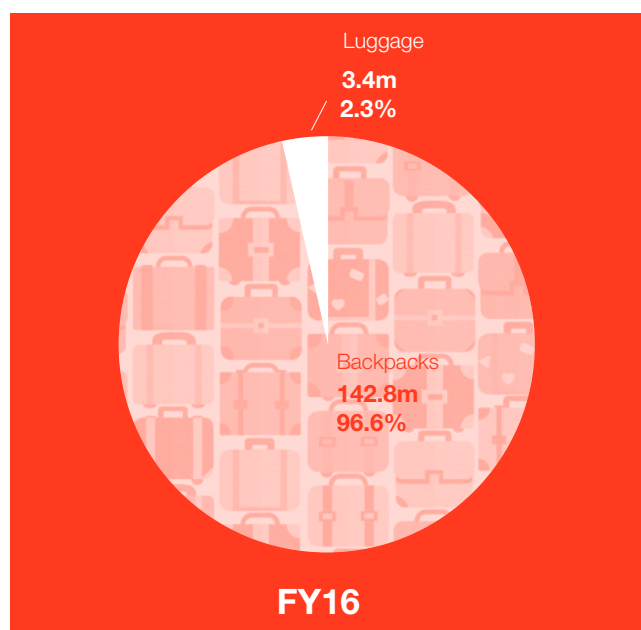
Last but not least, I would like to thank the Board of Directors for their invaluable guidance and contribution over the course of the year.

Financial and Operations Review

FINANCIAL REVIEW

Consolidated Income Statement

Revenue, Cost of Sales and Gross Profit



	Revenue (RMB' million)	
	FY16	FY15
Backpacks	142.8	217.1
Luggage	3.4	0.2
Overall	146.2	217.3

For the financial year ended 31 December 2016 ("FY 16"), the Group recorded a revenue of RMB146.2 million, a decrease of RMB71.1 million or 32.7%, from RMB217.3 million for the financial year ended 31 December 2015 ("FY 15"). The backpack segment formed almost the entire revenue for FY 16, with minimal contributions from the luggage segment as the Group continues to focus on backpacks segment.

The decline in overall revenue for FY 16 was due to a continued reduction in the consumption of our backpacks products within the lacklustre domestic market. Domestic revenue constituted approximately RMB72.7 million, which was 49.7% of the total revenue for FY 16, as compared to RMB103.2 million (47.5%) of total revenue for FY 15. OEM revenue had also decreased to RMB73.5 million, which was 50.3% of FY 16 revenue, as compared to RMB114.1 million (52.5%) for FY 15. In FY 16, the Group also managed to

dispose off certain raw materials, through a bulk discount sale, which contributed RMB3.3 million (net of value added tax) (FY 15: nil) in overall revenue.

Overall volume had also fallen from 7.5 million units in FY 15, to 5.2 million units in FY 16.

This decline in overall revenue and sales volume was due to the particularly difficult domestic and global economic conditions and our distributors were facing the heavy pressure of slow and sluggish sales whereby consumers' preferences are growing more sophisticated and prefers renowned international brand names.

Comparing FY 16 to FY 15, the overall average selling price ("ASP") for backpacks was RMB27.3 in FY 16, as compared to RMB28.8 in FY 15, which declined marginally by RMB1.5 or 5.2%. This decline in overall ASP was due to a special promotional 50% discount scheme ("Special Promotion") marketing strategy adopted in 4Q 16 and was offered to our distributors to encourage them to push more products to the market (both domestic and OEM) to take advantage of the festive periods (Thanksgiving Day, Bachelor Day and

Financial and Operations Review

Christmas Day, etc) of November and December in 4Q 16 to encourage better sales performance. In 4Q 16, the Group had strategised to push the better quality and higher priced tier backpacks to the market, which the Special Promotion, however, this did not take off and the volume sold was not significantly higher than the preceeding periods and thus, did not bring about much impact to the overall ASP in FY 16.

For FY 16, overall cost of sales decreased by RMB28.9 million or 17.3% to RMB138.6 million, and this was correspondent to the decline in overall sales volume and manufacturing activities. However, as mentioned above, the products pushed to the market in 4Q 16 was of better quality and higher price tier, this brought about an increase in the cost of raw material used, therefore, the decrease in overall cost of sales was not directly proportional to the decrease in overall sales volume.

The Group was able to generate a gross profit for the financial year ended FY 16, which amounted to RMB7.6 million in FY 16, as compared to RMB49.7 million in FY 15. This decline was due largely to the following:

- higher fixed manufacturing overheads being allocated to the units produced and sold during the year due to lesser overall sales volume during the year;
- in 4Q 16, the Group marketed and sold better quality products which resulted in more expensive raw materials used, which contributed to the higher costs in 4Q 16 and dragged down the overall gross profit margins of the previous quarters; and
- in 4Q 16, a particular batch of raw materials were sold at a bulk discount as part of the Group's strategy to minimise inventory levels and to free up cashflow, thereby resulted in a gross loss of approximately RMB2.9 million.

In FY 16, the overall gross profit margin had dropped from 22.9% in FY 15, to 5.2% in FY 16. The gross profit margin for 9M 16 was 21.6%, which was comparable with FY 15's margin of 22.9%, however, due to the above factors, including the marketing strategy of the Special Promotion scheme given out in 4Q 16 to our distributors, and also the bulk discount on the sale of raw materials, all the above mentioned factors brought about the lowering of the overall gross profit margin in FY 16.

Other operating income

For the year FY 16, the Group recorded other operating income of RMB 3.9 million, a marginal increase of RMB0.2 million or 4.8% from RMB 3.7 million in FY 15. The increase was mainly due to the increase in interest and awards, incentives and subsidies and RMB 0.2 million and RMB0.2 million, respectively, while partially offset a decrease in commission income of RMB0.2 million.

Operating expenses

(a) Selling and distribution expenses

Our selling and distribution expenses had increased by RMB1.7 million or 36.0% from RMB4.8 million in FY 15 to RMB6.6 million in FY 16. The increase was due mainly to the increase in:

- advertising and promotional expenses of RMB0.8 million due to increase in participation in exhibitions and trade fairs to promote our OEM segment and to reach out to potential distributors and customers; and
- a reduction in terms of reimbursements from customers of RMB1.4 million for certain logistical arrangements and also product samples made for them, and other expenses, when compared to FY 15.

However, the above increase was partially offset by a reduction of salaries and related costs of RMB0.5 million, which was due to a reduction in head count, as sales activities had significantly slowed down in FY 16.

(b) Administrative expenses

Our administrative expenses had increased by approximately RMB32.1 million, or 108.8% from RMB29.5 million in FY 15, to RMB61.5 million in FY 16. This was due mainly to:

- an increase in the provision for doubtful debts of RMB16.1 million, for which three of the Group's customers whom had defaulted on their repayment of trade debts, totaling RMB15.1 million. Legal letters of demand had been issued to them, however, till to-date, there are no formal replies from them. Management's assessment is that these particular customers are in financial difficulties and the possibility of recovery is remote, as such a full provision for these trade debts had been made. The Group is still in consultation with its legal counsel to explore the most expedient way to recoup the trade debts. Another RMB1.0 million relating to 2 other customers, identified after year end during subsequent review, whom had not

Financial and Operations Review

made any repayments for debts owing more than 180 days had also been impaired;

- an increase in impairment of prepayments and other receivables amounting to RMB13.8 million for deposits and advances to suppliers of raw materials. These amounts were identified during year-end and subsequent to year-end, when the Management approached these suppliers to seek a refund, in view of the potential slowdown in the manufacturing activities anticipated for the upcoming new financial year. However, these suppliers was not able to make any immediate refunds and had cited financial difficulties and liquidity tightening, therefore, impairment for these amounts had been made in FY 16;
- an increase in professional fees of approximately RMB0.8 million, due to potential reverse takeover exercise undertaken by the Company during the year, which was subsequently terminated and the professional fees incurred had been charged to the profit and loss for FY 16;
- an increase in depreciation expenses of RMB0.6 million, whereby additional allocation of depreciation charges of the production equipment for the period of August to December due to idle excess capacity;
- a reduction in foreign exchange gains of RMB1.3 million; and

However, the above increase was partially offset by a decrease in:

- travelling and business related expenses of RMB0.3 million;
- other expenses of RMB0.2 million.

(c) Other operating expenses- exceptional expenses

Other operating expenses relate to the impairment charges on the property, plant and equipment and also the investment properties, which amounted to RMB54.2 million (FY 15: nil) and RMB17.5 million (FY 15: nil), respectively. This was the result of the annual assessment exercise carried out by the Group to identify if there are any indications of impairment on the carrying value of the assets.

The Group's assessment was carried out in accordance with FRS 36- Impairment of Assets, and had identified that there is

an indication of change in the future operating and economic environment, that will bring about adverse effects, thus affecting the carrying value of the assets. During the annual assessment, the management noted the existence of internal and external impairment indicators and had thoroughly discussed these indicators:

Internal

- the continual weakness affecting the domestic and global economies, which had impacted negatively to the Group's products during the year;
- resulting in the drop in utilisation rate of our property, plant and equipment;
- certain production facilities rendered idle, which resulted in leasing out its premises; and
- certain investment property being vacant and not tenanted, which currently is not generating any value-in-use for the Group.

External

- sustained economic pressures and continued consumer sophistication; and
- potential decline in the Group's assets market value.

Therefore, in determining its recoverable amounts, a local independent third party valuation company had been engaged to conduct the assessments of the impairment. Based on initial assessments, the above impairment losses were recognised in the profit and loss. The valuation derived by the local valuation company was computed using the replacement cost method and market value method, whereby the appraiser had grasped the current and comparable construction budget and cost of the similar projects in the surrounding area, to determine the fair market value.

(d) Finance costs

In FY 16, our finance costs had decreased by RMB2.0 million. The decrease in interest expenses were due mainly to the lower interest rates being charged during the year as compared to the corresponding year, despite the higher bank borrowings outstanding during the year.

Financial and Operations Review

(e) Taxation

Taxation in FY 16 was due to the local tax authorities' initial tax assessment of the profits for the first six months of FY 16 for one of the Company's profitable subsidiary then, which amounted to RMB0.6 million.

Consolidated Financial Position

Non-current assets

Our non-current assets comprised mainly land use rights, intangible assets, property, plant and equipment and investment properties.

Land use rights amounted to RMB25.1 million and RMB25.7 million as at 31 December 2016 and 31 December 2015, respectively. They comprised mainly the land use rights for Dapai (China) Bags Co., Ltd, Dapai (China) Co., Ltd and Dapai Anhui Co. Ltd ("Dapai Anhui"). The decrease was due mainly to the amortisation of the land use rights during the financial year.

Net book value of property, plant and equipment amounted to RMB66.0 million and RMB159.2 million as at 31 December 2016 and 31 December 2015, respectively. Property, plant and equipment comprised mainly buildings, plant and machinery, furniture, fixtures, office equipment and motor vehicles. The decrease was due mainly to:

- the depreciation charged during the year of RMB12.8 million;
- the disposal of certain plant and equipment during the financial year, amounting to RMB1.9 million;
- the reclassification of investment property, from the property, plant and equipment category to investment properties category, of RMB24.2 million as a result of the leasing of the Huian facilities to a third party in December 2016; and
- the impairment of property, plant and equipment of RMB54.3 million.

This impairment was the direct result of the annual assessment on the carrying value of the property, plant and equipment, which was conducted in accordance with FRS36 to determine the recoverable amount of the property, plant and equipment. Based on the independent third party valuation company's assessment, an impairment amounting

to RMB54.3 million had been charged to profit and loss, therefore, resulting in the carrying value as at 31 December 2016.

The net book value of investment properties amounted to RMB35.3 million and RMB30.3 million as at 31 December 2016 and 31 December 2015, respectively. The increase was due to the reclassification to investment properties category from the property, plant and equipment category, due to the leasing of the Huian facilities in December 2016. However, the above increase was partially offset by impairment charges of RMB17.5 million. This impairment was the direct result of the annual assessment on the carrying value of the investment properties, which was conducted in accordance with FRS36 to determine the recoverable amount of the investment properties. Based on the independent third party valuation company's assessment, an impairment amounting to RMB17.5 million had been charged to profit and loss, therefore, resulting in the carrying value as at 31 December 2016.

Current Assets

Our current assets comprised mainly inventories, trade receivables, prepayments and other receivables and cash and bank balances.

The decrease in inventories was due mainly to the Group utilising the previously built up raw materials and work-in-progress in FY 15, which had been converted to finished goods and sold as at 31 December 2016. In addition, lesser purchases were made during the year as overall production activities had decline significantly due to the diminishing demand for our products during the year.

Trade receivables amounted to RMB58.1 million and RMB45.6 million as at 31 December 2016 and 31 December 2015, respectively. The trade receivables as at 31 December 2016 was stated after deducting the provision for doubtful debts, amounting to RMB16.1 million, which had been charged to profit and loss during the year. As previously disclosed, there were three particular customers whom went into financial difficulties and had been defaulting in their repayments of the trade debts in FY 16. They had, subsequently, also stopped communications with the Group. The Group had in mid-September 2016, sent legal demand letters to these customers and a deadline was set for end of September

Financial and Operations Review

2016 to allow them to make full repayment or to renegotiate their repayments.

As at date of this report, the three customers had not responded to the demand letters. As such, the Management's assessments of the possibilities of recovery of these trade debts will be remote, and therefore, a full provision had been made during the year. The Group had been consulting with its legal counsel to explore the most expedient way to recoup the trade debts. Another RMB1.0 million relating to 2 other customers, identified after year end during subsequent review, whom had not made any repayments for debts owing more than 180 days had also been similarly impaired.

The increase in trade receivables balance during the year was due to sales made to several customers during the last financial quarter of FY 16, which was still current and not due, and slower receipts during the year.

In addition, to further mitigate the potential risk of any future defaults, the Group will be closely monitoring the current trade debt situation and will be very selective and stringent in further sales to our customers going forward. As such, this operational strategy had brought about a negative impact on the financial performance of the Group during the last financial quarter of FY 16.

Prepayments and other receivables amounted to RMB4.8 million and RMB18.4 million as at 31 December 2016 and 31 December 2015, respectively. The significant decrease of RMB13.6 million during the year was due mainly to an impairment charged of approximately RMB13.8 million for deposits and advances to suppliers of raw materials. These amounts were identified during year-end and subsequent to year-end, when the Management approached these suppliers to seek a refund, in view of the potential slowdown in the manufacturing activities anticipated for the upcoming new financial year. However, these suppliers was not able to make any immediate refunds and had cited financial difficulties and liquidity tightening, therefore, impairment for these amounts had been identified and made in FY 16. However, this decrease was partially offset by a marginal increase in other receivables of RMB0.2 million.

Current Liabilities

Our current liabilities comprised mainly trade payables,

accrued liabilities and other payables, amount due to director, interest-bearing bank borrowings and income tax payables.

Trade payables amounted to RMB4.8 million and RMB10.1 million as at 31 December 2016 and 31 December 2015, respectively. The decrease was due mainly to the Group making payments to trade payables.

Accrued liabilities and other payables amounted to RMB10.3 million and RMB6.3 million as at 31 December 2016 and 31 December 2015, respectively. Accrued liabilities and other payables comprised mainly accrued liabilities (mainly accrued wages, insurance and staff welfare), other payables and advance payments from customers (mainly deposits received from overseas customers). The increase was due to accrued liabilities for salaries and related expenses, professional fees and other miscellaneous liabilities.

The loans from a director was due to advances given to the Company for making payments for operating activities at the listed holding entity level.

Interest-bearing bank borrowings amounted to RMB204.1 million and RMB189.3 million as at 31 December 2016 and 31 December 2015, respectively. The increase was due mainly to the additional borrowings during the financial year.

The reduction of income tax payables was due largely to the payment of this financial year.

Commentary on Cash Flow

Cash and cash equivalents amounted to RMB9.6 million and RMB6.2 million as at 31 December 2016 and 31 December 2015, respectively.

For FY 16, net cash used in operating activities amounted to approximately RMB5.5 million.

Cash used in operating activities was RMB5.5 million. This was due largely to the operating losses from working capital of approximately RMB11.9 million. In addition, the increase in trade and other receivables of RMB28.9 million, and the payments of trade and other payables of RMB1.3 million during the year, further contributed to the cash used in operations. The payment of incomes taxes of approximately RMB1.0 million also further impacted the cash used in operating activities. However, the net cash used was

Financial and Operations Review

partially offset by the decrease in inventories amounting to approximately RMB37.5 million.

For FY 16, cash generated from investing activities amounted to approximately RMB2.2 million, relates to the proceeds from the disposal of property, plant and equipment of RMB1.8 million and interest income received of RMB0.4 million.

For FY 16, the net cash generated from financing activities was due largely to:

- net proceeds from issuance of new shares of RMB7.3 million;
- proceeds (net) from additional bank borrowings of RMB14.8 million; and
- additional loan from director of RMB2.2 million.

The above was partially offset by:

- increase in bank deposit pledged of RMB6.4 million; and
- interest expenses payments for the bank borrowings of RMB11.2 million.

Therefore, resulting in the overall net cash generated from financing activities of RMB6.7 million for the FY 16. As a result, it led to a net increase in cash and cash equivalents for FY 16 amounting to approximately RMB3.5 million.

OPERATIONS REVIEW

With the continued weakness of the domestic and global economy, the Group, together with the distributors had been facing an uphill challenge in pushing Dapai's products amidst the current weak domestic market. The OEM segment had also slow down in FY 16.

As seen in the FY 16's financial performance, the Group further encountered demand contraction and overall sales had not picked up as consumer sophistication continued to grow, whereby consumer preferences are toward the renowned international brand names.

The Management does not foresee any change in this consumer preference in the near future and anticipates that the economic environment will continue to be very challenging. The Group had extended a discount scheme to our distributors during the last financial quarter to encourage them to push for more sales, however, this did not bring

about any positive impact and sales of Dapai's products did not pick up.

