



# CHINA FIBRETECH LTD.

(Company Registration No. 40381)  
(Incorporated in Bermuda)

## RESPONSES TO SGX-ST QUERIES ON FY2016 THIRD QUARTER AND NINE MONTHS RESULTS ANNOUNCEMENT

The Board of Directors (the “**Board**”) of China Fibretech Ltd. (the “**Company**”) refers to the queries raised by the Singapore Exchange Securities Trading Limited (“SGX-ST”) regarding the 2016 third quarter and nine months results announcement of the Company on 15 November 2016, and wished to provide its response as follows:-

### 1. SGX-ST’S Query

We note on page 1 that despite the sharp decline in revenue and production of more than 50%, ‘Administrative expenses’ remain unchanged at RMB1.15 million. Please provide breakdown of details of the Administrative expenses of RMB 1.15 million and RMB3.459 million for 3Q2016 and 9M2016 respectively.

#### Company’s response

Administrative expense is the set of expenses required to administer a business, and which are not related to sale of goods or services. Hence, administrative expenses remain unchanged at RMB1.15 million despite there is a sharp decline in revenue and production.

Please refer to below details:

Description	For the period from 1 July 2016 to 30 September 2016 (RMB’000)	For the period from 1 January 2016 to 30 September 2016 (RMB’000)
Staff costs	575	1,727
Professional fees	185	428
Audit fees	139	439
Director remuneration	68	219
Insurance	35	35
Office expenses	31	100
Entertainment expenses	21	98
Amortisation of land use rights	15	46
Depreciation	6	30
Exchange differences	-5	105
Travelling expenses	1	33
Others*	79	199
Total	1,150	3,459

\*Others consists of bank charges, car expenses, telephone expenses and other taxes.

## 2. **SGX-ST'S Query**

We note on page 1 that 'Cost of sales' has decreased by 53.7% from RMB14.713 million to RMB6.817 million in 3Q2016 and decreased by 53.1% from RMB38.351 million to RMB17.985 million in 9M2016. Please provide breakdown and disclose material items.

### **Company's response**

Please refer to below details:

Description	For the period from 1 July 2016 to 30 September 2016 (RMB'000)	For the period from 1 January 2016 to 30 September 2016 (RMB'000)
Cost of inventories recognised as expense	2,390	6,460
Staff costs	1,020	2,810
Depreciation	286	771
Waste water treatment expenses	228	590
Maintenance expenses	134	252
Consumables	8	20
Utilities	775	2,032
Gas	1,976	5,050
Total	6,817	17,985

## 3. **SGX-ST'S Query**

We note on page 1 that 'Other operating expenses' has increased by 236,702% from RMB197,000 to RMB466.5 million due to payment of customer claim of RMB470.4 million and reversal of provision of doubtful debts of RMB4.5 million. Please provide the following information:-

- Provide breakdown details of this payment of RMB470.4 million and the amount paid to the customer(s)
- Provide reason for the reversal of provision of doubtful debts of RMB4.5 million and identity and details of this customer.

### **Company's response**

- Please refer to below details:

Customers	Compensation claimed RMB	Interest expenses # RMB	Trade receivables RMB	Net amounts paid RMB
石狮市爱利奴服饰有限公司	132,263,307.00	1,257,441.92	(2,314,997.45)	132,263,307.00
晋江市滨浪制衣织造有限公司	205,346,020.00	1,950,787.19	(838,441.45)	205,346,020.00
石狮市金太屋纺织服饰有限公司	128,339,053.00	1,219,221.01	(1,323,294.02)	128,339,053.00
Total	466,047,380.00	4,427,450.12	(4,476,732.92)	465,998,097.20

# Interest expenses are calculated for the period from 1 August 2016 to 27 September 2016 at 6% per annum.

- b) Trade receivables due from three claimants were settled by netting off against the compensation claim made to three claimants on 28 September 2016. Hence, the provision of doubtful debts provided for the trade receivables due from three claimants amounting to RMB4.5 million has been reversed.

