

DAPAI INTERNATIONAL HOLDINGS CO. LTD.

(Incorporated in Bermuda)

Company Registration No.: 41211

RESPONSE TO SGX-ST'S QUERIES ON UNAUDITED FULL YEAR FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT FOR THE PERIOD ENDED 31 DECEMBER 2016

The Board of Directors of Dapai International Holdings Co. Ltd. (the “**Company**”, and together with its subsidiaries, collectively the “**Group**”) refers to the queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) regarding the Company’s announcement titled “Financial Statements and Related Announcement: Full Yearly Results” and dated 1 March 2017, and wishes to provide its response as follows:-

SGX-ST’s Query:

1. *On page 3 of the Company’s Financial Results, we note that the Company made impairments of Property, Plant and Equipment as well as Impairment of Investment Properties amounting to RMB24.7 million and RMB29.62 million respectively. Please provide a breakdown of these impairments and explain the reasons for such significant impairments.*

Company’s Response:

As disclosed and discussed in the unaudited full year financial results ended 31 December 2016 financial statements and dividend announcement dated 1 March 2017 (“**Announcement**”), the reasons for such significant impairments was due to the existence of internal and external impairment indicators, within the Group, disclosed as below:-

Internal indicators

- 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 utilization rate of our property, plant and equipment;
- certain production facilities rendered idle, which resulted in leasing out its premises; and
- certain investment properties being vacant and not tenanted, which currently is not generating any value-in-use for the Group.

External indicators

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

The Group had carried out a preliminary assessment 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, which will bring about adverse effects, thus affecting the carrying value of the assets.

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 below impairment losses were recognized in the profit and loss. The valuation derived by the local valuation company was computed using the cost 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.

The breakdown of these impairments:

Asset class	Impairment charged to profit and loss RMB'000
Property- Buildings	22,282
Plant and machinery	2,415
Investment properties	29,622
Total	<u>54,319</u>

SGX-ST's Query:

2. *On page 5 of the Company's Financial Statements, we note that the Company has Interest-bearing bank borrowing that is payable in one year or less amounting to RMB204.09 million as at 31 December 2016.*

Please disclose:-

- a. The identities and background of the lenders;*
- b. The details of the loans;*
- c. What the proceeds from the loans were used for;*
- d. When were the loans extended; and*
- e. When is the loan expected to be repaid.*

Company's Response:

- a. The lenders are Industrial Bank Co. Ltd, Huian Branch and Bank of China Co. Ltd, Huian Branch. They are the principal bankers of the PRC subsidiaries of the Dapai Group.
- b. The details of the loans as below:

<i>Name</i>	<i>Amounts (RMB'000)</i>	<i>Interest rates ranges</i>	<i>Maturity dates</i>
Industrial Bank Co. Ltd	98,400	5.62 - 5.66%	May to June 2017
Bank of China Co. Ltd	105,690	4.35 – 5.44%	March to October 2017

- c. The proceeds from the loans were used for operational cashflow, mainly acquisition of raw materials.
- d. The loans were extended/ renewed during the financial year 2016 from the period of March to October for another 12 months, which will be due in the March to October 2017.
- e. The loans are expected to be repaid upon their respective maturity dates and will the Group will be renewing these short term bank borrowings to manage the Group's operational cashflow.

SGX-ST's Query:

3. *On the commentary of the Company's Revenue, Cost of Sales and Gross Profit described on page 10 of the Financial Result.*

- a. *The Company had disclosed that in FY2016, the Group managed to dispose off certain raw materials through a bulk discount sale which managed to contribute RMB3.3 million in overall revenue.*

Please disclose:-

- i. *The cost of the raw material*
- ii. *The quantity that was disposed*
- iii. *To whom the raw material were disposed to; and*
- iv. *If the value of RMB3.3 million fairly valued in comparison to the market prices.*

- b. *We also note that the Company's overall volume has also fallen from 7.5 million units in FY2015 to 5.2 million units in FY2016.*

Please disclose:-

- i. *The volume of sales prior to the current lacklustre domestic market; and*
- ii. *The Company's current manufacturing capacity and how much of that capacity is being utilized.*