The Group will also be closely monitoring the current trade debt situation and will be particularly selective and stringent in future sales. This is to mitigate any further potential doubtful debts risks and exposure which might arise. By adopting such a strategy, this could potentially bring about a negative impact on the sales performances of the Group going forward. The Board of Directors and Management will be providing an update as and when new information arises.

In addition, the Management is also 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, as excess idle capacity sets in.

As at 31 December 2016, the Group had been maintaining and renewing its short term borrowings to manage its negative working capital position. As at the date of this announcement, the management and the Executive Chairman, are not aware of any adverse circumstances that might cause the financial institutions to withdraw credit facilities granted to the Group. The Group still has unutilised credit facilities amounting to approximately RMB54.9 million with its principal bankers. Therefore, the Group believes that it will be able to meet its short term obligations and to continue to operate as a going concern.

With reference to the Company's announcements from February to December 2016, the Company had made an application to the SGX-ST for the listing and quotation of the placement shares, and also announced that it had entered into a Memorandum of Understanding ("MOU") with the controlling shareholder of Smart Traffic Co., Ltd ("Smart Traffic"), in relation to the proposed acquisition by the Company of a substantial interest in Smart Traffic held by the controlling shareholder in connection with the potential reverse takeover of the Company, and the transfer of listing of and quotation for the shares from the SGX-ST Main Board to the SGX-ST Catalyst ("Proposed Acquisition").

Pursuant to the MOU, the parties will negotiate in good faith the terms and conditions of the definitive agreements with

Financial and Operations Review

the view to executing the same by no later than 31 March 2016 (or such date as may be agreed by the parties). Subsequently, on 1 April 2016, the Company announced that an extension of time till a further date, mutually agreeable by all parties, to enter into definitive agreement(s) in relation to the Proposed Acquisition.

On 5 April 2016, SGX-ST also approved the Company's application for extension of time ("EOT") till 5 September 2016 to meet the requirements of listing rule 1314 for exit from the Watch-list based on the financial entry criteria. Subsequently, a further application was made to SGX-ST on 1 September 2016, to seek a further EOT to complete the signing of the definitive agreements and also the potential reverse takeover with Smart Traffic. On 8 September 2016, SGX-ST approved the EOT and a further six (6) months extension till 5 March 2017 was granted. In the announcement dated 14 September 2016, Further Extension of Time to meet Requirements Under Rule 1314 of the Listing manual of the SGX-ST to exit from SGX-ST Watch-List – Supplemental Announcement, it was highlighted that the Proposed Transaction remains ongoing and in connection therewith:

- the Company had appointed relevant professional advisers;
- the Company's professional advisers had made physical visits to Smart Traffic's premises, and are conducting ongoing due diligence on Smart Traffic;
- the Company is also engaging the SM Controlling Shareholder on its due diligence into the Company; and
- the Company and Smart Traffic are negotiating the definitive transaction agreements.

The Board of Directors had on 5 March 2017 submitted a subsequent application for further EOT to meet the requirements of listing rule 1314 for exit from the Watch-list based on the financial entry criteria. On 21 March 2017, an approval was received from SGX-ST for a further extension of time for three (3) months till 4 June 2017.

On 22 April 2016, the Company completed the placement of 198,450,000 new ordinary shares and the net proceeds of approximately S\$1.5 million will be applied for the purpose of the Proposed Acquisition and related due diligence purposes.

On 7 December 2016, the MOU in relation to the Proposed Acquisition had been terminated and all negotiations had ceased.

Save as previously disclosed, no material development that may have a significant impact on the financial position of the Group has occurred since the last update.

The Company will make further announcement(s) to update shareholders as and when appropriate.

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

Board of Directors

Chen Xizhong

Executive Chairman

Chen Xizhong was appointed to our Board on 26 December 2007. He is the founder of our Group and is responsible for the strategic development of our Group. Chen Xizhong has over 20 years of experience in the backpack industry. He joined the Huian Leather Company, a state owned enterprise engaged in the manufacturing of backpacks in 1982 as an apprentice and was eventually promoted to the head of the sales department of Huian Leather Company. He left Huian Leather Company in December 1994 and went on to work in Dabao in 1995 and was subsequently made the executive director. After gaining much expertise, Chen Xizhong incorporated Dapai in April 2003. He has been in charge and responsible for Dapai's daily operations and was eventually made the Executive Director of Dapai, a position which he still holds today. Chen Xizhong graduated from Fujian Huian Province Number One Secondary School in 1980 with a certificate in Business. Throughout his years in the backpack industry, he has won many awards such as "Chinese Entrepreneur Figures of the year 2000". He has also assumed leadership positions in a number of various organisations in China such as the Vice- Chairman of Quanzhou Fengze North Street Federation of Overseas Chinese Citizens since 2004, and Vice-Chairman of Quanzhou Sino-Foreign Enterprise Society since 2007. Chen Xizhong is also a member of various other associations in China such as being a committee member of the 12th Chinese People's Political Consultative Conference of Huian County in 2006.

Hu Jirong

Independent Director

Hu Jirong is an independent non-executive Director of the Company. Mr Hu graduated from Jiangxi University of Finance and Economics in 1983 and obtained a master degree in Business Administration from the Open University of Hong Kong in 2000. He holds a Certified Public Accountant license in the PRC. Mr Hu has been the deputy head of

Accounting Department in the College of Management of Fuzhou University. Mr Hu has taken up a number of public service positions including a specially contracted auditor of the Fujian Provincial Audit Office and a committee member of the Professional Conduct Committee of Fujian Institute of Certified Public Accountants. Mr Hu has published numerous articles and research reports in the PRC. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nominating Committee of the Company.

Tan Chade Phang

Independent Director

Tan Chade Phang is the CEO and founder of Voyage Research since 2009 till present. Prior to setting up Voyage Research, he was an Investment Analyst with Standard Chartered Bank Singapore from 2007 to 2008, and was also the lead Investment Analyst in SIAS Research from 2005 to 2006.

He is also currently the President of the Small and Middle Capitalisation Association (SMCCA) where he actively tries to gather small and middle capitalization companies within a single entity to work closely with the authorities and professionals to improve the visibility and governance standard of its members.

He is also an Independent Director of Starland Holdings Limited and International Healthway Corporation Limited.

Fong Pin Jan

Independent Director

Fong Pin Jan is a Director of True Corporate Advisors Pte Ltd, a company he founded in 2009, which is involved in providing general advisory work and private equity investments to high net worth clients. He graduated from the Nanyang Technological University with a Bachelor of Accountancy (Honours) in 1998. He is a Chartered Accountant with the Institute of Singapore Chartered Accountants.

Key Management

Ng Kiat Peen *Chief Financial Officer*

Ng Kiat Peen joined our Group as Chief Financial Officer in July 2011. He oversees and coordinates the operation of our Group's finance department as well as manages all the financial and accounting functions of our Group.

Prior to joining our Group, Mr Ng was the Chief Financial Officer of China Angel Food Limited from 2009 to 2011. Preceding this appointment, he was the Chief Financial Officer of China Oilfield Energy Co. Ltd from 2008 to 2009, and the Financial Controller of China Xiangge Land Pte Ltd from 2007 to 2008. Between 2006 and 2007, he was the Finance Manager of Federal Trust (Singapore) Pte Ltd. He had also worked in professional audit firm Ernst & Young from 1999 to 2006.

Mr Ng graduated with a Bachelor degree in Accounting and Finance from Curtin University of Technology in 1998. He is a member of the Institute of Singapore Chartered Accountants.

Zhuang Jian Cheng *Vice President*

Zhuang Jian Cheng graduated from Hunan University in Changsha, China. From 2005 to 2008, he was working in a local government agency as a Purchasing Assistant. He later joined the Group in 2008 as a Purchasing Assistant, and was promoted to Purchasing Manager in 2010. In 2012, he was again promoted to head the sales department in one of the Group's subsidiary companies. In 2014, he was promoted to the position of Assistant Vice President, working alongside the then Vice President. With his working experience and knowledge of the industry, he was promoted to Vice President, to assist the Executive Chairman, in overseeing the daily operating matters and is in charge of formulating the Group's marketing and sales strategies.

Lin Min Pei *Production director*

Lin Min Pei joined our Group in 2001 and had risen through the ranks to be promoted to Assistant Production Manager in 2008. He was again promoted in 2010 to Production Manager. With his vast production knowledge and experience, he was promoted to Production Director in 2015.

Wang Bin *Administration director*

Wang Bin joined our Group in 2004 as our Human Resource and Administration Manager. Previously, he held managerial positions in various companies such as Luan Transportation Company, Anhui Province, where he was responsible for the Company's general administrative and human resource matters from 1991 to 1995 before establishing his own human resource company in 1995. He graduated from Anhui Radio & TV University in 1991 with a degree in Business Administration.

Corporate Information

Directors

Chen Xizhong (Executive Chairman)
Hu Jirong (Independent Director)
Tan Chade Phang (Independent Director)
Fong Pin Jan (Independent Director)

Joint Company Secretaries

Lim Heng Chong Benny
Chin Su Xian
Codan Services Limited
(Assistant Company Secretary)

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business

High Technology Zone of Fengze District
Quanzhou City
Fujian Province
The People's Republic of China

Legal Advisers to the Company as to Bermuda law

Conyers Dill & Pearman Pte. Ltd.
9 Battery Road #20-01
Straits Trading Building
Singapore 049910

Auditors

Moore Stephens LLP
10 Anson Road, #29-15
International Plaza
Singapore 079903

Partner-in-charge: Ng Chiou Gee Willy
(Appointed since financial year ended 31 December 2012)

Singapore Share Transfer Agent

B.A.C.S. Private Limited
8 Robinson Road
#03-00
ASO Building
Singapore 048544

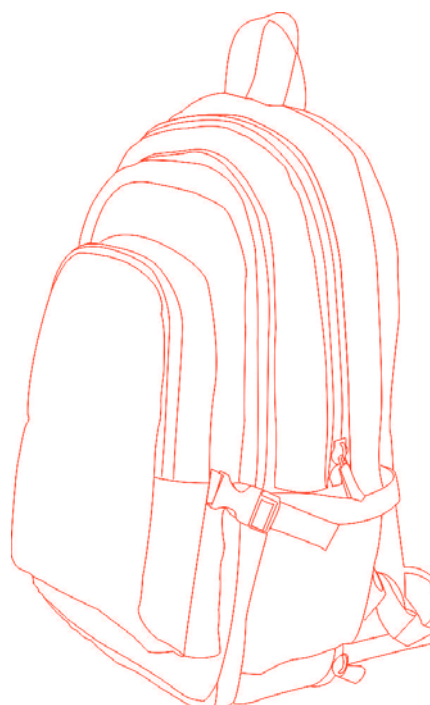
Bermuda Share Registrar

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Bankers

Industrial Bank Co., Ltd., Huian Branch
No.154, Hudong Road
Donghua Island, Luocheng Town, Huian County
Quanzhou City
Fujian Province
The People's Republic of China

Bank of China Co., Ltd.,
Huian Branch
No.1, Shi Ling Street, Luocheng Town, Huian County
Quanzhou City
Fujian Province
The People's Republic of China



CORPORATE GOVERNANCE REPORT

Dapai International Holdings Co. Ltd. (the “**Company**”) is committed to ensuring and maintaining a high standard of corporate governance within the Company and its subsidiaries (the “**Group**”). Good corporate governance establishes and maintains a legal and ethical environment for the Group, which helps to preserve and enhance the interests of all shareholders.

This Report describes the corporate governance framework and practices of the Company with specific reference to the principles of the Singapore Code of Corporate Governance introduced in 2012 (the “**2012 Code**”).

This Report should be read as a whole, instead of being read separately under the different principles of the 2012 Code.

(A) BOARD MATTERS

Board's Conduct of its Affairs

Principle 1 : Every company should be headed by an effective board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and the Management remains accountable to the Board.

*Role of the Board of Directors (the “**Board**”)*

The Board assumes responsibility for stewardship of the Group and is primarily responsible for the protection and enhancement of long-term value and returns for the shareholders. It supervises the Management of the business and affairs of the Group, provides corporate direction, monitors managerial performance and reviews financial results of the Group. In addition, the Board is directly responsible for decision making in respect of the following matters:

- a. approve the business strategies including significant acquisition and disposal of subsidiaries or assets and liabilities;
- b. approve the annual budgets, major funding proposals, significant capital expenditures and investment and divestment proposals;
- c. approve the release of the Group's quarterly and full year's financial results and interested person transactions;
- d. oversee the processes for risk management, financial reporting and compliance and evaluate the adequacy of internal controls, as may be recommended by the Audit Committee;
- e. review the performance of the management, approve the nominees to the Board of Directors and appointment of key executives, as may be recommended by the Nominating Committee;
- f. review and endorse the framework of remuneration for the Board and key executives, as may be recommended by the Remuneration Committee; and
- g. renew and endorse corporate policies in keeping with good corporate governance and business practice.

The Board provides shareholders with a balanced and understandable assessment of the Group's performance, position and prospects on a quarterly basis.

To assist in the execution of its responsibilities, the Board has established a number of Board committees which include an Audit Committee (“**AC**”), a Nominating Committee (“**NC**”) and a Remuneration Committee (“**RC**”), each of which functions within clearly defined terms of reference and operating procedures which are reviewed on a regular basis.

CORPORATE GOVERNANCE REPORT

All the Board Committees are actively engaged and play an important role in ensuring good corporate governance in the Company and within the Group.

Board Meetings and Meetings of Board Committees

The Board meets on a quarterly basis and whenever necessary for the discharge of their duties. Dates of the Board meetings are normally set by the Directors well in advance. Meetings of the Board and Board Committees may be conducted by way of telephone and video conferencing, if necessary.

The schedule of all the Board Committee meetings for the calendar year is usually given to all the Directors well in advance during each quarter. Besides the scheduled meetings, the Board meets on an ad-hoc basis as warranted by particular circumstances.

The number of meetings held by the Board and Board committees and attendance held in the financial year ended 31 December 2016 are as follows:

Directors	Board		AC		NC		RC	
	Number	Attended	Number	Attended	Number	Attended	Number	Attended
Chen Xizhong	9	9	N/A	N/A	2	2	N/A	N/A
Hu Jirong	9	6	5	4	2	1	1	1
Chua Meng Hing ⁽¹⁾	9	9	5	5	2	2	1	1
Richard Tan Kheng Swee ⁽²⁾	5	5	3	3	2	2	1	1
Tan Chade Phang ⁽³⁾	7	7	3	3	1	0	N/A	N/A
Fong Pin Jan ⁽⁴⁾	7	7	N/A	N/A	N/A	N/A	N/A	N/A

⁽¹⁾ Mr Chua Meng Hing resigned as a Lead Independent Director and ceased as the Chairman of the Remuneration Committee and member of the Audit and Nominating Committee on 24 February 2017.

⁽²⁾ Mr Richard Tan Kheng Swee resigned as an Independent Director and ceased as the Chairman of the Nominating Committee and member of the Audit and Remuneration Committee on 7 July 2016.

⁽³⁾ Mr Tan Chade Phang was appointed as an Independent Director on 1 March 2016 and had been appointed as Chairman of the Audit Committee and member of the Nominating and Remuneration Committee on 4 April 2016.

⁽⁴⁾ Mr Fong Pin Jan was appointed as a Non-Executive Director on 1 March 2016. He was re-designated as an Independent Director and appointed as member of the Audit Committee, Nominating Committee and Remuneration Committee on 24 February 2017.

Introduction and Training

The Board constantly examines its size and, with a view to determining the impact of its number upon effectiveness, decides on what it considers an appropriate size for itself. The composition of the Board is reviewed on an annual basis by the NC to ensure that the Board has the appropriate mix of expertise and experience.

All Directors have many years of corporate experience and are familiar with their duties and responsibilities as Directors. Upon appointment, each Director will receive a letter of appointment from the Board Chairman explaining his statutory duties and obligations as a member of the Board. In addition, newly appointed Directors will be given briefings by the Board Chairman and/or top Management of the Company on the business activities of the Group and its strategic directions, as

CORPORATE GOVERNANCE REPORT

well as their duties and responsibilities as Directors. The Directors are also briefed by professionals either during Board meetings or at separate meetings on regulatory changes which have an important bearing on the Company and the Directors' obligations to the Company. Apart from keeping the Directors informed of all relevant new laws and regulations, the Directors are encouraged to attend training programmes conducted by the Singapore Institute of Directors in connection with their duties as Directors.

The Company welcomes Directors to seek explanations or clarifications from and/or convene informal discussions with the Management on any aspect of the Group's operations or business. Necessary arrangements will be made for the informal discussions or explanations as and when required.

The Company is responsible for arranging and funding the training for new and existing directors. The directors are provided with continuing briefings and updates in areas such as relevant new laws and regulations, directors' duties and responsibilities, corporate governance, changes in financial reporting standards and issues which have a direct impact on financial statements, so as to enable them to properly discharge their duties as Board or Board committee members. The scope of such continuous briefings and updates includes an overview of industry trends and developments, governance practices and developing trends, and changes in trends in governance practices and regulatory requirements pertaining to the business. Where necessary, a first-time director who has no prior experience as a director of a listed company will be provided training in areas such as accounting, legal and industry-specific knowledge as appropriate.

Board Composition and Balance

Principle 2 : There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board consists of four (4) Directors of whom three (3) are non-executive and independent. The list of Directors are as follows:

Executive Director

Chen Xizhong (Executive Chairman)

Non-Executive Directors

Hu Jirong (Non-Executive and Independent Director)

Tan Chade Phang (Non-Executive and Independent Director)

Fong Pin Jan (Non-Executive and Independent Director)

The size and composition of the Board are reviewed from time to time by the NC to ensure that the size of the Board is conducive to effective discussions and decision-making. The NC is of the view that the current Board size of four (4) Directors of whom three (3) are non-executive and independent is appropriate and effective, taking into account the nature and scope of the Company's operations.

