

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

RESPONSE TO SGX-ST'S QUERIES ON FINANCIAL STATEMENTS AND RELATED ANNOUNCEMENT: DISCREPANCIES BETWEEN UNAUDITED AND AUDITED ACCOUNTS ("ANNOUNCEMENT") FOR THE FINANCIAL YEAR 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::Discrepancies between unaudited and audited accounts" and dated 10 April 2017, and wishes to provide its response as follows:-

SGX-ST's Query:

1. *In the Announcement, the Company had disclosed that Samsonite LLC owed the Company RMB0.5 million which was more than 3 months past due. Please disclose why Samsonite LLC is unable to repay its debts owing to the Company.*

Company's Response:

As disclosed in the Announcement, Samsonite LLC ("**Samsonite**") had owed the Company approximately RMB0.5 million, which was more than 3 months past due. The Company had not received payment for the aforesaid trade debt receivable and understands from Samsonite that there was some quality issues with a certain batch of goods delivered then. The Company is currently still in the midst of discussion and negotiation with Samsonite to assess the impact of the quality issues and will derive a final agreeable figure to settle the outstanding balance, after deducting an appropriate and agreeable discount ("**Discount**").

Due to the potential delay in deriving the Discount and waiting for Samsonite to settle the above trade debt, and also not eliminating the possibility that no consensus could be reached, the management of the operating PRC subsidiaries had deemed the above amount uncollectable and impaired on grounds of prudence.

SGX-ST's Query:

2. *In the Announcement, we note that the Impairments made to Other Receivables consisted mainly of deposits placed with suppliers, in particular, Quanzhou Yuan Yuan Shoe & Textile Co. Ltd, Henan Xiangcheng Hongxing Leather Co. Ltd, Fujian Yongli New Material Co. Ltd and Huian Fenghang Trading Co. Ltd (the "Suppliers") with a combined debt of RMB11.2 million (the "Debts") out of the RMB14.85 million impairments made to Other Receivables.*

Please disclose:-

- a. *The reasons why these deposits were deemed to be non-recoverable when the deposits were made just over 3 months ago;*

- b. *The details of when these deposits were made and when did the Suppliers last supplied goods to the Group; and*
- c. *Whether the Audit Committee is satisfied that the deposits made to the Suppliers are non-recoverable and that the Company has exhausted all viable options to recover the Debts?*

Company's Response:

- a. These deposits were placed with the suppliers ranging from first quarter to last quarter of FY 2016 with majority being placed with them for more than three (3) months. These amounts were placed as deposits and advance payments in order to secure their supply of raw materials and at a favorable pricing. As the sales deteriorated and manufacturing activities slowed down in the second half of FY 2016, the Group had decided to hold off or to cancel the orders, and thereafter, seek a refund of the deposits and advance payments. In addition, with continued sluggish sales demand and slowed manufacturing activities that the Group had encountered, the management of the operating PRC subsidiaries had also deemed that these deposits placed would not be utilised via the purchase of raw materials in the short term. Therefore, the management of the operating PRC subsidiaries had initiated dialogue with the suppliers to request for refunds.

However, due to the requests for the refund, the suppliers in turn had alleged the operating PRC subsidiaries of breaches in contract and had caused them certain financial losses, and therefore refused to make any repayments or refunds. However, it was also the understanding from the management of the operating PRC subsidiaries that the suppliers were in financial difficulties and was facing bad debts and slow repayments on their end, thus resulting in cashflow issues.

Therefore, based on these factors, these amounts had been identified as non-recoverable and impaired accordingly during the year.

b.

Name	Amount (RMB' million)	Note
Quanzhou Yuan Yuan Shoe & Textile Co. Ltd	2.0	1
Henan Xiangcheng Hongxing Leather Co. Ltd	1.5	2
Fujian Yongli New Materials Co. Ltd	6.5	3
Huian Fenghang Trading Co. Ltd	1.2	4
Total	<u>11.2</u>	

1. The deposit was made in January 2016 and the operating PRC subsidiaries had initially planned to purchase raw material supplies from them. However, due to the overall slowdown in demand of our products and manufacturing activities, the Group had also slowed down its pace in the acquisitions of such raw material supplies and did not purchase from this supplier, and had instead requested for a refund.
2. The deposit was made in July 2016 and the operating PRC subsidiaries' last transaction for supply of goods was in July 2016. Due to the overall slowdown in demand of our products and manufacturing activities, the Group had also slowed down its pace in the acquisitions of such raw material supplies, and had thereafter requested for a refund instead.