- c. *Further, the Company disclosed that due to the decline in overall revenue and sales volume, the Company's distributors faced heavy pressure of slow and sluggish sales as consumer preference grew more sophisticated with a preference towards renowned international brand names. Please disclose the number of distributors that the Company currently have.*

Company's Response:

- a. As highlighted in a previous announcement dated 21 December 2016 – "Lease of Factory premises and sale of existing inventory in Huian County, Fujian Province, PRC", the Group had disposed off certain raw materials to the lessee. Please refer to the abovementioned announcement for more information.
 - i. Cost of the raw material was RMB6.2 million.

- ii. The quantity disposed was approximately 220 categories of items which totaled approximately 8.0 million units (unit of measurement).
 - iii. The raw materials were disposed to the lessee- Quanzhou Dachuangyuan Tourism Supplies Co. Ltd (“Dachuangyuan”).
 - iv. Based on the management’s assessment of the offer by Dachuangyuan then, due to their similarity in the nature of business and also their willingness to utilize raw materials after certain modifications and additional processing works, the discount applied (derived by the willing buyer and willing seller basis) to derived at the value of RMB3.3 million (after netting off value added tax) was considered fairly valued.
- b. Overall volume had fallen from 7.5 million units in FY2015 to 5.2 million in FY2016 detailed as per below:

- i. Volume of sales prior to the current lackluster domestic market:

<i>Segment ('000 units)</i>	<i>FY2015</i>	<i>FY2016</i>	<i>Change %</i>
Backpacks	7,534	5,226	(30.6)
Luggage	-*	10	NM
	7,534	5,236	(30.5)

** less than 1000 units, insignificant contribution
NM- Not Meaningful*

- ii. Current manufacturing capacity and utilisation as at FY2016:

<i>Capacity</i>	<i>Maximum[#]</i>	<i>FY2016</i>	<i>Utilisation rate (%)</i>
Sales revenue (RMB '000)	350,000	146,186	41.8
Production ('000 units)	14,000	5,236	37.4

Best estimate by the local PRC management based on level of workforce prior to the leasing of the factory premises to Dachuangyuan.

- c. The Group currently has 4 local domestic PRC distributors.

SGX-ST's Query:

- 4. *Under the commentary for Other Operating Income on page 11 of the Financial Statements, the Company disclosed that the increase in Other Operating Income was mainly due, amongst others, to the increase in of incentives and subsidies of RMB0.2 million. Please disclose details of these incentives and subsidies and the reasons why these were being paid to the Company.*

Company's Response:

<i>Incentives and subsidies (RMB' million)</i>	<i>FY 2015</i>	<i>FY 2016</i>	<i>Rationale</i>
Exhibition subsidies	0.09	-	To encourage local PRC companies to venture overseas to promote foreign trade and economic development with other countries.
Exporting of products incentives	0.16	0.08	To incentivise and encourage local PRC companies to export their domestic products overseas.
	<u>0.25</u>	<u>0.08</u>	

SGX-ST's Query:

5. We note that there was an increase for provision of doubtful debts of RMB15.1 million for three of the Group's customers as stated on page 12 of the Financial Results.

a. Please disclose:-

- i. The aging for each of the customer;
- ii. The reason for the debtors not being able to pay the debts; and
- iii. Whether the Company is still transacting with these three customers and if not, when did the sales to these customers stop.

b. Please disclose:-

- i. The background of the customers who have refused to make the payments and whether they were distributors for the Company;
- ii. The name of the lawyer appointed by the Company to seek repayment of the defaulted debt; and
- iii. Whether and when legal letters (if any) have been being served to the three defaulting customers.

Company's Response:

a. Table of provision of doubtful debts:

<i>Name</i>	<i>Amount (RMB' million)</i>	<i>Aging (i)</i>	<i>Remarks (ii)&(iii)</i>
Xiamen Huigang Trading Co. Ltd	5.1	> 300 days	1
Shishi Dingcheng Trading Co. Ltd	2.5	> 365 days	2
Quanzhou Huatian Trading Co. Ltd	7.5	> 365 days	3
	<u>15.1</u>		

- 1- Due to worsen economic conditions, this debtor was not able to collect their trade receivables on their end and was also impacted with contraction and

reduced bank loans granted to it. Current understanding is that the debtor is in a non- liquid position. All transactions had ceased since February 2016.