The current Board comprises persons with diverse expertise and experience in accounting, legal, business and management, finance and risk management who as a group provide core competencies necessary to meet the Company's requirements. The Directors' objective judgement on corporate affairs and collective experience and knowledge are invaluable to the Group and allows for the useful exchange of ideas and views.

CORPORATE GOVERNANCE REPORT

Independence of Directors

The NC reviews the independence of each Director on an annual basis based on the Code's definition of what constitutes an independent Director. The NC is of the view that the three (3) independent Directors (who represent more than half of the Board) are independent and that the independent element on the Board which is able to exercise objective judgement on corporate matters independently, in particular, from the management, and also ensures that key issues and strategies are critically reviewed, constructively challenged, fully discussed and thoroughly examined, taking into consideration the long-term interests of the Group and its shareholders. No individual or small group of individuals dominate the Board's decision-making process.

None of the Independent Directors has served on the Board of the Company beyond nine years from the date of his first appointment.

The NC is responsible for examining the size and composition of the Board and Board Committees. Taking into account the nature of the Group's businesses, the Board considers a board size of between 4 to 5 members as appropriate. The Board believes that its current board size and composition effectively serves the Group. It provides sufficient diversity without interfering with efficient decision-making.

The NC is satisfied that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competencies to lead and govern the Group effectively. Each Director has been appointed on the strength of his calibre, experience and stature and is expected to bring a valuable range of experience and expertise to contribute to the development of the Group's strategy and the performance of its business.

The independent Directors communicate regularly to discuss matters such as the Group's financial performance, corporate governance initiatives, board processes, succession planning as well as leadership development and the remuneration of the Executive Director.

Where necessary, the Company co-ordinates informal meeting sessions for Independent Directors to meet without the presence of the Management to discuss matters such as Board effectiveness and Management's performance.

Chairman and Chief Executive Officer

Principle 3 : There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

The Chairman of the Board is Mr Chen Xizhong. As the Executive Chairman, Mr Chen Xizhong is responsible for, among others, the exercise of control over quantity, quality and timeliness of the flow of information between the Management of the Company and the Board.

Mr Chen Xizhong has taken over the duties of the Chief Executive Officer ("**CEO**") since 20 October 2011. He, together with the Management comprising each subsidiary's general managers and key senior managers, are responsible for the day-to-day management of the Group.

All major decisions made by the Executive Chairman are reviewed by the AC. His performance and appointment are reviewed periodically by the NC and his remuneration package is reviewed periodically by the RC. As such, the Board believes that there are adequate safeguards in place to ensure a balance of power and authority such that no one individual represents a considerable concentration of power.

As the Executive Chairman, he, with the assistance of the Company Secretary, schedules Board meetings as and when required and prepares the agenda for Board meetings. In addition, he sets guidelines on and ensures quality, quantity, accuracy and timeliness of information flow between the Board, the Management and shareholders of the Company. He

CORPORATE GOVERNANCE REPORT

encourages constructive relations between the Board and the Management and between the executive Directors and the Independent Directors. He also takes a leading role in ensuring the Company's drive to achieve and maintain a high standard of corporate governance practices.

While the Company is in process of appointing the Lead Independent Director, Mr Tan Chade Phang, an Independent Director and the Chairman of the AC, is assisting to co-ordinate and lead the Independent Directors to provide a non-executive perspective and contribute to a balance of viewpoints on the Board. He is the principal liaison on Board issues between the Independent Directors and the Executive Chairman. He is available to shareholders where they have concerns which contact through the normal channels of the Executive Chairman or the Chief Financial Officer ("CFO") has failed to resolve or for which such contact is inappropriate.

Board Membership

Principle 4 : There should be a formal and transparent process for the appointment and re-appointment of Directors to the Board.

The NC is chaired by Mr Hu Jirong (an Independent Director) with the following Directors as members:

Chen Xizhong	(Executive Director)
Fong Pin Jan	(Independent Director)
Tan Chade Phang	(Independent Director)

The primary functions of the NC in accordance with the Terms of Reference ("TORs") are as follows:

- to identify candidates and review all nominations for the appointment or re-appointment of members of the Board, the CEO, and to determine the selection criteria;
- to ensure that all Board appointees undergo an appropriate induction programme;
- to regularly review the Board structure, size and composition and make recommendations to the Board with regard to any adjustments that are deemed necessary;
- to identify gaps in the mix of skills, experience and other qualities required in an effective Board and to nominate or recommend suitable candidates to fill these gaps;
- to decide whether a Director is able to and has been adequately carrying out his duties as a Director of the Company, particularly where the Director has multiple board representations;
- to review the independence of each Independent Director annually;
- to decide how the Board's performance may be evaluated and propose objective performance criteria for the Board's approval; and
- to evaluate the effectiveness of the Board as a whole and the contribution by each individual Director to the effectiveness of the Board.

For the year under review, the NC held two (2) meetings.

CORPORATE GOVERNANCE REPORT

Under the Company's existing Bye-Laws, each Director shall retire from office at least once every three years. The Directors will thus submit themselves for re-nomination and re-election at regular intervals and at least once every three (3) year. In reviewing and recommending to the Board the re-nomination and re-election of existing Directors, the NC takes into consideration the Directors' contribution and performance at Board meetings, including attendance, preparedness, participation and candour.

Each member of the NC abstains from making any recommendations and/or participating in any deliberation of the NC and from voting on any resolution, in respect of the assessment of his own performance or re-nomination as a Director.

The NC is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Company and the Group, notwithstanding that some of the Directors have multiple board representations, and that each Director's directorships was in line with the Company's guideline of a maximum of five (5) listed company board representations and that each Director has discharged his duties adequately.

In its search and nomination process for new Directors, the NC has, at its disposal, search companies, personal contacts and recommendations, to cast its net as wide as possible for the right candidates.

For the re-appointment of a retiring director, the NC takes into consideration the director's contribution and performance which are determined by factors such as attendance, preparedness, participation and candour (as well as contribution to the effectiveness of the Board) before making its recommendation to the Board. The NC is of the view that each individual Director has contributed to the effectiveness of the Board as a whole and has recommended the re-election of Mr Chen Xizhong pursuant to Bye-Law 86 of the Company's Bye-Laws.

The NC conducts an annual review of Directors' independence and is of the view that Mr Hu Jirong, Mr Tan Chade Phang and Mr Fong Pin Jan are independent and that, no individual or small group of individuals dominates the Board's decision-making process.

When an existing Director chooses to retire or the need for a new Director arises, either to replace a retiring Director or to enhance the Board's strength, the NC, in consultation with the Board, determines the selection criteria and identifies candidates with the appropriate expertise and experience for the appointment as new Director. The NC then meets with the shortlisted potential candidates with the appropriate profile before nominating the most suitable candidate to the Board for appointment as Director.

CORPORATE GOVERNANCE REPORT

Key information on the directors is set out below:-

Name of Directors	Position	Date of first appointment as a Director	Date of last re-appointment as a Director	Present directorships or chairmanships in other listed companies	Directorships or chairmanships held over the preceding three years in other listed companies	Other principal commitments at the AGM	Due for re-appointment at the AGM
Chen Xizhong	Executive Chairman	26 December 2007	29 April 2015	None	None	None	Retirement by rotation (Bye-Law 86)
Hu Jirong	Independent Director	15 July 2011	27 April 2016	1. China Green Agriculture, Inc. 2. Fujian Cement Inc. 3. Fujian Tengxin Food Co.,Ltd.	1. None	None	N.A.
Tan Chade Phang	Independent Director	1 March 2016	27 April 2016	1. Starland Holdings Limited 2. International Heathway Corporation Limited	1. None	None	N.A.
Fong Pin Jan	Independent Director	1 March 2016	27 April 2016	None	1. Daqing Dairy Limited 2. Global Milk Products Limited 3. Sino Construction Limited 4. Nico Steel Holdings Limited	None	N.A.

CORPORATE GOVERNANCE REPORT

Board Performance

Principle 5 : There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

The NC reviews the criteria for evaluating the Board's performance and recommends to the Board a set of objective performance criteria focusing on enhancing long-term shareholders' value. Based on the recommendations of the NC, the Board has established processes for evaluating the effectiveness of the Board, the Board Committees and each individual Director.

The performance criteria for the Board evaluation includes an evaluation of the size and composition of the Board and Board Committees, the Board's access to information, accountability, Board processes, Board performance in relation to discharging its principal responsibilities, communication with the Management and standards of conduct of the Directors. Replacement of a Director, when it happens, does not necessarily reflect the Directors' performance or contribution to the Board, but may be driven by the need to align the Board with the medium or long term needs of the Group.

In the course of the year, the NC has conducted the assessment by preparing a questionnaire to be completed by each Director, of which were then collated and the findings were analyzed and discussed with a view to implementing certain recommendations to further enhance the effectiveness of the Board.

Access to Information

Principle 6 : In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

To assist the Board in fulfilling its responsibilities, the Management provides the Board with a management report containing complete, adequate and timely information prior to the Board meetings. All Directors have separate and independent access to the Management, including the Company Secretary at all times.

The Joint Company Secretaries and/or their representative attends all scheduled meetings of the Company and prepares minutes of meetings. They are responsible for, among other things, ensuring that Board procedures are observed and that applicable rules and regulations are complied with.

The appointment and the removal of the Company Secretary are subject to the Board's approval.

Changes to regulations are closely monitored by the Management and for changes which have an important bearing on the Company or the Directors' disclosure obligations, the Directors are briefed during Board meetings.

The Directors and the Chairmen of the respective committees, whether as a group or individually, are able to seek independent professional advice as and when necessary in furtherance of their duties at the Company's expense. The appointment of such professional advisor is subject to approval by the Board.

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7 : There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his own remuneration.

CORPORATE GOVERNANCE REPORT

The RC comprises of entirely Non-Executive and Independent Directors:

Tan Chade Phang (Chairman)
Hu Jirong
Fong Pin Jan

The members of the RC have many years of corporate experience and are knowledgeable in the field of executive compensation. In addition, the RC has access to expert professional advice on remuneration matters as and when necessary.

The responsibilities of the RC in accordance with the TORs include the following:

- to review Directors' fees to ensure that they are at sufficiently competitive levels;
- to review and advise the Board on the terms of appointment and remuneration of its members, CEO, key executive officers, senior management of the Group and all managerial staff who are related to any of the Directors or the CEO or substantial shareholders;
- to review the terms of the employment arrangements with the Management so as to develop consistent group wide employment practices subject to regional differences;
- to recommend to the Board in consultation with senior management and the Chairman of the Board, any long term incentive scheme; and
- to review and approve any proposals or recommendations relating to senior management's remuneration.

The RC reviews all aspects of remuneration and compensation packages including but not limited to Directors' fees, salaries, allowances, bonuses and benefits-in-kind.

No Director is involved in determining his own remuneration.

For the year under review, the RC held one (1) meeting.

Level and Mix of Remuneration

Principle 8 : The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key Management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

In setting remuneration packages, the RC takes into consideration the prevailing economic situation, the pay and employment conditions within the industry and in comparable companies. As part of its review, the RC ensures that the performance-related elements of remuneration form a significant part of the total remuneration package of the Executive Director and is designed to align the Directors' interests with those of shareholders and link rewards to corporate and individual performance. The RC also reviews all matters concerning the remuneration of Non-Executive Directors to ensure that the remuneration commensurate with the contribution and responsibilities of the Directors. The Company submits the quantum of Directors' fees of each year to the shareholders for approval at each Annual General Meeting ("AGM").

Non-Executive Directors have no service contracts. The Executive Director has a service contract with the Company and he did not receive Directors' fees for the year under review.

CORPORATE GOVERNANCE REPORT

Disclosure on Remuneration

Principle 9 : Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key Management personnel, and performance.

The annual reviews of the compensation are carried out by the RC to ensure that the remuneration of the Executive Director and senior management commensurate with their performance and that of the Company, giving due regard to the financial and commercial health and business needs of the Group. The performance of the CEO (together with other key executives) is reviewed periodically by the RC and the Board.

The Independent Directors receive Directors' fees in accordance with their level of contributions, taking into account factors such as effort and time spent, as well as the responsibilities and obligations of the Directors. The Company recognises the need to pay competitive fees to attract, motivate and retain Directors without being excessive and thereby maximise shareholder value. Directors' fees are recommended by the Board for approval at the Company's AGM.

The Executive Director does not receive directors' fees but is remunerated as a member of Management. His remuneration package comprises a basic salary component and a variable component which is the annual bonus, based on the performance of the Group as a whole and his individual performance. The service contract for the Executive Director is for a fixed appointment period and does not contain onerous removal clauses.

The Company has no employee share option scheme or any long-term scheme in place.

A breakdown (in percentage terms) of the remuneration of the Directors and the key management personnel (who are not also Directors) for the financial year ended 31 December 2016 is set out below:

Remuneration of the Directors

Name	Base/fixed salary ^(#) %	Variable or performance related income/bonus ^(#) %	Director's fee %	Benefits in Kind %	Total %
Executive Director					
Chen Xizhong ⁽¹⁾	94.4	1.0	–	4.6	100.0
Independent Directors					
Chua Meng Hing ⁽²⁾	100.0	–	–	–	100.0
Hu Jirong ⁽³⁾	100.0	–	–	–	100.0
Richard Tan Kheng Swee ⁽²⁾	100.0	–	–	–	100.0
Tan Chade Phang ⁽²⁾	100.0	–	–	–	100.0
Fong Pin Jan ⁽²⁾	100.0	–	–	–	100.0

(1) Between S\$250,000 and S\$260,000

(2) S\$50,000 and below

(3) Below S\$25,000

CORPORATE GOVERNANCE REPORT

Remuneration of top 5 key management personnel (who are not also Directors or CEO)

Remuneration band and names of key management personnel (who are not also Directors or CEO)	Based/fixed salary ^(#) %	Variable or performance related income/bonus ^(#) %	Benefits in Kind %	Total %
Below S\$250,000				
Ng Kiat Peen	79.5	13.3	7.2	100.0
Wang Bin	71.4	5.0	23.6	100.0
Zhuang Jian Cheng	68.0	5.6	26.4	100.0
Lin Min Pei	67.5	5.7	26.8	100.0

This is under the service contract. Under the service contract, the Executive Director is also entitled to share a performance bonus (the “**Performance Bonus Pool**”) in respect of each financial year commencing from FY2008, which is calculated based on the consolidated net profit after tax and extraordinary items (“**NPAT**”) (before deducting for such Performance Bonus Pool) of the Group. Since the NPAT for FY2015 did not attain RMB420 million, no performance bonus was paid in FY2016.

The Company has not disclosed exact details of the remunerations of its Executive Director, Independent Directors and key management personnel as it is not in the best interest of the Company and the employees to disclose such details due to the sensitive nature of such information and as our industry is highly competitive in respect of the recruitment of experienced executives. The Company has only four key management personnel (who are not also a Directors nor the CEO of the Company). The aggregate of total remuneration paid to or accrued to the top key management personnel (including Executive and Independent Directors) is approximately S\$750,000.00.

There are no employees of the Group who are immediate family members of a Director or the CEO and whose remuneration exceeds S\$50,000 during the financial year ended 31 December 2016.

(C) ACCOUNTABILITY AND AUDIT

Accountability

Principle 10 : The Board should present a balanced and understandable assessment of the company’s performance, position and prospects.

The Board endeavours to ensure that the annual audited financial statements and quarterly announcements of the Group’s results present a balanced and understandable assessment of the Group’s position and prospects. The Board embraces openness and transparency in the conduct of the Company’s affairs, whilst preserving the commercial interests of the Company. Financial and other price sensitive information are disseminated to shareholders through announcements via SGXNET.

The Management currently provides the Board with management accounts of the Group’s performance, position and prospect on a regular basis.

Risk Management and Internal Controls

Principle 11 : The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk Management and internal controls to safeguard shareholders’ interests and the company’s assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

CORPORATE GOVERNANCE REPORT

The Management reviews regularly the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks within the Group's policies and strategies. In addition, the external auditors have reviewed the Group's internal controls that are relevant to the audit and any control weaknesses and improvements noted had been reported to the AC, together with their recommendation. The Management will follow-up on the auditors' recommendations so as to strengthen the Group's internal control systems.

The Board ensures that the Management maintains a sound system of internal controls and effective risk Management policies to safeguard the shareholders' investment and the Company's assets and in this regard, is assisted by the AC which conducts the reviews.

The Company's internal and external auditors conduct annual reviews of the effectiveness of the Company's material internal controls and risk assessment at least annually to ensure the adequacy thereof. In addition, annual review to ensure that safeguards, check and balances are put in place to prevent any conflict of interest or any weakening of internal controls. Any material non-compliance or failures in internal controls and recommendations for improvements are reported to the AC. The AC also reviews the effectiveness of the actions taken by the Management on the recommendations made by the internal and external auditors in this respect.

In respect of the internal audit conducted in FY2016, the internal auditors had performed a high level Corporate Governance review on the overall Control Environment, Risk Assessment, Control Activities, Information and Communications, and Monitoring Activities. The internal auditors had recommended improvement points over certain additional policies and procedures such as risk, investor, succession plan and remuneration for key management, claw back and retention of document policies. Other recommendations include the updating and enhancing of existing policies to be more comprehensive and to be timelier in implementing additional and enhancing internal controls. These recommendations have been accepted and will be implemented accordingly by the Management.

The Board notes that the system of internal controls and risk management established by the Company provides reasonable, but not absolute, assurance that the Company will not be adversely affected by any event that can be reasonably foreseen as it strives to achieve its business objectives. However, the Board also notes that no system of internal controls and risk management can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

The Board has received written assurance from the CEO and the CFO that:

- (a) The financial records of the Group have been properly maintained and financial statements for the financial year ended 31 December 2016 give a true and fair view of the Group's operations and finances; and
- (b) The system of risk management and internal controls in place within the Group is adequate and effective in addressing the material risks in the Group in its current business environment including material financial, operational, compliance and information technology risks.