Customers	Provision of doubtful debts RMB	Reversal of provision of doubtful debts RMB	Balances as at 30 September 2016 RMB
石狮市爱利奴服饰有限公司	2,314,997.45	(2,314,997.45)	-
晋江市滨浪制衣织造有限公司	838,441.45	(838,441.45)	-
石狮市金太屋纺织服饰有限公司	1,323,294.02	(1,323,294.02)	-
Total	4,476,732.92	(4,476,732.92)	-

#### 4. **SGX-ST'S Query**

We note on page 2 that 'Prepayments and other receivables' has decreased from RMB20.687 million to RMB4.59 million. Please provide the following information:-

- Provide breakdown, aging schedule.
- Disclose the nature of the underlying transactions for the significant prepayment and/or other receivables and provide details of the transactions.
- Provide details and status of Company's prepayment of RMB20.3 million for land use rights. To disclose detailed use of proceeds from the refund.

#### **Company's response**

- (a) Please refer to below breakdown of prepayments and other receivables:

Nature	Balance as at 30 September 2016 (RMB'000)	Balance as at 31 December 2015 (RMB'000)
Prepayments made to Shishi Land Bureau (石狮市国土资源局) for acquisition the land use rights of a piece of land	-	20,343
Prepayment of Bermuda annual government fee	30	119
Accrued interest income from fixed deposits	-	225
Prepayments made to an PPE supplier for installation and reconstruction of air pollution improvement system due to tightening environmental protection measure requested by the local authority	4,560	-
Total	4,590	20,687

(b) Please refer to below details:

Nature	Date of agreement	Details
Prepayments made to Land Bureau of Shishi Municipal Government (石狮市国土资源局) for acquisition the land use rights of a piece of land	22 April 2008	The land use rights for a piece of land measuring 16,235 square metres located at 石狮市洪山镇伍堡污控区
Prepayments made to an PPE supplier	25 August 2016	for installation and reconstruction of air pollution improvement system due to tightening environmental protection measure requested by the local authority

(c) Per announcement on 19 August 2016, the said land will be no longer suitable for constructing a new plant for fabric dyeing operation due to environment protection planning by the local government. The prepayment of RMB20.3 million was refunded to the Company on 5 September 2016. The proceeds from the refund was used in the payment of compensation claim to three claimants.

## 5. **SGX-ST'S Query**

We note on page 3 that the Group's bank loans were secured by certain of the Group's leasehold building with an aggregate carrying value of approximately RMB6,376,000 as at 30 September 2016, land use rights with an aggregate carrying value of approximately RMB2,320,000 as at 30 September 2016. Please provide details of the bank and terms of the loan.

### **Company's response**

Please refer to below details:

Bank	RMB'000	Interest rate per annum	Period	Security pledged
Agricultural Bank of China	5, 000	5.4375%	23 March 2016 to 22 March 2017	1) Land use rights - 狮地鸿国用 (2007) 第 0015 号 2) Buildings - 狮建房权证鸿山字第 00076 号 & 00077 号
Rural Commercial Bank of Shishi	3, 500	5.98125%	9 August 2016 to 8 August 2017	1) Land use rights - 狮地鸿国用 (2007) 第 0014 号 2) Buildings - 狮建房权证鸿山字第 00075 号
Rural Commercial Bank of Shishi	4, 400	5.98125%	6 September 2016 to 5 September 2017	1) Land use rights - 狮地鸿国用 (2007) 第 0016 号 2) Buildings - 狮建房权证鸿山字第 00078 号 , 00079 号, 00080 号, 00081 号 & 00082 号

**6. SGX-ST'S Query**

We note that the Company has a negative working capital of RMB9.32 million and a negative cash outflow in operating activities of RMB445.1 million and current liabilities of RMB12.9 million interest bearing loan that Company has to repay and is due. Please explain whether the Company is able to meet its short term obligation as and when it falls due, whether the Company is able to operate as a going concern and basis for directors' view. Please confirm whether all material information has been disclosed.

