

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

**ANNOUNCEMENT PURSUANT TO RULE 704(5) OF THE LISTING MANUAL - DISCLAIMER
OPINION BY THE AUDITORS ON THE AUDITED FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2016**

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”), the Board of Directors (the “**Board**”) of Dapai International Holdings Co. Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that the Company’s independent auditors, Moore Stephens LLP, have issued a disclaimer of opinion in the Independent Auditors’ Report for the audited financial statements of the Company and the Group for financial year ended 31 December 2016 (the “**Audited Financial Statements**”) as set out in the Company and the Group’s annual report for the financial year ended 31 December 2016 (the “**Annual Report**”).

A copy of the extracted Independent Auditors’ Report and an extract of the relevant Notes to the Financial Statements are attached to this announcement. Shareholders of the Company are advised to read the Audited Financial Statements in its Annual Report, which will be despatched by 10 April 2017.

The Board (i) is in the opinion that sufficient information has been disclosed for trading of the Company’s securities to continue in an orderly manner; and (ii) confirmed that all material disclosures have been provided for trading of the Company’s shares to continue.

Shareholders of the Company are advised to read the Financial Statements of the Group for FY2016 in the Company’s Annual Report carefully and to exercise caution when trading or dealing in their shares of the Company. Shareholders and potential investors should seek advice from their stockbrokers, bank managers, solicitors, accountants or other professional advisers if they have any doubts about the actions they should take.

By Order of the Board

Chen Xizhong
Executive Chairman
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

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

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 RMB'000	2015 RMB'000
Past due <3 months	1,658	—
Past due >3 months	37,221	16,801
	<u>38,879</u>	<u>16,801</u>

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").