The Company has complied with Rule 712 and Rule 715 of the Listing Manual in the relation to auditing firms.

Since FY 2015, due to factors, disclosed then, of (i) complete internal audit review cycle had been completed in the past two (2) years (2013 to 2014), (ii) no significant changes in the Group's business and operating environment, (iii) having the management updated the Group's material risk profile, (iv) regular updates to the Board on the Group's business activities, (v) having tasked the management to conduct an overview on the overall internal control environment which included the general accounting processes, which no significant changes in theses internal control environment were noted, (vi) no major areas of concern requiring immediate actions to be taken by the Board and AC, therefore, it was deemed not cost effective to commissioned an internal audit review then.

The Group has done up an internal documentation on its risk profile which summarizes the material risks faced by the Group and the countermeasures in place to manage or mitigate those risks for the review by the AC and the Board in FY2015. The documentation provides an overview of the Group's key risks, how they are managed, the key personnel responsible for each identified risk type and the various assurance mechanism in place. It allows the Group to address the on-going changes and the challenges in the business environment, reduces uncertainties and facilitates the shareholder value creation process. In FY2016, the Company had dedicated majority of its time and resources to the Agreed-Upon Audit Procedures ("AUP") undertaken during the year in relation to allegations concerning the Group which had previously come to the attention of the AC of the Company ("Allegations"). BDO LLP ("BDO") had been tasked by the AC, and the Board, to complete the AUP.

CORPORATE GOVERNANCE REPORT

On 14 December 2016, the Company highlighted in an announcement on the SGX-ST that the Allegations had alleged that various transactions between the Group and certain sales distributors and renovation contractors relating to the initiative undertaken by the Group in late 2009 to open 500 new retail outlets carrying the Group's products which had started operations between 2010 and 2011 in the People's Republic of China, including but not limited to transactions for sale of goods, renovation projects and prepaid rental, were fictitious and/ or misrepresented.

After careful review of the Allegations, the Audit Committee, together with the Board, had engaged BDO to undertake an independent review and to provide its findings as to the veracity of the Allegations. The Board had released the AUP Report prepared by BDO dated 14 December 2016. The AUP Report states, amongst others that BDO was not able to fully verify whether the transactions referred to in the Allegations have been carried out and properly recorded. The Audit Committee, together with the Board, had therefore engaged KordaMentha Pte Ltd ("**Korda**") to further review and follow up on the outstanding matters arising from the AUP Report.

As at date of the annual report, Korda is still in the midst of the further review and follow up. The Company will make further update(s) as and when appropriate.

In view of the above factors and the majority concentration of time and resources on the AUP, the Board and AC were not able to, in FY 2016, commission a complete internal review cycle, except for the high level Corporate Governance review, and accordingly, the AC is unable to opine on whether the internal controls are designed and functioning effectively in relation to the Group's material financial, operational, compliance and information technology risks and whether these risk management systems do meet the needs of the Group in its current business environment. Various reviews will be undertaken by professional advisers specifically engaged by the AC to look into various aspects of the internal controls as described above and are currently pending the findings which will be reported to the Board and the AC in due course. The results of such review will then be made known to stakeholders.

Risks arising from the Group's financial operations are separately discussed in Notes to the Financial Statements on pages 79 to 84.

Audit Committee

Principle 12 : The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

The AC comprises of entirely non-executive Independent Directors:-

Tan Chade Phang (Chairman)
Hu Jirong
Fong Pin Jan

It, inter alia, oversees the quality and integrity of the accounting, auditing, internal controls and financial practices of the Group.

All members of the AC have many years of experience in senior management positions in both financial and industrial sectors. The Board is of the view that the AC members, having recent and relevant accounting and related financial management expertise or experience, are appropriately qualified to discharge their responsibilities.

For the year under review, the AC held five (5) meetings with the Management and the external auditors to discuss and review the following matters in accordance with the TORs:-

- the audit plans of the external of the Company, and their reports arising from their audit;
- the adequacy of the assistance and cooperation given by the Company's Management to the external auditors;
- the financial statements of the Company and the consolidated financial statements of the Group;
- the quarterly and annual announcement of the results of the Group before submission to the Board for approval;
- the adequacy of the Group's internal controls addressing financial, operational, compliance and information technology risks and in respect of the management, business and service systems and practices;

CORPORATE GOVERNANCE REPORT

- the cost effectiveness, independence and objectivity of the external auditors;
- the approval of compensation to the external auditors;
- the nature and extent of non-audit services provided by the external auditors;
- the recommendation to the Board for the appointment or re-appointment of the internal and external auditors of the Company;
- to report actions and minutes of the AC to the Board with such recommendations as the AC considers appropriate; and
- interested person transactions to ensure that the current procedures for monitoring of interested party transactions have been complied with.

In performing its functions, the AC :

- met once with the external auditors and internal auditors, without the presence of the Company's Management, and reviewed the overall scope of the external and internal audit and the assistance given by the Management to the auditors;
- has explicit authority to investigate any matter relating to the Group's accounting, auditing, internal controls and financial practices brought to its attention with full access to records, resources and personnel to enable it to discharge its function properly; and
- has full access to and cooperation of the Management and full discretion to invite any Director or executive officer to attend its meetings.

The external auditors and internal auditors have unrestricted access to the AC.

The AC reviews the scope and results of the audit carried out by the external auditors, the cost effectiveness of the audit and the independence and objectivity of the external auditors. It always seeks to balance the maintenance of objectivity of the external auditors and their ability to provide value-for-money professional services.

The AC meets on a quarterly basis to review the quarterly and audited annual financial statements, SGXNET announcements and all related disclosures to shareholders before submission to the Board for approval. In the process, the AC reviews the key areas of the Management's judgment applied for adequate provisioning and disclosure, critical accounting policies and any significant changes made that would have an impact on the financials.

The AC evaluates the adequacy and effectiveness of the internal control and regulatory compliance of the Company through discussion with the Management and its auditors.

The AC discusses with the Management the significant internal audit observations, together with the Management's responses and actions to correct any deficiencies. It also reviews the internal audit plans, determines the scope of audit examination and approves the internal audit budget.

The AC recommends to the Board the appointment, re-appointment and removal of external auditors, and approves the remuneration and terms of engagement of the external auditors.

The AC meets with the internal auditor and the external auditors separately, at least once a year, without the presence of the Management to review any matter that might be raised.

CORPORATE GOVERNANCE REPORT

The AC takes measures to keep abreast of the changes to accounting standards and issues which have a direct impact on financial statements, with training conducted by professionals or external consultants.

The AC noted that no non-audit services were extended by the external auditors during the year under review and is satisfied that the independence of the external auditors is not affected. No non-audit fees were paid to the external auditors. Details of the fees paid to the external auditors for the year ended 31 December 2016 are disclosed under Notes to the Financial Statements on page 60 of the Annual Report. Moore Stephens LLP is the external auditors of the Company and its PRC Subsidiaries for consolidation purposes. The AC recommends to the Board the re-appointment of Moore Stephens LLP as the external auditors of the Company at the forthcoming Annual General Meeting.

The Company has put in place a whistle-blowing policy endorsed by the AC, by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters with the AC. The objective for such arrangement is to ensure independent investigation of such matters and for appropriate follow-up action.

Internal Audit

Principle 13: The Company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The Group has appointed Messrs BDO LLP as its outsourced internal auditor since 2012. Messrs BDO LLP assists the Group in reviewing the adequacy and effectiveness of the Group's internal controls based on an annual internal audit plan that covers applicable financial, operational, compliance and information technology controls. As part of the internal audits, they also provide recommendations to the AC and the Board to address any weaknesses in its internal controls.

Messrs BDO LLP will perform annual internal audit planning in consultation with, but independent of, the Management. The internal audit plan is submitted to the AC for approval prior to the commencement of the internal audit work. In addition, the internal auditor may be involved in ad hoc projects initiated by the Management which require the assurance of the internal auditor in specific areas of concerns. Messrs BDO LLP is provided with access to the Company's properties, information and records and performs their reviews in accordance with the BDO Global IA methodology which is consistent with the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors. As the Group's outsourced internal auditors, Messrs BDO LLP is required to provide staff of adequate expertise and experience to conduct the internal audits.

Messrs BDO LLP reports to the AC on internal audit matters and reports administratively to the Executive Director. The AC also reviews and approves the annual internal audit plans and resources to ensure that Messrs BDO LLP has the necessary resources to adequately perform its functions.

(D) SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Shareholder Rights

Principle 14 : Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

The Company recognizes the importance of maintaining transparency and accountability to its shareholders. The Board ensures that all the Company's shareholders are treated equitably and the rights of all investors, including non-controlling shareholders are protected.

The Company is committed to providing shareholders with adequate, timely and sufficient information pertaining to changes in the Group's business which could have a material impact on the Company's share price.

CORPORATE GOVERNANCE REPORT

The Company strongly encourages shareholder participation during the AGM which will be held in a convenient location in Singapore. Shareholders are able to proactively engage the Board and the Management on the Group's business activities, financial performance and other business related matters.

Communication with Shareholders

Principle 15 : Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Company believes that a high standard of disclosure is key to raising the level of corporate governance. Quarterly results are published through the SGXNET and news releases. All information of the Company's new initiatives is disseminated via SGXNET.

The Company does not practise selective disclosure. Price sensitive information is publicly released and results and annual reports are announced or issued within the mandatory period. All shareholders of the Company receive the annual report and notice of AGM. The notice of AGM is also advertised in the newspapers.

The Company does not have a fixed dividend policy. The form, frequency and amount of dividends will depend on the Company's earnings, general financial condition, results of operations, capital requirements, cash flow, general business condition, development plans and other factors as the Directors may deem appropriate. Notwithstanding the foregoing, any pay-out of dividends would be clearly communicated to Shareholders via announcements released on SGXNET. No dividends shall be paid to the shareholders for the financial year ended 31 December 2016.

Conduct of Shareholder Meetings

Principle 16 : Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

The Company welcomes the views of the shareholders on matters concerning the Company and encourages shareholders' participation at the AGM. The chairmen of the AC, the NC and the RC of the Company will be present at the general meetings to answer questions from the shareholders. The external auditors will also be present to assist the Directors in addressing any relevant queries by shareholders.

Each item of special business included in the notice of the meeting is accompanied, where appropriate, by an explanation for the proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting. To have greater transparency in the voting process, the Company has adopted the voting of all its resolutions by poll at its general meetings. The detailed voting results of each of the resolutions tabled will be announced immediately at the meeting. The total numbers of votes cast for or against the resolutions will be also announced after the meeting via SGXNET.

The Company Secretary, with the assistance of his representative, prepares minutes of shareholders' meetings, which incorporates substantial comments or queries from shareholders and responses from the Board and the Management. These minutes are available to shareholders upon request.

(E) DEALINGS IN SECURITIES

The Company has issued a guideline on share dealings to all Directors and officers of the Group which sets out the code of conduct on transactions in the Company's shares by these persons, the implications of insider trading and general guidance on the prohibition against such dealings, to be in line with Listing Rule 1207(19) issued by the SGX-ST.

CORPORATE GOVERNANCE REPORT

The Company's code provides that the Company and its Directors and officers are prohibited from dealing in the securities of the Company during the periods commencing one month before the announcement of the Company's full-year results and two weeks before the Company's quarterly results until after the announcement. They are also discouraged from dealing in the Company's shares on short term considerations.

The Board confirms that for the financial year ended 31 December 2016, the Company has complied with Listing Rule 1207(19).

(F) INTERESTED PERSON TRANSACTIONS

As a listed company on the SGX-ST, the Company is required to comply with Chapter 9 of the Listing Manual of the SGX-ST on interested person transactions. To ensure compliance with Chapter 9, the Company has taken the following steps:

- The Board meets to review if the Company will be entering into any interested person transaction. If the Company intends to enter into an interested person transaction, the Board of Directors will ensure that the Company complies with the requisite rules under Chapter 9.
- The AC has met and will meet regularly to review if the Company will be entering into an interested person transaction, and if so, the AC ensures that the relevant rules under Chapter 9 are complied with.

For the financial year ended 31 December 2016, the following interested person transaction had been carried out:-

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted during the financial year under review under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
Chen Yi	571,000*	NIL

* Ms Chen Yi, daughter of Mr. Chen Xizhong (our Company's Executive Chairman, Director and controlling shareholder), has 45% of the shareholding interest in Anhui Sanda Textile Technology Co. Ltd, which the Group had leased its Anhui facility to, since 1 June 2014 and had ceased on 31 December 2016. The aggregate amount of lease rental collected by the Group to-date had been rounded up to the nearest thousand.

A loan from a Director, Mr. Chen Xizhong, amounting to RMB6.0 million was still outstanding as at 31 December 2016. The loan is unsecured, interest-free, and is for the benefit of the Group's operational cashflow. The loan is repayable within 6 months of any notice of demand for repayment from the lender.

The AC of the Company is of the view that the transaction which is interest free and other than that is on normal commercial terms, is not prejudicial to the interests of the Company and its minority shareholders.

(G) MATERIAL CONTRACTS

To the best of the Board's knowledge, there were no material contracts involving the interest of the Group Directors, controlling shareholders nor their subsidiaries either as at 31 December 2016 or since the end of the previous financial year.

CORPORATE GOVERNANCE REPORT

(H) USE OF PLACEMENT PROCEEDS

As at date of this report, the following table sets out the breakdown on the use of proceeds from the placement:

Purpose of Proceeds (S\$'000)	Amount allocated	Amount transferred	Amount utilised	Balance	% used
Due Diligence for the Proposed Acquisition	306	–	(160)	146	52%
Costs and expenses (including professional fees) to be incurred for the Proposed Acquisition ⁽¹⁾	1,222	(1,082)	(140)	–	100%
Listing (share issue) expenses *	60	7	(67)	–	100%
General working capital **	–	1,075	(749) ^{***}	326	70%
	1,588	–	(1,116)	472	70%

* S\$7,000.00 out of the amount allocated for costs and expenses to be incurred for the Proposed Acquisition has been re-allocated to listing (share issue) expenses.

** S\$1,075,000.00 out of the amount allocated for costs and expenses to be incurred for the Proposed Acquisition has been re-allocated to general working capital on 14 December 2016, after termination of the Proposed Acquisition.

*** These amounts were paid subsequent to the financial year end and mainly relation to payments of accrued salaries, directors' fees, professional fees and continual listing expenses.

⁽¹⁾ Details of the Proposed Acquisition can be found in the Company's announcement released on 16 February 2016, and its subsequent termination in the announcement released on 7 December 2016.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2016

The directors of the Company present their statement to the members together with the audited consolidated financial statements of Dapai International Holdings Co. Ltd. (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2016 and the statement of financial position of the Company as at 31 December 2016.

In the opinion of the Board of Directors:

- (a) the consolidated financial statements of the Group and the statement of financial position of the Company together with the notes thereon, as set out on pages 37 to 85, are drawn up so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year then ended; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Group and the Company will be able to pay its debts as and when they fall due as disclosed in Note 2(b) to the financial statements.

1 Directors

The directors of the Company in office at the date of this statement are as follows:

Chen Xizhong	(Executive Director)
Fong Pin Jan*	(Non-executive Director)(Appointed on 1 March 2016)
Tan Chade Phang	(Independent Director)(Appointed on 1 March 2016)
Hu Jirong	(Independent Director)

* Re-designated as Independent Director on 24 February 2017

2 Arrangements to Enable Directors to Acquire Shares or Debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

3 Directors' Interests in Shares or Debentures

The following directors, who held office at the end of the financial year, had an interest in shares of the Company, or of related corporations (other than wholly owned subsidiaries), as stated below:

Name of director and company in which interests are held	Holdings registered in name of director		Holdings in which a director is deemed to have an interest	
	At 1.1.16/ At date of appointment, if later	At 31.12.16	At 1.1.16/ At date of appointment, if later	At 31.12.16
The Company				
<u>No. of ordinary shares of S\$0.001 each</u>				
Chen Xizhong	14,100,000	14,100,000	507,000,000*	507,000,000*

* Capital Line Investment Limited is an investment holding company incorporated in the British Virgin Islands and is wholly beneficially owned by Mr Chen Xizhong. As such, Mr Chen Xizhong is deemed to have an interest in the shares held by Capital Line Investment Limited in the Company.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2016

3 Directors' Interests in Shares or Debentures (cont'd)

There was no change in the above-mentioned director's interests between the end of the financial year and 21 January 2017.

Except for disclosed in this statement, no director who held office at the end of the financial year had interests in shares or debentures of the Company, or of related corporations, either at the beginning of the financial year, or date of appointment, if later or at the end of the financial year.

4 Share Options

Options Granted

During the financial year, there were no share options granted by the Company or its subsidiaries.

Options Exercised

During the financial year, there were no shares issued by virtue of the exercise of options to take up unissued shares of the Company or its subsidiaries.

Options Outstanding

At the end of the financial year, there were no unissued shares of the Company or its subsidiaries under option.

5 Audit Committee

The Audit Committee ("AC") comprises all independent directors. The members of the AC at the date of this report are as follows:

Tan Chade Phang (Chairman) (Appointed on 4 April 2016)
Fong Pin Jan
Hu Jirong

DIRECTORS' STATEMENT

For the financial year ended 31 December 2016

5 Audit Committee (cont'd)

The AC has performed the functions set out in the SGX Listing Manual and the Code of Corporate Governance, including reviewing the following:

- Overall scope of both the internal and external audits and the assistance given by the Company's officers to the auditors. The AC also met with the Company's external auditors to discuss the results of their examinations and their evaluations of the Company's system of internal accounting controls relevant to the entity's preparation and fair presentation of financial statements;
- The quarterly financial information and the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2016 as well as the auditor's report thereon; and
- Interested person transactions (as defined in Chapter 9 of the SGX Listing Manual).

The AC has full access to the management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The AC also recommends the re-appointment of the external auditors and reviews the level of audit and non-audit fees.

