



FORELAND FABRICTECH HOLDINGS LIMITED
(Incorporated in Bermuda with company registration no. 39151)

RESPONSE TO SGX QUERIES

The Board of Directors of Foreland Fabrictech Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) wishes to announce its response to the queries raised by the Singapore Exchange Securities Trading Limited (“SGX”) in connection with the annual report for the financial year ended 31 December 2013 issued by the Company.

1. The Auditor’s disclaimer of opinion was disclosed on pages 31 and 32 of the Annual Report:-

(i) Compensation claim – Under what circumstances were the Auditors not able to obtain sufficient appropriate audit evidence for the provision for customer claim? Please elaborate what were the “appropriate evidence” that the Auditors were unable to obtain.

According to reply from the Auditors, the Auditors’ basis for disclaimer of opinion on the compensation claim was based on the following:

a) With respect to the legal advice provided by a legal advisor (“ Legal Advisor”) in the People’s Republic of China (“PRC”) and the appraisal report on the compensation amount issued by a PRC accounting firm (“Accountant”) which were relied upon by Management for this customer claim, the Auditors were not able to obtain sufficient appropriate audit evidence to satisfy themselves on the competence, capabilities and objectivity of the Legal Advisor and Accountant, the Auditors were not able to obtain sufficient understanding of the work of the Legal Advisor and Accountant and the Auditors were not able to obtain sufficient appropriate audit evidence on the appropriateness and reliability of the work of the Legal Advisor and Accountant to draw reasonable conclusion on the customer claim.

- b) The Auditors took into consideration the views and opinion of the independent directors of the Company who were also Audit Committee (AC) members holding office on 22 January 2014 in handling of the customer claim. The AC members, holding office on 22 January 2014, had required Management to appoint another reputable audit firm and reputable law firm to conduct an independent re-assessment of the customer claim. All 3 members of the AC holding office on 22 January 2014 had subsequently resigned as directors of the Company due to differences of opinion with Management in relation to the handling of the customer claim. The auditors took the differences of opinion into consideration and also that the customer claim was settled subsequent to the end of the reporting period without an independent re-assessment of the customer claim as required by the AC members.

The Board is considering engaging an independent professional party to review this matter.

- (ii) Cash and cash equivalent – Under what circumstances were the Auditors not able to obtain sufficient appropriate audit evidence for the bank balance and fixed deposits of Fulian Knitting Co., Ltd. (“Fulian”)? Please elaborate what were the “appropriate evidence” that the Auditors were unable to obtain.

According to reply from the Auditors, the Auditors have expressed that certain audit procedures to directly verify balances of the Group’s bank balance and fixed deposits totaling RMB 292,298,353 at the banks in the PRC were not completed satisfactorily to their requirements and objectives. Accordingly, the inability to complete the procedures to the satisfaction of their requirements led to the Auditors expressing that they were not able to obtain appropriate audit evidence to satisfy themselves with regards to the bank balance and fixed deposits of the Group totaled RMB292,298,353. The Board is considering engaging an independent professional party to review this matter.

- (iii) Going concern – On page 46, directors disclosed that they are satisfied that the Company will be able to continue as a going concern. Please provide and elaborate on the basis for this view.

As at 30 June 2014, the Group had net current assets of RMB 9.3 million and cash and bank balance of RMB 2.2 million with no bank borrowings. Based on the internal forecast of the management, it is believed that the Group will be able to generate the revenue of RMB 133.0 million and operating cash inflow of RMB 5.8 million in the next twelve months from July 2014 to June 2015. In view of this forecast, the management believes the Company will be able to continue as a going concern.

2. On page 51 of the Annual Report, the Company disclosed:-

(i) Disposals of plant and machinery of RMB87.9 million in 2013 and RMB49.0 million in 2012 respectively. To provide a breakdown of these material disposals and whether the Company reported gains or losses on the disposals. As the disposals in FY2013 amounted to 13% of the Group's audited NTA as at 31 Dec 2012, please provide the disclosure as required under Listing Rule 1010.