3. The deposit was made in May 2016 and the operating PRC subsidiaries had initially planned to purchase raw material supplies from them. However, due to the overall slowdown in demand of our products and manufacturing activities, the Group had also slowed down its pace in the acquisitions of such raw material supplies and did not purchase from this supplier, and had instead requested for a refund.
4. The deposit was made in October 2016 and the operating PRC subsidiaries had initially planned to purchase raw material supplies from them. However, due to the overall slowdown in demand of our products and manufacturing activities, the Group had also slowed down its pace in the acquisitions of such raw material supplies and did not purchase from this supplier, and had instead requested for a refund. Subsequent to the year end, a partial refund was made in January 2017. The above remaining relates to the net amount which had been subsequently impaired.
- c. The management of the operating PRC subsidiaries had communicated on numerous occasions (via telephone calls) and paid physical visits to the suppliers' offices to seek further refunds and of which, was to no avail. The management of the operating PRC subsidiaries will be planning to seek legal actions against these suppliers and had been in consultation with its PRC legal counsel on the most cost efficient way of recovering the amounts, without further causing any significant financial strain on the Group's resources. The Group will still continue to negotiate with the suppliers, in good faith, for an amicable settlement of the deposits.

The Audit Committee of the Company (the "AC") had noted the basis of the management of the Company in making an accounting judgment concerning the recoverability of the above deposits. The AC also noted that the external auditors have reviewed the basis of the management of the Company relating to the above impairments and did not specifically disclaim nor qualify the accounting judgement exercised. The AC also noted that the management of the operating PRC subsidiaries had started the process of consulting the PRC legal counsel in a bid to recover the said deposits and had requested that the management of the Company, and of the operating PRC subsidiaries, to provide timely updates to the AC, so that the AC can be satisfied that the Company had indeed exhausted all viable options to recover these deposits.

SGX-ST's Query:

3. *In the Independent Auditors' Report, under Recoverability of Trade Receivables Due From a Customer as Basis of Disclaimer of Opinion, it is stated that 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 and with regards to this, the Auditors had referred to Note29(a) which relates to allowance to impairment loss of RMB53.3 million.*

Please disclose:-

- a. *Whether the disclaimer by the Auditors made on the trade receivables of RMB38,447,000 from a customer which is past due but not impaired and the allowance to impairment loss of RMB53.3 million in Note 29(a) relates to the same customer;*

- b. *The identity and size of the customer and whether the beneficial owners of the customer are in any way associated to the Company's Directors or their associates or to the Company's substantial shareholders or their associates;*
- c. *When the debt RMB38,447,000 was incurred and when did the Company last supplied goods to this customer; and*
- d. *The reason(s) why the Management is of the view that no allowance of impairment is necessary.*

Company's Response:

- a. The disclaimer by the Auditors made on the trade receivables of RMB38.4 million from a customer which is past due but not impaired and the allowance to impairment loss of RMB53.3 million in Note 29(a) does not relate to the same customer.
- b. The customer is Xiamen Yushang Trading Co. Ltd ("**Yushang**"). Yushang was incorporated in 2007 and has a registered capital of RMB30.0 million. It was the understanding of the management of the operating PRC subsidiaries that Yushang's annual turnover for FY 2016 was estimated to be approximately RMB160.0 million and above. None of the Company's Directors or their associates or the Company's substantial shareholders or their associates, are in any way associated to the beneficial owners of Yushang.
- c. The debt of approximately RMB38.5 million was incurred in the first seven months of FY 2016 for the sales made to Yushang. Yushang continued to make payments to the Group until October 2016 and this was the net trade receivables since then. The last transaction for supply of goods to Yushang was in July 2016.
- d. Based on the understanding of the management of the operating PRC subsidiaries and the Executive Chairman, Yushang is of creditable standing and had been in the trading business since FY 2007, with a registered share capital of RMB30.0 million and it was estimated that the gross turnover of Yushang was larger (approximately RMB160.0 million and above) than that of the Group's in FY 2016. Yushang had previously been making payments until fourth quarter of FY 2016. Based on the representation by management of the operating PRC subsidiaries and the Executive Chairman, Yushang was in the midst of renewing their bank facilities and had encountered a delay in their renewal process. Therefore, there had been a delay in making payments and making slower payments to the Group. Yushang had also made subsequent payments of approximately RMB0.5 million in March 2017.

Based on the above understanding of Yushang's financial standings and payment ability in the past and commitment to continue to make payments subsequent to year end, the above factors were considered as reasons that no allowance for impairment was necessary.

BY ORDER OF THE BOARD

Chen Xizhong
Executive Chairman

17 April 2017