The AC is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors the nomination of Moore Stephens LLP for re-appointment as external auditors of the Company at the forthcoming Annual General Meeting of the Company.

6 Independent Auditors

The auditors, Moore Stephens LLP, have expressed their willingness to accept re-appointment.

On behalf of the Board of Directors,

.....
CHEN XIZHONG
Director

.....
TAN CHADE PHANG
Director

7 April 2017

INDEPENDENT AUDITORS' REPORT

To the members of Dapai International Holdings Co. Ltd.
(Incorporated in Bermuda)

Report on the Audit of the Financial Statements

We were engaged to audit the financial statements of Dapai International Holdings Co. Ltd. (the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2016 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group and the statement of financial position of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

(1) *Recoverability of Trade Receivables Due From a Customer*

As disclosed in Note 29(a) to the financial statements, the Group has trade receivables due from a customer which are past due but not impaired amounting to RMB38,447,000 as at 31 December 2016. Management is of the view that no allowance for impairment is necessary. However, we were not able to obtain sufficient appropriate audit evidence to support the management's view in this regard. We were not able to perform alternative audit procedures to ascertain the recoverability of these trade receivables amounts. Consequently, we were unable to determine whether any adjustments to these trade receivables amounting to RMB38,447,000 as at 31 December 2016 were necessary.

(2) *Independent Review Relating to Certain Transactions Concerning the Group (the "Allegations")*

During the financial year ended 31 December 2016, the Audit Committee, together with the Board of the Directors of the Company (the "Board"), had engaged an independent professional firm to undertake an Agreed-Upon Procedure ("AUP") engagement to provide findings as to the validity of the Allegations, as described in Note 31 to the financial statements. On 14 December 2016, the Company released the AUP Report from the independent professional firm, which stated amongst others, that the independent professional firm was not able to fully verify whether the Allegations are valid.

The Audit Committee, together with the Board, has therefore engaged another independent professional firm to undertake a further review which include following up on the outstanding matters arising from the AUP Report (the "Subsequent Review"). As at the date of this report, there were no further updates from the Subsequent Review. Consequently, we are unable to determine whether any further significant findings or adjustments that may arise from the Subsequent Review which may have an impact on the financial statements of the Group.

INDEPENDENT AUDITORS' REPORT

To the members of Dapai International Holdings Co. Ltd.
(Incorporated in Bermuda)

(cont'd)

Basis for Disclaimer of Opinion (cont'd)

(3) Appropriateness of Going Concern Assumption

As disclosed in Note 2(b) to the financial statements, the Group has incurred a net loss and total comprehensive loss of RMB140,251,000 and net cash used in operating activities amounting to RMB5,457,000 for the financial year ended 31 December 2016. As at 31 December 2016, the Group's current liabilities exceeded its current assets by RMB118,086,000 and the Company's current liabilities exceeded its current assets by RMB5,513,000. Further, the Group has bank borrowings amounting to RMB204,090,000 that are due within the next twelve months from 31 December 2016. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Company to continue as going concerns and to realise their assets and discharge their liabilities in the ordinary course of business.

Notwithstanding the above, the management believes that the use of the going concern assumption in the preparation and presentation of the financial statements for the financial year ended 31 December 2016 is appropriate after taking into consideration the following factors:

- (i) Management will continue to monitor the costs of the Group closely and seek to improve profitability and generate positive cash flows from its operations. Management has also prepared a cash flow projection that shows the Group will have adequate working capital for its operations for the next twelve months from 31 December 2016 and to meet its obligations as and when they fall due.
- (ii) The Group continues to maintain its credit facilities with the financial institutions and, subject to the financial institutions' approval, to renew or roll over its short-term borrowings when they fall due and/or the extension of additional credit facilities. As at 31 December 2016, the Group has unutilised credit facilities amounting to approximately RMB54,940,000 with its principal bankers.
- (iii) Management is presently evaluating various strategies to diversify the Group's business activities so as to provide new sources of revenue and to generate positive cash flows for the Group. These strategies include, *inter alia*, obtaining alternative sources of funds.

In the event the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to the financial statements to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ from the amounts at which they are currently recorded in the statement of financial position. In addition, the Group and the Company may have to provide for further liabilities which may arise, and to reclassify non-current assets as current assets. No such adjustments have been made to these financial statements.

INDEPENDENT AUDITORS' REPORT

To the members of Dapai International Holdings Co. Ltd.
(Incorporated in Bermuda)

Other Matter

This report has been prepared for and only for you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards in Singapore ("FRSs"), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the consolidated financial statements of the Group and the statement of financial position of the Company in accordance with Singapore Standards on Auditing ("SSAs") and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

The engagement partner on the audit resulting in this independent auditor's report is Mr Ng Chiou Gee Willy.

Moore Stephens LLP

Public Accountants and
Chartered Accountants

Singapore
7 April 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2016

		Group	
	Note	2016 RMB'000	2015 RMB'000
Revenue	5	146,189	217,318
Cost of sales		(138,607)	(167,553)
Gross profit		7,582	49,765
Other income	6	3,864	3,686
Selling and distribution expenses		(6,580)	(4,840)
Administrative expenses		(61,533)	(29,467)
Other expenses – Exceptional expenses	7	(71,748)	–
Finance costs	8	(11,170)	(13,127)
(Loss)/Profit before income tax	9	(139,585)	6,017
Income tax	11	(666)	(1,160)
(Loss)/Profit for the year		(140,251)	4,857
Other comprehensive income		–	–
Total comprehensive (loss)/income for the year attributable to owners of the Company		(140,251)	4,857
(Loss)/Earnings per share (RMB cents)			
Basic and diluted	12	(12.41)	0.49

The accompanying notes form an integral part of these financial statements

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2016

		Group		Company	
	Note	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
ASSETS					
Non-current assets					
Land use rights	13	25,124	25,718	–	–
Intangible assets	14	33	59	–	–
Property, plant and equipment	15	66,047	159,183	–	–
Investment properties	16	35,309	30,321	–	–
Investments in subsidiaries	17	–	–	13,924	100,506
Total Non-current Assets		126,513	215,281	13,924	100,506
Current assets					
Inventories	18	28,106	65,636	–	–
Trade and other receivables	19	62,915	64,028	–	–
Cash and bank balances	20	16,061	6,161	6,447	153
Total Current Assets		107,082	135,825	6,447	153
Total Assets		233,595	351,106	20,371	100,659
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	21	5,998	5,042	5,998	5,042
Reserves	22	2,429	136,304	2,413	88,348
Total Equity		8,427	141,346	8,411	93,390
Current liabilities					
Trade and other payables	23	15,053	16,322	5,935	3,456
Loans from a director	24	6,025	3,813	6,025	3,813
Bank borrowings	25	204,090	189,341	–	–
Income tax payable		–	284	–	–
Total Current Liabilities		225,168	209,760	11,960	7,269
Total Liabilities		225,168	209,760	11,960	7,269
Total Equity and Liabilities		233,595	351,106	20,371	100,659

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 December 2016

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Group						
Balance as at 1 January 2016	5,042	475,527	65,939	166,883	(572,045)	141,346
Issue of ordinary shares (Note 21)	956	6,376	–	–	–	7,332
(Loss) for the year	–	–	–	–	(140,251)	(140,251)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive (loss) for the year	–	–	–	–	(140,251)	(140,251)
Balance as at 31 December 2016	5,998	481,903	65,939	166,883	(712,296)	8,427
Balance as at 1 January 2015	5,042	475,527	65,939	166,883	(576,902)	136,489
Profit for the year	–	–	–	–	4,857	4,857
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	4,857	4,857
Balance as at 31 December 2015	5,042	475,527	65,939	166,883	(572,045)	141,346

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2016

	Group	
	2016 RMB'000	2015 RMB'000
Cash Flows from Operating Activities		
(Loss)/Profit before income tax	(139,585)	6,017
Adjustments for:		
Depreciation of property, plant and equipment	12,799	13,529
Depreciation of investment property	1,692	1,692
Amortisation of land use rights	594	594
Amortisation of intangible assets	26	28
Loss on disposal of property, plant and equipment	157	–
Impairment of property, plant and equipment	54,265	–
Impairment of investment properties	17,483	–
Allowance for impairment loss on trade and other receivables	29,978	–
Interest income	(482)	(302)
Interest expense	11,170	13,127
Operating cash flows before working capital changes	(11,903)	34,685
Changes in working capital:		
Inventories	37,530	(16,105)
Trade and other receivables	(28,865)	17,358
Trade and other payables	(1,269)	(7,091)
Cash (used in)/generated from operating activities	(4,507)	28,847
Income tax paid	(950)	(1,531)
Net cash (used in)/generated from operating activities	(5,457)	27,316
Cash Flows from Investing Activities		
Purchase of plant and equipment	(84)	(797)
Acquisition of short term investment	–	(6,000)
Proceeds from disposal of short term investment	–	6,000
Proceeds from disposal of plant and equipment	1,836	–
Interest received	482	302
Net cash generated from/(used in) investing activities	2,234	(495)
Cash Flows from Financing Activities		
Proceeds from issuance of shares	7,332	–
Proceeds from bank borrowings	247,644	211,437
Repayment of bank borrowings	(232,895)	(248,474)
Increase in loans from a director	2,212	3,813
Decrease in loans from a director	–	(11,229)
(Increase)/Decrease in bank deposit pledged	(6,442)	3,100
Interest paid	(11,170)	(13,127)
Net cash generated from/(used in) financing activities	6,681	(54,480)
Net increase/(decrease) in cash and cash equivalents	3,458	(27,659)
Cash and cash equivalents at the beginning of the year	6,161	33,820
Cash and cash equivalents at the end of the year (Note 20)	9,619	6,161

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

These notes form an integral part of and should be read in conjunction with the accompanying financial statements:

1 General

Dapai International Holdings Co. Ltd. (the “Company”) is incorporated in Bermuda as an exempt company with limited liability and is listed on the Mainboard of the Singapore Exchange Securities Limited (“SGX-ST”). The address of the Company’s registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business is at High Technology Zone of Fengze District, Quanzhou City, Fujian Province, the People’s Republic of China (“PRC”).

The immediate and ultimate holding company of the Company is Capital Line Investment Limited, incorporated in the British Virgin Islands. Capital Line Investment Limited is wholly beneficially owned by Mr Chen Xizhong, the Executive Director of the Company.

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are disclosed in Note 17.

The financial statements for the financial year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on the date of the Directors’ Statement.

2 Basis of Preparation

The consolidated financial statements of the Group and the statement of financial position of the Company have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”). These financial statements have been prepared on the historical cost basis, except as disclosed in the accounting policies below.

(a) Application of New/Revised FRS

Application of New/Revised FRS that are effective

The accounting policies adopted are consistent with those of the previous financial year except that, in the current financial year, the Group has applied the following issued new/revised FRS that are mandatorily effective for the said year and relevant to the Group:

Amendments to FRS 1 *Presentation of Financial Statements: Disclosure Initiative*

The amendments clarify that an entity need not provide a specific disclosure required by an FRS the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirement in FRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity’s financial position and financial performance.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2 Basis of Preparation (cont'd)

(a) Application of New/Revised FRS (cont'd)

Application of New/Revised FRS that are effective (cont'd)

Amendments to FRS 1 Presentation of Financial Statements: Disclosure Initiative (cont'd)

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items, that in accordance with other FRSs (i) will not be reclassified subsequently to profit or loss and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendment provides examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance of the Group or financial positions of the Group and the Company.

Amendments to FRS 27 Equity Method in Separate Financial Statements

FRS 27 requires an entity to account for its investments in subsidiaries, joint ventures and associates either at cost or in accordance with FRS 39 (or FRS 109 when effective). The amendments allow an additional option for an entity to account for these investees in its separate financial statements using the equity method as described in FRS 28. The accounting option must be applied by category of investments.

The application of these amendments has not resulted in any impact on the financial performance of the Group or financial positions of the Group and the Company.

Amendments to FRS 107 Financial Instruments: Disclosures

The amendments provides additional guidance to clarify whether a servicing contract results in continuing involvement in a transferred asset for the purpose of determining the disclosures required.

The application of these amendments has not resulted in any impact on the financial performance of the Group or financial positions of the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2 Basis of Preparation (cont'd)

(a) Application of New/Revised FRS (cont'd)

New/Revised FRS in issue but not yet effective

At the date of these financial statements, the following new/revised FRS that are relevant to the Group have been issued but are not yet effective:

Description		Effective for annual periods beginning on or after
Amendments to FRS 7	<i>Statements of Cash Flow</i>	1 January 2017
Amendments to FRS 12	<i>Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017
FRS 109	<i>Financial Instruments</i>	1 January 2018
FRS 115	<i>Revenue from Contracts with Customers</i>	1 January 2018
FRS116	<i>Leases</i>	1 January 2019

Except for FRS 109, FRS 115 and FRS 116 described below, management anticipates that the adoption of the other new/revised FRS above in future periods will have no material impact on the financial statements in the period of initial application.

FRS 109 *Financial Instruments*

FRS 109 was introduced to replace FRS 39 *Financial Instruments: Recognition and Measurement*. FRS 109 changes the classification and measurement requirements for financial assets and liabilities, and also introduces a three-stage impairment model that will impair financial assets based on expected losses regardless of whether objective indicators of impairment have occurred. FRS 109 also provides a simplified hedge accounting model that will align more closely with companies' risk management strategies. FRS 109 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Retrospective application is generally required, except that hedge accounting requirements are, with limited exemptions, applied prospectively. Comparative information need not be restated.

The Group is currently evaluating the new standard and assessing the impact of the application of FRS 109 on the financial statements. The Group plans to apply the new standard on the required effective date.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2 Basis of Preparation (cont'd)

(a) Application of New/Revised FRS (cont'd)

New/Revised FRS in issue but not yet effective (cont'd)

FRS 115 *Revenue from Contracts with Customers*

FRS 115 sets out the requirements for recognising revenue that apply to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments). FRS 115 replaces the previous revenue standards, FRS 18 *Revenue* and FRS 11 *Construction Contracts*, and the related interpretations on revenue recognition, INT FRS 115 *Agreements for the Construction of Real Estate*, INT FRS 118 *Transfers of Assets from Customers*, and INT FRS 31 *Revenue – Barter Transactions Involving Advertising Services*.

FRS 115 establishes a five-step model that will apply to revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in FRS 115 provide a more structured approach to measuring and recognising revenue when the promised goods and services are transferred to the customer i.e. when performance obligations are satisfied. Key issues to consider include identifying performance obligations, accounting for contract modifications, applying the constraint to variable consideration, evaluating significant financing components, measuring progress toward satisfaction of a performance obligation, recognising contract cost assets and addressing disclosure requirements.

The Group is currently evaluating the new standard and assessing the impact of the application of FRS 115 on the financial statements. The Group plans to apply the new standard on the required effective date.

FRS 116 *Leases*

FRS 116 sets out a revised framework for the recognition, measurement, presentation and disclosure of leases, and replaces FRS 17 *Leases*, INT FRS 104 *Determining whether an Arrangement contains a Lease*, INT FRS 15 *Operating Leases – Incentives*; and INT FRS 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. FRS 116 requires lessees to recognise right-of-use assets and lease liabilities for all leases with a term of more than twelve months, except where the underlying asset is of low value. The right-of-use asset is depreciated and interest expense is recognised on the lease liability. The accounting requirements for lessors have not been changed substantially, and continue to be based on classification as operating and finance leases. Disclosure requirements have been enhanced for both lessors and lessees. FRS 116 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted for companies but only if it also apply FRS 115 *Revenue from Contracts with Customers* at or before the date of initial application of FRS 116.

The Group is currently evaluating the new standard and assessing the impact of the application of FRS 116 on the financial statements. The Group plans to apply the new standard on the required effective date.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

2 Basis of Preparation (cont'd)

(b) Going Concern Assumption

The Group has incurred a net loss and total comprehensive loss of RMB140,251,000 and a net cash used in operating activities amounting to RMB5,457,000 for the financial year ended 31 December 2016. As at 31 December 2016, the Group's current liabilities exceeded its current assets by RMB118,086,000 and the Company's current liabilities exceeded its current assets by RMB5,513,000. Further, the Group has bank borrowings amounting to RMB204,090,000 that are due within the next twelve months from 31 December 2016. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Company to continue as going concerns and to realise their assets and discharge their liabilities in the ordinary course of business.

Notwithstanding the above, the management believes that the use of the going concern assumption in the preparation and presentation of the financial statements for the financial year ended 31 December 2016 is appropriate after taking into consideration the following factors:

- (i) Management will continue to monitor the costs of the Group closely and seek to improve profitability and generate positive cash flows from its operations. Management has also prepared a cash flow projection that shows the Group will have adequate working capital for its operations for the next twelve months from 31 December 2016 and to meet its obligations as and when they fall due.
- (ii) The Group continues to maintain its credit facilities with the financial institutions and, subject to the financial institutions' approval, to renew or roll over its short-term borrowings when they fall due and/or the extension of additional credit facilities. As at 31 December 2016, the Group has unutilised credit facilities amounting to approximately RMB54,940,000 with its principal bankers.
- (iii) Management is presently evaluating various strategies to diversify the Group's business activities so as to provide new sources of revenue and to generate positive cash flows for the Group. These strategies include, *inter alia*, obtaining alternative sources of funds.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to the financial statements to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ from the amounts at which they are currently recorded in the statement of financial position. In addition, the Group and the Company may have to provide for further liabilities which may arise, and to reclassify non-current assets as current assets. No such adjustments have been made to these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Summary of Significant Accounting Policies

(a) Consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Summary of Significant Accounting Policies (cont'd)

(a) Consolidation (cont'd)

Subsidiaries (cont'd)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred by the Group to the former owners of the acquiree, and equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. The subsequent accounting for changes in the fair value of the contingent consideration depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value, with changes in fair value recognised in profit or loss.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable FRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 39, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Summary of Significant Accounting Policies (cont'd)

(b) Land Use Rights

Land use rights are measured initially at cost. Subsequent to initial recognition, prepaid leases are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line method to profit and loss over the lease period of the land use rights, which is 50 years. The amortisation period and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

(c) Intangible Assets

Trademark

Trademarks acquired are measured initially at cost and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line method to profit or loss over 10 years, whichever is the shorter of their estimated useful lives and periods of contractual rights. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the trademarks are accounted for by changing the amortisation period or method, as appropriate. The effects of any revision are recognised in profit or loss when the changes arise.