2- Due to worsen economic conditions, this debtor was not able to collect their trade receivables on their end and was also impacted with contraction and reduced bank loans granted to it. Current understanding is that the debtor is in a non- liquid position. All transactions had ceased since May 2015.

3- Due to worsen economic conditions, this debtor was not able to collect their trade receivables on their end and was also impacted with contraction and reduced bank loans granted to it. Current understanding is that the debtor is in a non- liquid position. All transactions had ceased since May 2015.

b. Background of customers:

<i>Name (i)</i>	<i>Background</i>	<i>Distributors (Yes/ No)</i>
Xiamen Huigang Trading Co. Ltd	Worked with Group since FY2012. Customer is based in Xiamen and is a trading company.	Yes
Shishi Dingcheng Trading Co. Ltd	Worked with Group since FY2015. Customer is based in Quanzhou and is a clothing, shoes, bags and luggage, distribution and retail company.	Yes
Quanzhou Huatian Trading Co. Ltd	Worked with Group since FY2013. Customer is based in Quanzhou and is a garment and clothing import and export company.	Yes

ii. Name of lawyer is Beijing Yingke (Quanzhou) Law Firm (“Yingke”).

iii. Yingke had represented the Company and sent out the legal letters in September 2016 to all the three customers listed above.

SGX-ST’s Query:

6. *Under Other Operating Expenses – exception items on page 13, the Company made impairment charges on property, plant, equipment as well as investment properties amounting to RMB24.7 million, please provide a breakdown of the principle assets for the impairment charges on property, plant, equipment as well as investment properties.*

Company's Response:

The breakdown of the principle assets for the impairment charges are:

<i>Asset class</i>	<i>Impairment charged to profit and loss RMB'000</i>
Property- Buildings	22,282
Plant and machinery	2,415
Total	<u>24,697</u>

SGX-ST's Query:

7. *Under the Company's Non-Current Assets, the net book value of property, plant and equipment amounted to RMB66 million as at 31 December 2016 compares to a value of RMB159.2 million as at 31 December 2015. The Company disclosed that this was due to, amongst others, the reclassification of investment property , from property, plant and equipment category to investments properties category, of RMB53.8 million as a result of the leasing of the Huian faculties to a third party in December 2016.*

Please disclose:-

- a. The Identity of the tenant*
- b. The rental income for this RMB53.8 million property; and*
- c. Whether the tenant has paid the rent and if so, where was this rent recorded.*

Company's Response:

- a. The identity of the tenant (lessee) is Quanzhou Dachuangyuan Tourism Supplies Co. Ltd.
- b. The rental income for the investment property is approximately RMB2.6 million per annum, starting from 20 December 2016.
- c. Rental had been prepaid in December 2016, however, it was not recognized as majority of the rent is for January 2017. The prepaid rental had been recognized in "Accrued liabilities and other payables" as a liability in the balance sheet as at 31 December 2016.

Please refer to the previous announcement dated 21 December 2016 – "Lease of Factory premises and sale of existing inventory in Huian County, Fujian Province, PRC", for more information.

SGX-ST's Query:

8. *For FY2016, the net cash generated from financing activities included an additional loan from a director amounting to RMB2.2 million. Please disclose details of this loan, the identity of the director and use of the proceeds from the loan:-*

Company's Response:

As highlighted in the unaudited full year financial statements and dividend announcement for the year ended 31 December 2016, point 18 – Interested Person Transactions, dated 1 March 2017, the additional loan from a director during the year, is from Mr. Chen Xizhong, Executive Chairman of the Company. The use of the proceeds had been to fund the operating and continual listing expenses of the ultimate holding company, Dapai International Holdings Co. Ltd, which is the listed entity on the SGX- ST. The loan is unsecured, interest-free and it 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.

BY ORDER OF THE BOARD

Chen Xizhong
Executive Chairman

31 March 2017