Net book value, proceeds and loss on disposals of plant and machinery were disclosed in the Annual Report as follows:

	Plant and machinery RMB'000	Reference to annual report
<u>Disposals during FY2013</u>		
Cost	87,908	P.51
Accumulated depreciation	(80,975)	P.51
Net book value	<u>6,933</u>	
Proceeds from disposal of plant and machinery	<u>720</u>	P.37
Loss on disposal of plant and machinery	<u>6,213</u>	P.48

Breakdown of plant and machinery disposed in FY2013:

	Net book value RMB'000
Dyeing machines	1,383
Weaving machines	3,894
Slashing machines	-
Compound fabric machines	1,432
Other machines	224
Total	<u>6,933</u>

The Group's NTA as at 31 December 2012 was RMB 670.5 million. Net book value of the assets disposed in FY2013 amounting to RMB 6.9 million, which is equivalent to 1.0% of the Group's NTA as at 31 December 2012.

(ii) An addition to the construction in-progress of RMB12.5 million in 2013. Please provide a breakdown of the RMB12.5 million and reasons for the additions noting that the Company had to make an impairment loss for plant and machinery of RMB246.2 million due to decrease in revenue and production as disclosed in page 52.

The construction of major production facilities in new factory site which is located in the Andong Industrial Area was completed in FY2013. An additional construction was carried out subsequently as an add-up to the major production facilities. The breakdown of the construction-in-progress is as follows:

Construction-in-progress
As at 31 December 2013

	<u>RMB'000</u>
Electricity supply system	7,507
Gas piping system	1,007
Furnace and its piping system	3,372
Other supplemental construction	<u>649</u>
Total	<u><u>12,535</u></u>

Despite the impairment loss of property, plant and machinery of RMB 246.2 million, the additional constructions would not add to the overall production capacity.

3. It was disclosed on page 46 that “The directors of the Company are satisfied that the Group and Company are able to generate sufficient level of revenue and profit from their operations and sufficient cash flows for their requirements to continue as a going concern.” If so, please explain why the directors are of the view that an allowance for doubtful receivable from Fulian of RMB43.7 million (page 53) is necessary.

Based on internal assessment by the management, there is a shortfall of RMB 223.2 million between book value of investment in and amount due from Fulian Knitting over its estimated value. For the shortfall, RMB 43.7 million was allocated to allow for doubtful receivable and RMB 179.4 million was allocated to provide for impairment on investment cost.

4. Fulian, the sole operating subsidiary, was audited by Baker Tilly LLP only for the purpose of preparation of consolidated financial statement. Who is the auditor for Fulian and what was the audit opinion on Fulian’s accounts? Please disclose material information on its audit opinion and audit findings.

As it is not a domestic statutory requirement for the accounts of Fulian Knitting to be audited, no auditors have been appointed for Fulian Knitting.

5. It was disclosed on page 55 that “In 2012, the subsidiary entered into a transfer agreement with a third party to transfer the land use rights and buildings situated at The Second Processing Zone, Dongshi Town which have net carrying values totalling RMB nil (2012: RMB45,921) at 31 December 2013 for a consideration of RMB15 million. Deposit of RMB 1.5 million (2012: RMB1.5 million) was received in prior year upon signing of the agreement. The transfer has not been completed at the end of the reporting period.” To provide details of (a) this land use rights and terms of disposal; (b) what is the contribution from this property; (c) details of the acquiror; (d) why these land use rights had NIL net carrying values; (e) how was the consideration of RMB15 million arrived at; and (f) to disclose reasons why has the transfer not completed.

(a) Details of these land use rights and terms of disposal were disclosed in the Company’s announcement dated 6 September 2012.

(b) This is the land where the Group’s previous factory was located. After relocation of production facilities to the new factory site in 2013, there were no operations at the previous factory site and the premises had subsequently been vacated.

(c) Details of the acquirer were disclosed in the Company’s announcement dated 6 September 2012.

(d) This piece of land was acquired by the Group as far back as 20 years ago. The value of the land has been fully amortized so it has NIL net carrying values.

(e) The basis of the consideration of RMB 15 million was disclosed in the Company’s announcement dated 6 September 2012.

(f) As this piece of land is located within the region of the new development zone of the government and that plans for the development is pending finalization, this has delayed the completion or perfection of the transfer of land use rights.

By Order of the Board

Tsoi Kin Chit
Executive Chairman
28 August 2014