Computer software

Acquired computer software, which is not an integral part of related hardware, is initially capitalised at cost which includes the purchase price (net of any discounts and rebates) and other directly attributable costs of preparing the asset for its intended use. Costs associated with maintaining the computer software are recognised as an expense when incurred.

Computer software is subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line method to profit or loss over their estimated useful lives of 10 years. The amortisation period and amortisation methods are reviewed at each year end. The effects of any revision are recognised in profit or loss when the changes arise.

(d) Property, Plant and Equipment

Measurement

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Summary of Significant Accounting Policies (cont'd)

(d) Property, Plant and Equipment (cont'd)

Depreciation

Depreciation is charged so as to write off the cost of assets less their residual values (if any) over their useful lives, using the straight-line method, on the following bases:

Buildings	10 to 30 years
Plant and machinery	3 to 10 years
Furniture, fixtures and office equipment	3 to 10 years
Motor vehicles	4 to 10 years

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amounts of the replaced components are recognised in profit or loss. All other costs of maintenance, repairs and minor improvements are recognised in profit or loss when incurred.

Disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the asset is derecognised.

(e) Investment Properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are measured initially at cost. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is charged so as to write off the cost of the assets less their residual value (if any) over their useful lives, using the straight-line method, of 20 years. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised and the carrying amounts of the replaced components are recognised in profit or loss. All other costs of maintenance, repairs and minor improvements are recognised in profit or loss when incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Summary of Significant Accounting Policies (cont'd)

(e) Investment Properties (cont'd)

An investment property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on the disposal or retirement of the property is determined as the difference between the sales proceeds and the carrying amount of the property and is included in profit or loss in the period in which the property is derecognised.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of retirement or disposal.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on remeasurement is recognised in profit or loss to the extent it reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognised immediately in profit or loss.

When the property is sold, the related amount in the revaluation reserve is transferred to retained earnings.

(f) Investments in Subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the statement of financial position of the Company.

On disposal of investments in subsidiaries, the difference between the net disposal proceeds and the carrying amount of the investments are recognised in profit or loss.

(g) Impairment of Non-Financial Assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Summary of Significant Accounting Policies (cont'd)

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. Allowance for stock obsolescence is made for obsolete and slow moving inventories

(i) Financial Assets

The Group classifies its financial assets as loans and receivables based on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than twelve months after the reporting date which are presented as non-current assets. Loans and receivables are presented as “trade and other receivables” and “cash and bank balances” on the statement of financial position.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the financial asset has expired, or has been transferred and transferred substantially all the risks and rewards of ownership of the financial asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is transferred to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Summary of Significant Accounting Policies (cont'd)

(i) Financial Assets (cont'd)

Initial measurement

Financial assets are initially recognised at fair value plus transaction costs.

Subsequent measurement

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

(j) Cash and Cash Equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, deposits and bank balances with financial institutions which are subject to an insignificant risk of change in value, less any restricted deposits.

(k) Financial Liabilities

The Group shall recognise a financial liability on its statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Summary of Significant Accounting Policies (cont'd)

(k) Financial Liabilities (cont'd)

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially measured at fair value, net of any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of borrowings and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integrated part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the borrowings, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(l) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

(m) Revenue Recognition

Revenue for the Group comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of business, net of value-added tax, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectibility of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

Sale of goods

Revenue on the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to the customer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Rental income

Rental income from operating lease (net of any incentives given to the lessees) is recognised on a straight-line basis over the lease term as set out in specific rental agreements.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Summary of Significant Accounting Policies (cont'd)

(n) Government Grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to that and the grants will be received. Government grants that are received for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they are received.

(o) Employee Benefits

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions to state-managed retirement benefit schemes on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

(p) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor - operating leases

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Contingent rents are recognised as an income in the period in which they are earned.

(q) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Summary of Significant Accounting Policies (cont'd)

(r) Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited outside profit or loss (either in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively), or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

3 Summary of Significant Accounting Policies (cont'd)

(s) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive personnel who are responsible for allocating resources and assessing performance of the operating segments.

(t) Foreign Currencies

Functional and presentation currency

The individual financial statements of each entity in the Group are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the statement of financial position of the Company are presented in Renminbi, and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Transactions and balances

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rate of exchange prevailing on the date of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

4 Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 3 above, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

4 Critical Accounting Judgments and Key Sources of Estimation Uncertainty (cont'd)

(a) Critical Judgments in Applying Accounting Policies

In addition to the going concern assumption disclosed in Note 2(b), the following are the critical judgements that the management has made in the process of applying the Group's accounting policies during the financial year that have the most significant effect on the amounts recognised in the financial statements:

Allowance for inventories

The Group reviews the ageing analysis of inventories at each reporting date, and makes allowance for obsolete and slow moving inventory items identified that are no longer suitable for sale. The net realisable value for such inventories are estimated based primarily on the latest invoice prices and current market conditions. Possible changes in these estimates could result in revisions to the valuation of inventories. Allowances are recorded against the inventories for any such decline based on historical obsolescence and slow-moving experiences.

During the financial year, no allowance for inventory obsolescence was recognised (2015: Nil) for inventories. The carrying amount of the Group's inventories as at 31 December 2016 was RMB28,106,000 (2015: RMB65,636,000) (Note 18).

Impairment of trade and other receivables

The Group assesses at each reporting date whether there is any objective evidence that a receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

An allowance is made for trade and other receivables, for estimated losses resulting from the subsequent inability of the customers to make required payments. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods. Management specifically analyses accounts receivables and analyses historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for impairment of receivables.

For the financial year ended 31 December 2016, the Group recognised an allowance for impairment loss of trade receivables and other receivables amounted to RMB16,154,000 and RMB13,824,000 (2015: Nil and Nil) respectively (Note 19). The carrying amount of the Group's trade and other receivables as at 31 December 2016 was RMB62,915,000 (2015: RMB64,028,000) as disclosed in Note 19.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

4 Critical Accounting Judgments and Key Sources of Estimation Uncertainty (cont'd)

(a) Critical Judgments in Applying Accounting Policies (cont'd)

Impairment of non-financial assets

The Group and the Company assess at each reporting date whether there is any indication that non-financial assets may be impaired. If any such indication exists, the Group and the Company estimate the recoverable amount of the assets in accordance with the accounting policy stated in Note 3(g). In assessing whether there is any indication that non-financial assets may be impaired, the Group and the Company consider indications from both internal and external sources of information such as evidence of obsolescence or decline in economic performance of the assets, changes in market conditions, economic environment and customers' tastes. These assessments are subjective and require management's judgments and estimations.

Further details are disclosed in Notes 15, 16 and 17.

(b) Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the financial year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Useful lives of property, plant and equipment, and investment properties

The costs of property, plant and equipment and investment properties are depreciated on a straight-line basis over the assets' estimated useful lives. Management estimates the useful lives of these property, plant and equipment and investment properties to be within 3 to 30 years. These are common life expectancies applied in these industries. Changes in the expected level of usage and technological developments could impact the economic useful lives of these assets. Hence, future depreciation charges could be revised.

The carrying amounts of the Group's property, plant and equipment and investment properties as at 31 December 2016 are disclosed in Notes 15 and 16, respectively.

If depreciation on property, plant and equipment and investment properties increases/decreases by 10% from management's estimates the Group's loss before income tax will increase/decrease by approximately RMB1,449,000 (2015: profit before income tax will decrease/increase by approximately RMB1,522,000).

5 Revenue

Revenue represents invoiced value of goods delivered less applicable value-added tax and after eliminating sales within the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

6 Other Income

	Group	
	2016	2015
	RMB'000	RMB'000
Rental income - investment property	2,744	2,744
Interest income on bank deposits	482	302
Government awards and subsidies	246	79
Sundry income	392	561
	3,864	3,686

7 Other Expenses – Exceptional Expenses

		Group	
	Note	2016	2015
		RMB'000	RMB'000
Allowance for impairment of property, plant and equipment	15	54,265	–
Allowance for impairment of investment properties	16	17,483	–
		71,748	–

8 Finance Costs

	Group	
	2016	2015
	RMB'000	RMB'000
Interest expense on bank loans	11,170	13,127

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

9 (Loss)/Profit before Income Tax

		Group	
	Note	2016 RMB'000	2015 RMB'000
(Loss)/Profit before income tax has been arrived at after charging:			
Allowance for impairment of trade receivables			
- Recognised in administrative expenses	19	16,154	–
Allowance for impairment of other receivables			
- Recognised in administrative expenses	19	13,824	–
Amortisation of land use rights			
- Recognised in administrative expenses	13	594	594
Amortisation of intangible assets			
- Recognised in administrative expenses	14	26	28
Audit fees paid/payable to			
- Company's auditors		701	650
- Other auditors		221	–
Depreciation of investment properties			
- Recognised in administrative expenses	16	1,692	1,692
Depreciation of property, plant and equipment			
- Recognised in cost of sales		4,565	5,924
- Recognised in administrative expenses		8,234	7,605
	15	12,799	13,529
Employee benefits			
- cost of sales		13,466	22,630
- selling and distribution expenses		1,307	2,355
- administrative expenses		12,183	13,661
	10	26,956	38,646
Loss on disposal of plant and equipment			
- administrative expenses		157	–
Sale discounts			
- cost of sales		5,735	–

There were no non-audit fees paid/payable to the Company's auditors during the financial year ended 31 December 2016 (2015: Nil).

10 Employee Benefits

	Group	
	2016 RMB'000	2015 RMB'000
Wages, salaries and bonuses	21,452	28,345
Defined contribution plans	5,150	7,516
Other social expenses	354	2,785
	26,956	38,646

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

11 Income Tax

	Group	
	2016	2015
	RMB'000	RMB'000
Current income tax:		
- Current year	584	615
- Under provision in prior years	82	545
	666	1,160

A reconciliation of income tax expense and result before income tax multiplied by the applicable tax rate is as follows:

	Group	
	2016	2015
	RMB'000	RMB'000
(Loss)/Profit before income tax	(139,585)	6,017
Tax at the applicable tax rate	(34,896)	1,504
Non-deductible expenses	35,663	1,735
Non-taxable income	(183)	(183)
Utilisation of deferred tax benefits previously not recognised	-	(2,441)
Under provision in prior years	82	545
	666	1,160

The applicable tax rate used for the reconciliation above is the PRC income tax rate of 25% (2015: 25%) as the Group's principal operations are conducted in the PRC. The remaining entities of the Group operating in other jurisdictions have either no taxable profits or are exempted.

The non-deductible expenses mainly relate to the sale discounts given on the Group's products and the various impairment losses recognised (Notes 7 and 9), which were deemed as non-deductible for tax purposes.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

12 (Loss)/Earnings Per Share

The (loss)/earnings per share is calculated on the Group's loss for the year of approximately RMB140,251,000 (2015: profit for the year of RMB4,857,000) divided by the weighted average number of ordinary shares of approximately 1,129,806,000 (2015: 992,250,000) in issue during the financial year.

Diluted (loss)/earnings per share is the same as basic (loss)/earnings per share as there were no dilutive potential ordinary shares outstanding as at 31 December 2016 and 2015.

13 Land Use Rights

	Group	
	2016 RMB'000	2015 RMB'000
<u>Cost</u>		
At 1 January and 31 December	159,880	159,880
<u>Accumulated amortisation and impairment losses</u>		
At 1 January	(134,162)	(133,568)
Amortisation for the year (Note 9)	(594)	(594)
At 31 December	(134,756)	(134,162)
<u>Net book value</u>		
At 31 December	25,124	25,718

Land use rights represent leasehold interests in land, of which two are located in Fujian province and one in Anhui province in the PRC.

The Group's land use rights with an aggregate carrying amount of approximately RMB14,736,000 (2015: RMB15,097,000) are pledged as security for the Group's banking facilities as disclosed in Note 25.

During the financial year ended 31 December 2016, certain of the Group's subsidiaries in the PRC continued to incur operating losses mainly resulting from the deteriorating market demand of the Group's products amongst others. This has caused management to assess the recoverable amounts of the land use rights of these operations as at the statement of financial position date. Based on management's assessment, no allowance of impairment is required as at 31 December 2016 (2015: Nil). Further details are disclosed in Note 15.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

14 Intangible Assets

	Trademark RMB'000	Computer software RMB'000	Total RMB'000
Group			
2016			
<u>Cost</u>			
At 1 January and 31 December	268	11	279
<u>Accumulated amortisation</u>			
At 1 January	(209)	(11)	(220)
Amortisation for the year	(26)	–	(26)
At 31 December	(235)	(11)	(246)
<u>Net book value</u>			
At 31 December	33	–	33
2015			
<u>Cost</u>			
At 1 January and 31 December	268	11	279
<u>Accumulated amortisation</u>			
At 1 January	(182)	(10)	(192)
Amortisation for the year	(27)	(1)	(28)
At 31 December	(209)	(11)	(220)
<u>Net book value</u>			
At 31 December	59	–	59

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

15 Property, Plant and Equipment

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Group					
2016					
<u>Cost</u>					
At 1 January	342,656	34,503	33,758	1,797	412,714
Additions	–	84	–	–	84
Disposals	–	(3,354)	–	–	(3,354)
Written off	–	(866)	(88)	(781)	(1,735)
Transferred to investment properties (Note 16)	(99,466)	–	–	–	(99,466)
At 31 December	243,190	30,367	33,670	1,016	308,243
<u>Accumulated depreciation and impairment losses</u>					
At 1 January	(205,982)	(23,756)	(22,480)	(1,313)	(253,531)
Depreciation for the year	(9,742)	(1,785)	(1,132)	(140)	(12,799)
Impairment for the year	(51,850)	(181)	(2,218)	(16)	(54,265)
Disposals	–	1,361	–	–	1,361
Written off	–	866	88	781	1,735
Transferred to investment properties (Note 16)	75,303	–	–	–	75,303
At 31 December	(192,271)	(23,495)	(25,742)	(688)	(242,196)
<u>Net book value</u>					
At 31 December	50,919	6,872	7,928	328	66,047
2015					
<u>Cost</u>					
At 1 January	342,656	43,650	34,586	1,937	422,829
Additions	–	766	31	–	797
Written off	–	(9,913)	(859)	(140)	(10,912)
At 31 December	342,656	34,503	33,758	1,797	412,714
<u>Accumulated depreciation and impairment losses</u>					
At 1 January	(196,240)	(31,439)	(22,052)	(1,183)	(250,914)
Depreciation for the year	(9,742)	(2,230)	(1,287)	(270)	(13,529)
Written off	–	9,913	859	140	10,912
At 31 December	(205,982)	(23,756)	(22,480)	(1,313)	(253,531)
<u>Net book value</u>					
At 31 December	136,674	10,747	11,278	484	159,183

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

15 Property, Plant and Equipment (cont'd)

Assets pledged as security

Certain property, plant and equipment with an aggregate carrying amount of approximately RMB50,920,000 (2015: RMB97,019,000) are pledged as security for the banking facilities granted to the Group as disclosed in Note 25.

Impairment loss

During the financial year ended 31 December 2016, certain of the Group's subsidiaries in the PRC continued to incur operating losses mainly resulting from the deteriorating market demand of the Group's products amongst others. This has caused management to assess the recoverable amounts of the land use rights and property, plant and equipment of these operations as at the statement of financial position date. Accordingly, the Group engaged a firm of independent valuers to determine the fair value of the Group's land use rights and property, plant and equipment as at 31 December 2016, whose reports dated 10 March 2017, reported the following:

	Carrying amount RMB'000	Fair value RMB'000	Impairment RMB'000
Land use rights ⁽¹⁾ (Note 13)	25,124	72,000	–
Property, plant and equipment			
- Buildings ⁽²⁾	126,932	75,082	51,850
- Plant and machinery ⁽²⁾	7,053	6,872	181
- Furniture, fixtures and office equipment ⁽²⁾	10,146	7,928	2,218
- Motor vehicles ⁽²⁾	344	328	16
	144,475	90,210	54,265

⁽¹⁾ The fair value of the land use rights was determined based on the valuations carried out by an independent professional firm of valuers, Fuzhou Zhong Tian Ze Assets Valuation Co., Ltd ("Zhong Tian Ze"), using the Market Value method. Market Value method is based on the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion. Market Value for existing use is further defined as the market value of an asset based on continuation of its existing use, and otherwise in keeping with the market value definition regardless of whether or not the existing use represents the highest and best use of the asset.

⁽²⁾ The fair value of the property, plant and equipment was determined based on the valuations carried out by an independent professional firm of valuers, Zhong Tian Ze, using the Replacement Cost method. Replacement Cost method is based on an estimate of the market value for the existing use of the Properties, plus the current cost of replacement of the improvements less deduction for physical deterioration and all relevant forms of obsolescence and optimisation. The valuation process takes into consideration the current construction costs budgets with references and comparisons to similar assets in and around the areas which the Group's property, plant and equipment are located.

Based on the above, the carrying amounts of the Group's property, plant and equipment were determined to be higher than its recoverable amounts, and accordingly, an allowance for impairment loss amounting to RMB54,265,000 (2015: Nil) was made as at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

16 Investment Properties

	Group	
	2016 RMB'000	2015 RMB'000
<u>Cost</u>		
At 1 January	208,061	208,061
Transferred from property, plant and equipment (Note 15)	24,163	–
At 31 December	232,224	208,061
<u>Accumulated depreciation and impairment losses</u>		
At 1 January	(177,740)	(176,048)
Depreciation for the year	(1,692)	(1,692)
Impairment for the year	(17,483)	–
At 31 December	(196,915)	(177,740)
<u>Net book value</u>		
At 31 December	35,309	30,321

Investment properties relate to the factory premises held by the Group under operating lease arrangements to earn rental income.

Rental income related to the investment properties amounted to approximately RMB2,744,000 (2015: RMB2,744,000) (Note 6) for the financial year ended 31 December 2016. Direct operating expenses arising from the investment properties that generated the rental income during the financial year were considered not material.

Lease of factory premises located at Huian County, Fujian Province, PRC

On 20 December 2016, the Group entered into a factory lease agreement with a third party to lease out its factory premises located at Chengbei Industrial Park, Luo Cheng Town, Huian County, Quanzhou City, Fujian Province, PRC. Accordingly, the carrying amount of the factory premises was transferred to investment properties as at the date of commencement of the operating lease.

Termination of lease of factory premises located at Benbu City, Anhui Province, PRC

On 13 December 2016, the Group received a letter of termination from the lessee before the expiry of the lease of the factory premises on 13 January 2017 and the lessee had served their one month notice on termination with effect from 13 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

16 Investment Properties (cont'd)

The estimated fair value of the investment properties amounted to approximately RMB35,309,000 (2015: RMB40,600,000), classified under Level 3 of the fair value hierarchy as defined in Note 29(b), is determined on the basis of valuation performed by a firm of independent professional valuers, that have appropriate recognised professional qualifications and relevant experiences in the location and type of the Investment properties being valued. The estimated fair value was derived using the Replacement Cost method. Replacement Cost method is based on an estimate of the market value for the existing use of the investment properties, plus the current cost of replacement of the improvements less deduction for physical deterioration and all relevant forms of obsolescence and optimization. The valuation process takes into consideration the current construction costs budgets with references and comparisons to similar properties in and around the areas which the Group's investment properties are located.

Based on the above, the carrying amount of the Group's investment properties was determined to be higher than its recoverable amount, and accordingly, an allowance for impairment loss amounting to RMB17,483,000 (2015: Nil) was made as at 31 December 2016.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2016 and 2015 are as follows:

Description	Site Area (Sq. metre)	Tenure
<u>2016</u>		
Factory premises located at No. 30, Fei He Bei Road, Mohekou Industrial Park, Wuhe County, Benghu City, Anhui Province, PRC (including ancillary office, dormitory and factory space)	14,293	50-year lease
Factory premises located at Chengbei Industrial Park, Luo Cheng Town, Huian County, Quanzhou City, Fujian Province, PRC (including ancillary office, dormitory and factory space)	30,857	50-year lease
<u>2015</u>		
Factory premises located at No. 30, Fei He Bei Road, Mohekou Industrial Park, Wuhe County, Benghu City, Anhui Province, PRC (including ancillary office, dormitory and factory space)	14,293	50-year lease

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

16 Investment Properties (cont'd)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<u>2016</u>				
Investment properties	–	–	35,309	35,309
<u>2015</u>				
Investment properties	–	–	40,600	40,600

The following table shows the significant unobservable input used in the valuation model:

Year	Description	Valuation technique	Significant unobservable input
2016	Investment property	Replacement cost method	Adopted duplicate cost per square meter ⁽¹⁾
2015	Investment property	Cost method	Adopted value per square meter ⁽¹⁾

⁽¹⁾ Any significant isolated increases/(decreases) in the input would result in a significant higher/(lower) fair value measurement.

17 Investments in Subsidiaries

	Company	
	2016 RMB'000	2015 RMB'000
Unquoted equity investment, at cost	70,000	70,000
Loans to subsidiary	436,735	436,732
	506,735	506,732
Less: Allowance for impairment loss	(492,811)	(406,226)
	13,924	100,506

The loans to subsidiary, which are quasi-equity loan, form part of the Company's net investment in the subsidiary. The loans are unsecured, interest-free and there are no repayments terms. In addition, the settlement is neither planned nor likely to be settled in the foreseeable future. As the loans are, in substance, a part of the Company's net investment in the subsidiary, it is stated at cost.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

17 Investments in Subsidiaries (cont'd)

Impairment loss

The movement in the allowance for impairment loss during the financial year is as follows:

	Company	
	2016	2015
	RMB'000	RMB'000
At 1 January	406,226	406,226
Impairment loss for the year	86,585	–
At 31 December	492,811	406,226

(a) 2016

As at 31 December 2016, the Company recognised an allowance for impairment loss amounted to RMB86,585,000 (2015: nil) to write down the carrying amount of net investments in subsidiaries, in view of the recurring losses from their activities, to their estimated recoverable amount based on the fair value of the net realisable assets of the subsidiaries as at that date. The major assets held by these subsidiaries relates mainly to the Group's property, plant and equipment, land use rights and investment properties.

Based on the above, management has assessed the recoverable amount to be less than the carrying amount, and accordingly, an allowance for impairment loss of RMB86,585,000 was recognised as at 31 December 2016. The allowance has had no impact on the Group's consolidated financial statements.

(b) 2015

As at 31 December 2015, management had assessed the recoverable amount of the Company's net investments in subsidiaries. The estimated recoverable amount of the investment was based on the value in use calculations of the relevant cash generating units ("CGU"), and determined using a discount rate of 6%, derived from the cash flow projections of these cash-generating units. Assumptions used in projecting the cash flows include average growth rate in revenue of 10% and a gross margin of 24% - 25% based on the 5 year period budget approved by management, and zero growth for the year thereafter up to the period which the Company expects to derive economic benefits from its investments in subsidiaries.

Based on management's assessment of the recoverable amount of the CGU, no allowance for impairment loss on the carrying amount of the net investments in subsidiaries was required as at 31 December 2015.

Sensitivity analysis

Management had considered the possibility of an increase or decrease in the estimated growth rate and discount rate used in the foregoing value in use calculations. A 1% decrease in the estimated growth rate and increase in the estimated discount rate would not result in the recoverable amount lower than the carrying amount of the Company's net investments in subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

17 Investments in Subsidiaries (cont'd)

(b) Details of the Group's subsidiaries as at 31 December are as follows:

Name	Country of incorporation	Principal activities	Effective equity interest held by the Group		Cost of investment	
			2016 %	2015 %	2016 RMB'000	2015 RMB'000
<i>Held by the Company</i>						
Dapai Group (Hong Kong) Limited ("Dapai (HK)")	Hong Kong	Investment holding	100	100	70,000	70,000
<i>Held by Dapai (HK)</i>						
Dapai (China) Bags Co., Ltd ("Dapai Bags")	PRC	Manufacturing and sale of luggage and backpacks	100	100	50,000	50,000
QuanZhou Dabao Light Industry Products Co., Ltd ("Quanzhou Dabao")	PRC	Manufacturing and sale of luggage and backpacks	100	100	20,000	20,000
Dapai (China) Co., Ltd ("Dapai China")	PRC	Manufacturing and sale of luggage and backpacks	100	100	60,019	60,019
Dapai (Anhui) Co., Ltd ("Dapai Anhui")	PRC	Dormant	100	100	22,409	22,409

All the subsidiaries are audited by Moore Stephens LLP, Singapore for the purposes of consolidation of the Group.

18 Inventories

	Group	
	2016 RMB'000	2015 RMB'000
At cost		
Raw materials	5,849	8,035
Work-in-progress	11,312	45,972
Finished goods	10,945	11,629
	28,106	65,636
Cost of inventories sold recognised as cost of sales in the consolidated statement of comprehensive income	81,072	128,413

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

19 Trade and Other Receivables

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Trade receivables	97,604	68,948	–	–
Less: Allowance for impairment loss	(39,512)	(23,358)	–	–
	58,092	45,590	–	–
Other receivables and deposits:				
Other receivables	930	698	–	–
VAT receivables	2,889	9,067	–	–
Advances to suppliers	14,828	8,673	–	–
Less: Allowance for impairment loss	(13,824)	–	–	–
	1,004	8,673	–	–
	4,823	18,438	–	–
	62,915	64,028	–	–

Trade receivables are non-interest bearing and are generally granted an average credit period of 90 days (2015: 90 days). As at 31 December 2016, trade receivables included an amount of RMB13,382,000 (2015: Nil) that relate to an outstanding balance due from the lessee, who has purchased certain inventories (the “Discounted Inventories”) through a bulk discount sale from the Group during the financial year ended 31 December 2016. The terms of payment for the Discounted Inventories is over 4 payments within 12 months from 1 January 2017.

As at 31 December 2016, the advances to suppliers amounting to approximately RMB1,004,000 (2015: RMB8,673,000) relate to deposits paid by a subsidiary of the Group to suppliers to secure the supply of raw materials at favourable prices for production during the current financial year. In the event the suppliers are not being able to fulfil these orders, any unutilised deposits are refundable to the Group. The deposits are not secured by any collateral.

The movement in the allowance for impairment loss of trade receivables during the financial year is as follows:

	Group	
	2016 RMB'000	2015 RMB'000
At 1 January	23,358	23,358
Allowance for impairment loss	16,154	–
At 31 December	39,512	23,358

Trade receivables which are impaired as at the statement of financial position date relate to debtors that are in significant difficulties and have defaulted in payments. The impaired trade receivables arose mainly from those distributors who had ceased their distribution agreements with the Group during the previous financial year. These trade receivables are not secured by any collateral.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

19 Trade and Other Receivables (cont'd)

The movement in the allowance for impairment loss of other receivables during the financial year is as follows:

	Group	
	2016 RMB'000	2015 RMB'000
At 1 January	–	–
Allowance for impairment loss	13,824	–
At 31 December	13,824	–

Advances to suppliers which are impaired as at the statement of financial position date relates to suppliers that are in significant difficulties and unable to make refunds when demanded, and hence are assessed to be non-recoverable by the Group.

20 Cash and Bank Balances

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Cash on hand and in banks	16,061	6,161	6,447	153
Less: Restricted deposit	(6,442)	–	(6,442)	–
Cash and cash equivalents per the consolidated statement of cash flows	9,619	6,161	5	153

Restricted deposit is placed in an escrow account as required under the escrow agreement dated 24 March 2016 (the “Escrow Agreement”) entered into between 5 private individual investors, the Escrow Agent and the Company. Subsequent to the financial year end, the balance of the restricted deposit amounting to RMB5,732,000 was released by the Escrow Agent to the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

21 Share Capital

	Group and Company			
	No. of ordinary shares of S\$0.001 each		Amount	
	2016	2015	2016 S\$'000	2015 S\$'000
<u>Authorised</u>				
At 1 January and 31 December	10,000,000,000	10,000,000,000	10,000	10,000
<u>Issued and fully paid</u>				
At 1 January	992,250,000	992,250,000	992	992
Issue of shares	198,450,000	–	199	–
At 31 December	1,190,700,000	992,250,000	1,191	992
			RMB'000	RMB'000
Equivalent to RMB			5,998	5,042

The ordinary shares carry one vote per share without restrictions and their holders are entitled to receive dividends when declared by the Company.

Issue of shares

On 16 February 2016, the Company entered into placement agreements (the “Agreements”) with five private individual investors (the “Subscribers”), pursuant to which the Subscribers will subscribe for, and the Company will allot and issue to the Subscribers, an aggregate of 198,450,000 new ordinary shares in the capital of the Company (the “Placement Shares”) at S\$0.0080 for each Placement Share (the “Placement”), subject to the satisfaction of conditions precedent stated in the Agreements.

On 22 April 2016, the Placement was completed which raised net proceeds of approximately RMB7,332,000 accounted under share capital of RMB956,000 (equivalent to S\$199,000) and share premium of RMB6,376,000. The newly issued ordinary shares ranked pari passu in all respects with the previously issued shares. _

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

22 Reserves

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Share premium (a)	481,903	475,527	481,903	475,527
Merger reserve (b)	65,939	65,939	65,939	65,939
Statutory reserve (c)	166,883	166,883	–	–
Accumulated losses	(712,296)	(572,045)	(545,429)	(453,118)
	2,429	136,304	2,413	88,348

Movements in the Group's reserves during the financial year are set out in the consolidated statement of changes in equity.

(a) Share Premium

The share premium represents the excess of the issue price over the par value of the shares issued, net of share issue expenses.

(b) Merger Reserve

The merger reserve arises from the difference between the nominal value of shares issued by the Company and the nominal value of shares of the subsidiaries acquired under the pooling-of interest method of consolidation.

(c) Statutory Reserve

In accordance with the Foreign Enterprise Law applicable to the Group's subsidiaries in the PRC, the subsidiaries are required to make appropriation to a Statutory Reserve Fund (SRF). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiary's registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiary. The SRF is not available for dividend distribution to shareholders.

23 Trade and Other Payables

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Trade payables	4,736	10,066	–	–
Advances from customers	1,339	637	–	–
Other payables and accruals	8,978	5,619	5,935	3,456
	15,053	16,322	5,935	3,456

Trade payables are non-interest bearing and are generally settled within 90 days (2015: 90 days).

As at 31 December 2016, other payables and accruals included an amount of RMB432,000 (2015: Nil) that relates to rental deposit from the lease of factory premises entered into on 20 December 2016 (Note 16).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

24 Loans from a Director

The loans from a director of the Company are unsecured, interest-free and repayable within six months from the notice of demand for repayment given by the director.

25 Bank Borrowings

	Group	
	2016 RMB'000	2015 RMB'000
Secured	204,090	189,341

- (a) All the above bank loans are repayable within one year.
- (b) These bank borrowings are secured by:
- Corporate guarantees provided by fellow subsidiaries;
 - Personal guarantees provided by a director of the Company; and
 - Certain of the Group's land use rights (Note 13) and property, plant and equipment (Note 15).
- (c) Interest is charged between 4.35% and 5.66% (2015: 4.8% and 7.2%) per annum.
- (d) The weighted average effective interest rate of the Group's bank loans is 4.88% (2015: 6.21%) per annum.

26 Commitments

- (a) Operating Lease

The Group leases out its investment properties under operating lease arrangements. The future aggregate minimum lease payments under non-cancellable lease contracted for as at the reporting date but not recognised as receivables in the financial statements are as follows:

	Group	
	2016 RMB'000	2015 RMB'000
Within one year	2,592	1,143
After one year to two years	2,508	–

- (b) Other Commitments

As at 31 December 2016, the Group has unpaid capital contribution in Dapai Anhui amounting to approximately RMB18,635,000 (2015: RMB18,635,000).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

27 Related Party Transactions

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Group and Company if that person:
- (i) Has control or joint control over the Company;
 - (ii) Has significant influence over the Company; or
 - (iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.
- (b) An entity is related to the Group and the Company if any of the following conditions apply:
- (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint venture of the same third party.
 - (iv) One entity is a joint ventures of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a);
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties during the financial year:

	Group	
	2016	2015
	RMB'000	RMB'000
<u>Transactions with a related party</u>		
Rental income	2,744	2,744

A related party represents mainly a company which is controlled by the close family member of one of the Group's key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

27 Related Party Transaction (cont'd)

Key management compensation

The remuneration of directors and other key management personnel during the financial year are as follows:

	Group	
	2016 RMB'000	2015 RMB'000
Salaries and related costs	2,490	2,552
Defined contribution plans	124	271
Fees to directors of the Company	910	515
	3,524	3,338
<i>Comprised amounts paid/payable to:</i>		
Directors of the Company	2,082	1,732
Other key management personnel	1,442	1,606
	3,524	3,338

28 Segment Information

(a) Business segments

The Group's primary format for reporting segment information is business segments, with each segment representing a product category. The Group's business segment is organised into two main business segments.

- Manufacturing and sales of backpack to distributors and retailers
- Manufacturing and sales of luggage to distributors and retailers

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

28 Segment Information (cont'd)

(a) Business segments (cont'd)

Group financing and income taxes are managed on a group basis and are not allocated to operating segments.

Group assets and liabilities that are not related to any of the operating segments are not allocated to operating segments. Investment property and the related income and expenses have not been separately reported as a business segment as management has viewed it as not material to the Group.

	Backpack		Luggage		Total	
	2016	2015	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
External sales	142,816	217,131	3,373	187	146,189	217,318
Results						
Segment results	(81,320)	44,886	(1,921)	39	(83,241)	44,925
Other income					3,864	3,686
Administrative expenses					(31,555)	(29,467)
Other expenses – impairment of investment properties					(17,483)	–
Finance costs					(11,170)	(13,127)
(Loss)/Profit before income tax					(139,585)	6,017
Income tax expense					(666)	(1,160)
(Loss)/Profit after income tax					(140,251)	4,857
Other information						
Segment assets	178,021	314,353	4,204	271	182,225	314,624
Unallocated assets						
- Investment properties					35,309	30,321
- Cash and bank balances					16,061	6,161
Total assets					233,595	351,106
Segment liabilities	14,706	16,592	347	14	15,053	16,606
Unallocated liabilities						
- Bank borrowings					204,090	189,341
- Loans from a director					6,025	3,813
Total liabilities					225,168	209,760
Capital expenditure	82	796	2	1	84	797
Depreciation of property, plant and equipment	12,504	13,517	295	12	12,799	13,529
Impairment of property, plant and equipment	53,013	–	1,252	–	54,265	–
Impairment of investment properties	–	–	–	–	17,483	–
Allowance for impairment loss on trade and other receivables	29,286	–	692	–	29,978	–
Amortisation of land use rights	580	593	14	1	594	594
Amortisation of intangible assets	25	28	1	–	26	28

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

28 Segment Information (cont'd)

(b) Geographical segments

	Revenue from external customers		Non-current assets	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
PRC	72,795	103,247	126,513	215,281
USA	27,555	45,583	–	–
Europe	15,984	46,239	–	–
Others	29,855	22,249	–	–
	146,189	217,318	126,513	215,281

Revenue is based on the location of customers. Non-current assets are based on the location of these assets.

Information about major customers

Included in revenue arising from backpack segments of RMB46,072,000 (2015: RMB104,644,000) arose from sales to 1 (2015: 4) major customer of the Group and individually accounted for 10% or more of the Group's revenue during the current financial year.

29 Financial Instruments

(a) Financial Risk Management Policies and Objectives

The Group's and Company's activities expose it to credit risk, interest rate risk, currency risk and liquidity risk. The Group and the Company seeks to minimise the effects of these risks by continually monitoring the financial risk management process to ensure that an appropriate balance between risk and control is achieved. The Board of Directors is responsible for setting the objectives and policies implemented to mitigate the risk exposures. The Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

The following section provide details regarding the Group's and Company's exposure to the above mentioned financial risks and the objectives, policies and processes for the management of these risks.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. For trade receivables, the Group performs ongoing credit evaluation of its customers' financial conditions and requires no collateral from its customers.

As the Group does not hold any collateral, the maximum exposure to credit risk for each class of financial assets is the carrying amount of that class of financial assets presented on the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29 Financial Instruments (cont'd)

(a) Financial Risk Management Policies and Objectives (cont'd)

Credit risk (cont'd)

Significant concentration of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure.

As at the reporting date, the Group has no significant concentrations of credit risk except for trade receivables from 2 (2015: 4) debtors, which individually constitutes more than 10% of the carrying amount of trade receivables. Further, the Group has outstanding advances paid to suppliers amounting to RMB1,004,000 (2015: RMB8,673,000) as at 31 December 2016 (Note 19).

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired as at the reporting date are substantially creditworthy companies with a good collection record with the Group. Cash and bank balances that are neither past due nor impaired are placed with reputable financial institutions.

As at the reporting date, the carrying amount of the Group's trade and other receivables that are neither past due nor impaired amounted to RMB21,147,000 (2015: RMB38,160,000).

Financial assets that are past due and/or impaired

There are no other classes of financial assets that are past due and/or impaired as at the reporting date except as disclosed below. The ageing analysis of the Group's trade and other receivables past due but not impaired as at the reporting date is as follows:

	Group	
	2016	2015
	RMB'000	RMB'000
Past due <3 months	1,658	–
Past due >3 months	37,221	16,801
	38,879	16,801

As at 31 December 2016, included in the Group's trade and other receivables that are past due are outstanding trade receivables amounting to approximately RMB38,447,000 (2015: RMB15,028,000) from a customer. Management is of the view that no allowance for impairment is necessary.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29 Financial Instruments (cont'd)

(a) Financial Risk Management Policies and Objectives (cont'd)

Credit risk (cont'd)

Financial assets that are past due and/or impaired (cont'd)

The Group's trade and other receivables that are determined to be individually impaired as at the reporting date and the allowance for impairment loss are as follows:

	Group	
	2016 RMB'000	2015 RMB'000
Past due <3 months	4,084	–
Past due >3 months	49,252	23,358
	53,336	23,358
Less: Allowance for impairment loss*	(53,336)	(23,358)
	–	–

* The movements in the allowances for impairment losses of trade and other receivables during the financial year are set out in Note 19.

The Company has not disclosed its exposure to credit risk as the Company's risk exposure is not significant.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's exposure to interest rate risk arises primarily from the Group's interest-bearing borrowings.

A change of 100 basis points ("bp") in interest rates as at the reporting date would increase/(decrease) the Group's loss before income tax by RMB2,041,000 (2015: (decrease)/increase the profit before income tax by RMB1,893,000). This analysis assumes that all other variables including tax rate being held constant.

The Company has not disclosed its exposure to interest rate risk as the Company's risk exposure is not significant.

Currency risk

Foreign currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has currency exposures arising from transactions, assets and liabilities that are denominated in currencies other than the respective functional currencies of entities in the Group. The foreign currency in which the Group's currency risk arises is mainly the United States Dollar ("USD").

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29 Financial Instruments (cont'd)

(a) Financial Risk Management Policies and Objectives (cont'd)

Currency risk (cont'd)

As at the reporting date, the Group's foreign currency exposure based on the information provided by key management is as follows:

	USD	
	2016 RMB'000	2015 RMB'000
Group		
<u>Financial assets</u>		
Cash and bank balances	68	6
Trade and other receivables	6,119	10,902
<u>Financial liabilities</u>		
Trade and other payables	(1,265)	(542)
Net financial assets	<u>4,922</u>	<u>10,366</u>

If the USD has strengthened/weakening by 5% against RMB as at the reporting date, with all other variables including tax being held constant, the Group's loss before income tax will decrease/increase by RMB246,000 (2015: profit before income tax will increase/decrease by RMB518,000).

The Company has not disclosed its exposure to foreign currency risk as the Company's risk exposure is not significant.

Liquidity risk

Liquidity risk is the risk that the Group and the Company will encounter difficulty in meeting its obligations due to shortage of funds. The Group and the Company manages liquidity risk by maintaining adequate cash resources in meeting its day to day operational needs, including having committed and/or stand-by credit facilities.

As at 31 December 2016, the Group has unutilised banking facilities amounting to approximately RMB54,940,000 (2015: RMB74,659,000) with its principal bankers and the Group will continue to negotiate for additional and new credit facilities, if required. Further discussion on the Group's liquidity risk is disclosed in Note 2(b).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29 Financial Instruments (cont'd)

(a) Financial Risk Management Policies and Objectives (cont'd)

Liquidity risk (cont'd)

The table below analyses the maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted cash flows:

	Carrying amount RMB'000	Contractual cash flows RMB'000	Within 1 year RMB'000
Group			
<u>2016</u>			
Trade payables	4,736	4,736	4,736
Other payables and accruals	10,317	10,317	10,317
Loans from a director	6,025	6,025	6,025
Borrowings	204,090	207,924	207,924
	225,168	229,002	229,002
<u>2015</u>			
Trade payables	10,066	10,066	10,066
Other payables and accruals	6,256	6,256	6,256
Loans from a director	3,813	3,813	3,813
Borrowings	189,341	195,018	195,018
	209,476	215,153	215,153
Company			
<u>2016</u>			
Other payables and accruals	5,935	5,935	5,935
Loans from a director	6,025	6,025	6,025
	11,960	11,960	11,960
<u>2015</u>			
Other payables and accruals	3,456	3,456	3,456
Loans from a director	3,813	3,813	3,813
	7,269	7,269	7,269

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

29 Financial Instruments (cont'd)

(b) Fair Value

The Group has an established control framework with respect to the measurement of fair values. This framework includes the finance team that reports directly to the Group's key management, and has overall responsibility for all significant fair value measurements, including Level 3 fair values.

The finance team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair value, then the finance team assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of FRS, including the level in the fair value hierarchy the resulting fair value estimate should be classified.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

The Group classifies fair value measurements using a fair value hierarchy based on the degree to which the inputs to the fair value measurement are observable and the significant of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair values of the Group's land use rights, property, plant and equipment and investment properties are classified under Level 3 of the fair value measurement hierarchy and the details are disclosed in Note 13, Note 15 and Note 16 respectively.

Fair value of the Group's/Company's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The carrying amount of the Group's and Company's financial assets and financial liabilities with a maturity of less than one year, which are primarily trade and other receivables, cash and bank balances and trade and other payables, and loans from a director is a reasonable approximation of fair value because of their relatively short term period of maturity.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

30 Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2015.

The capital structure of the Group consists of net debts (total liabilities excluding income tax payable, less cash and bank balances) and equity of the Group (comprising all components of shareholders' equity).

The Group is not subject to any externally imposed capital requirements for the financial years ended 31 December 2016 and 2015, other than the statutory reserve requirements of the Group's subsidiaries in the PRC as disclosed in Note 22.

The Group monitors capital with reference to a net debt-to-equity ratio, which as at the reporting date, is as follows:

	Group	
	2016 RMB'000	2015 RMB'000
Total debts	225,168	209,476
Less: Cash and bank balances	(16,061)	(6,161)
Net debt	209,107	203,315
Total equity	8,427	141,346
Net debt-to-equity ratio	24.81	1.44

31 Independent Review Relating to Certain Transactions Concerning the Group

On 14 December 2016, the Company announced the results on an Agreed-Upon Audit Procedure Report ("AUP Report") relating to allegations against the Group (the "Allegations") which had previously come to the attention of the Audit Committee of the Company (the "Audit Committee").

The Allegations alleged that various commercial transactions between certain distributors and renovation contractors (collectively the "Business Partners") and the Group relating to the initiative undertaken by the Group in late 2009 to open 500 new retail outlets carrying the Group's products which started operations between 2010 and 2011 in the People's Republic of China, including but not limited to commercial transactions for sale of goods, renovation projects and prepaid rentals, were fictitious and/or misrepresented.

After careful review of the Allegations, the Audit Committee, together with the Board of Directors of the Company (the "Board"), had engaged an independent professional firm to undertake an independent review and to provide its finding as to the validity of the Allegations. The AUP Report dated 13 December 2016, stated amongst others, that the independent professional firm was not able to fully verify whether the various commercial transactions referred to in the Allegations are valid.

The Audit Committee, together with the Board, has therefore engaged another independent professional firm to undertake a further review which include following up on the outstanding matters arising from the AUP Report (the "Subsequent Review"). As at the date of these financial statements, there were no further updates from the Subsequent Review.

STATISTICS OF SHAREHOLDINGS

As at 20 March 2017

Issued and fully paid-up capital	:	S\$2,579,850
Number of Issued Shares	:	1,190,700,000
Number of Issued Shares (excluding Treasury Shares and Subsidiary Holdings ⁽¹⁾)	:	1,190,700,000
Number of Treasury Shares	:	0
Number of Subsidiary Holdings ⁽¹⁾	:	0
Percentage of Treasury Shares and Subsidiary Holdings	:	0.00% ⁽²⁾
Class of Shares	:	Ordinary share of S\$0.001 each
Voting Rights (excluding Treasury Shares and Subsidiary Holdings ⁽¹⁾)	:	One vote per share

Note:

(1) "Subsidiary Holdings" means any Issued Shares of the Company held by its subsidiaries (as referred to in the Listing Manual of the SGX-ST).

(2) Percentage calculated against the number of Issued Shares (excluding Treasury Shares and Subsidiary Holdings).

Distribution of shareholdings as at 20 March 2017

Size of shareholdings	No. of shareholders	%	No. of Shares	%
1 - 99	2	0.15	100	0.00
100 - 1,000	74	5.59	70,938	0.01
1,001 - 10,000	306	23.09	1,998,658	0.17
10,001 - 1,000,000	876	66.11	113,408,332	9.52
1,000,001 and above	67	5.06	1,075,221,972	90.30
Total	1,325	100.00	1,190,700,000	100.00

Based on the information available to the Company as at 20 March 2017, approximately 56.24% of the issued ordinary shares of the Company is held by the public and, therefore, Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Limited is complied with.

Twenty largest shareholders as at 20 March 2017

No.	Name of shareholders	No. of shares	%
1	Capital Line Investments Limited	507,000,000	42.58
2	UOB Kay Hian Pte Ltd	133,605,000	11.22
3	Thanaphat Cheeprommanee	39,690,000	3.33
4	Wasana Waiprib	39,690,000	3.33
5	Phakaraphan Sunanthanet	39,690,000	3.33
6	Jittima Udayachalerm	39,690,000	3.33
7	Yuthana Phanumaphorn	19,845,000	1.67
8	Lee Hsiao Tsun, June	19,845,000	1.67
9	HL Bank Nominees (S) Pte Ltd	17,605,000	1.48
10	Citibank Nominees Singapore Pte Ltd	17,283,000	1.45
11	Chen Xizhong	14,100,000	1.18
12	Tay Ah Kee	12,839,520	1.08
13	Phillip Securities Pte Ltd	10,283,000	0.86
14	OCBC Securities Private Ltd	9,073,000	0.76
15	Maybank Kim Eng Securities Pte Ltd	9,034,452	0.76
16	DBS Nominees Pte Ltd	8,834,900	0.74
17	Raffles Nominees (Pte) Ltd	8,068,000	0.68
18	Lim & Tan Securities Pte Ltd	7,082,900	0.60
19	Nelly Menon Mrs Nelly Rolles @ Yeo May Lian	7,000,000	0.59
20	HSBC (Singapore) Nominees Pte Ltd	6,750,000	0.57
Total:		967,008,772	81.21

STATISTICS OF SHAREHOLDINGS

As at 20 March 2017

Substantial shareholders

		DIRECT INTEREST		DEEMED INTEREST		TOTAL	
		NO. OF SHARES	%	NO. OF SHARES	%	NO. OF SHARES	%
1	Capital Line Investments Limited #	507,000,000	42.58	–	–	507,000,000	42.58
2	Chen Xizhong #	14,100,000	1.18	507,000,000	42.58	521,100,000	43.76

Capital Line Investments Limited is an investment holding company incorporated in the British Virgin Islands and is wholly owned by Mr Chen Xizhong. By virtue of Section 4 of the Securities and Future Act, Mr Chen Xizhong is deemed to be interested in the shares held by Capital Line Investments Limited in the Company.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Dapai International Holdings Co. Ltd. will be held at RELC International Hotel, Tanglin Room 506, Level 5, 30 Orange Grove Road, Singapore 258352, on Friday, 28 April 2017 at 10.00 a.m., for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company for the financial year ended 31 December 2016 together with the Auditors' Report thereon. **(Resolution 1)**
2. To approve the payment of Directors' fees of S\$144,400/- for the financial year ending 31 December 2017 to be paid in arrears. **(Resolution 2)**
3. To re-elect Mr Chen Xizhong, being a Director who retires by rotation pursuant to Bye-Law 86 of the Company's Bye-Laws.
[Please see Explanatory Note (i)] **(Resolution 3)**
4. To re-appoint Messrs Moore Stephens LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 4)**
5. To transact any other ordinary business which may properly be transacted at an annual general meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolution as an Ordinary Resolution, with or without any modifications:

6. Authority to issue shares

That pursuant to Rule 806 of the Listing Manual of the SGX-ST, the Directors of the Company be authorised and empowered to:

- (a) (1) issue shares in the Company ("**shares**") whether by way of rights, bonus or otherwise; and/or
- (2) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors of the Company may in their absolute discretion deem fit; and

- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares pursuant to any Instrument made or granted by the Directors of the Company while this Resolution was in force,

(the "**Share Issue Mandate**")

provided that:

NOTICE OF ANNUAL GENERAL MEETING

- (1) the aggregate number of shares (including shares to be issued in pursuance of the Instruments made or granted pursuant to this Resolution) and Instruments to be issued pursuant to this Resolution shall not exceed fifty per cent. (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares and Instruments to be issued other than on a *pro-rata* basis to existing shareholders of the Company shall not exceed twenty per cent. (20%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);
- (2) (subject to such calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares and Instruments that may be issued under sub-paragraph (1) above, the total number of issued shares (excluding treasury shares and subsidiary holdings) and Instruments shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:
 - (i) new shares arising from the conversion or exercise of the Instruments or any convertible securities;
 - (ii) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with part VIII of the Chapter 8 of the Listing Manual of the SGX-ST; and
 - (iii) any subsequent bonus issue, consolidation or subdivision of shares;
- (3) in exercising the Share Issue Mandate conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Bye Laws of the Company; and
- (4) unless revoked or varied by the Company in a general meeting, the Share Issue Mandate shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.

[Please see Explanatory Note (ii)]

(Resolution 5)

BY ORDER OF THE BOARD

LIM HENG CHONG BENNY
CHIN SU XIAN
Joint Company Secretaries

Singapore, 10 April 2017

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes:

- (i) Mr Chen Xizhong will, upon re-election as Director of the Company, will remain as the Executive Chairman of the Company. Key information of Mr Chen Xizhong can be found on page 10 of the Annual Report. Details of the share interests of Mr Chen Xizhong in the Company can be found on page 87 of the Annual Report.
- (ii) The Ordinary Resolution 5, if passed, will authorise the Directors of the Company from the date of this Meeting until the date of the next Annual General Meeting of the Company, or the date by which the next Annual General Meeting of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue shares, make or grant Instruments convertible into shares and to issue shares pursuant to such Instruments, up to a number not exceeding, in total, fifty per cent. (50%) of the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company, of which up to twenty per cent. (20%) may be issued other than on a *pro-rata* basis to existing shareholders of the Company.

For determining the aggregate number of shares that may be issued, the total number of issued shares (excluding treasury shares and subsidiary holdings) will be calculated based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time this Resolution is passed after adjusting for new shares arising from the conversion or exercise of the Instruments or any convertible securities, the exercise of share options or the vesting of share outstanding or subsisting at the time when this Resolution is passed and any subsequent consolidation or subdivision of shares.

Notes:

- 1. Save as provided in the Bye-Laws, a member entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
- 2. A Depositor who is a natural person need not submit the Depository Proxy Form if he/she is attending the Annual General Meeting in person.
- 3. A Depositor may nominate not more than two (2) Appointees, who shall be natural persons, to attend and vote for in his/her/its place as proxy for The Central Depository (Pte) Limited (“CDP”) in respect of the number of Depositor(s) Shares.
- 4. A Depositor(s) should complete the Proxy Form and deposit the duly completed Proxy Form at the office of the Singapore Share Transfer Agent, B.A.C.S. Private Limited at 8 Robinson Road, #03-00 ASO Building, Singapore 048544, at least forty-eight (48) hours before the time appointed for holding the Annual General Meeting.
- 5. The Company shall be entitled to reject an instrument of Proxy Form which is incomplete, improperly completed, illegible or where the true intentions of the member are not ascertainable from the instructions of the member specified on the instrument of proxy. In addition, in the case of shares entered in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Cap. 289 of Singapore), the Company may reject an instrument of proxy if the member, being the member, is not shown to have shares entered against his name in the Depository Register as at forty-eight (48) hours before the time appointed for holding the Annual General Meeting, as certified by CDP to the Company.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the “Purposes”), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.



**DAPAI INTERNATIONAL
HOLDINGS CO. LTD.**