**Company's response**

The management is of the view that the Company will be able to repay the interest-bearing bank borrowing and will consider the option of rollover the said bank borrowing as and when they fall due. The Company will also take steps to improve the operating result that includes broadening the customer base and tightening cost control.

Management has obtained verbal assurances from the banks providing banking facilities to the Group that they will not withdraw their support to the Group.

**7. SGX-ST'S Query**

In the Company's announcement on 19 August 2016, the Company acquired Property, Plant and Equipment with new technology amounting to RMB4.8 million and Company reported that this is to widen customer base. Please provide update on status and efforts.

**Company's response**

As a result of the use of new technology, production quality has been improved. Hence, positive feedback from customers have been obtained.

**8. SGX-ST'S Query**

We note on page 9 the decrease in fabric processed from 6,039 tonnes in 9M2015 to 2,726 tonnes in 9M2016 (volume decreased by 54%) as a result of lower demand from customers. Please provide reasons for the lower demand from these customers, who were the customers and why the Company was unable to provide a guidance earlier as guidance was provided until 14 November 2016, 2 days before the Company's announcement of its financial results.

**Company's response**

The Company is of the view that the decrease in demand from our customers was due to lower demand from end users as a result of slowdown in the PRC market and the subdued global economy.

Please refer to below list of customers with significant decrease in sales.

Customers
石狮市爱利奴服饰有限公司
晋江市滨浪制衣织造有限公司
石狮市金太屋纺织服饰有限公司
福建峰达轻纺有限公司
泉州海天材料科技股份有限公司
厦门龙得鑫工贸有限公司
厦门市经达利针纺织造有限公司
厦门市万峰盛针纺织有限公司
厦门市伟中进出口有限公司
厦门华翼轻纺有限公司
石狮市联杰布业发展有限公司
石狮市祥源织造有限公司

The management is of the view that it is still appropriate to issue profit guidance 2 days before the release of 3Q 2016 results as trading of Company's shares is currently suspended. The management and the Board will issue profit guidance, if any, earlier in the future.

#### 9. **SGX-ST'S Query**

We note on page 10 on the compensation claim totaling RMB470.4 million was paid to three claimants. Please provide specific details of payments made to each of them.

#### **Company's response**

Please refer to below details.

Customers	Compensation claimed RMB	Interest expenses RMB	Total RMB
石狮市爱利奴服饰有限公司	132,263,307.00	1,257,441.92	133,619,748.92
晋江市滨浪制衣织造有限公司	205,346,020.00	1,950,787.19	207,296,807.19
石狮市金太屋纺织服饰有限公司	128,339,053.00	1,219,221.01	129,558,274.01
Total	466,047,380.00	4,427,450.12	470,474,830.12

#### 10. **SGX-ST'S Query**

We note on page 11 that 'Property, plant and equipment' has increased by 9.3% from RMB26.1 million to RMB28.5 million due to acquisition of property, plant and equipment with new technology in order to widen customer base and depreciation charge. Please provide the following information:-

a) Why is the Company acquiring Property, Plant and Equipment when revenue is declining.

- b) Provide breakdown of these Property, Plant and Equipment acquired and the capacity increase arising from such acquisition
- c) What is current capacity utilization of the Company's plants and machineries.

**Company's response**

- (a) The acquisition of new machinery can improve the quality of our dyeing and post-processing treatment service so as to increase our competitiveness in order to attract more customers.
- (b) Please refer to below details.

<u>Item</u>	<u>Cost (RMB)</u>
自动退捻开幅洗毛轧水联合机	4,787,008.55

There is no change in our capacity arising from such acquisition as the newly acquired machinery is used for improving the quality in our dyeing and post-processing.

- (c) Please refer to below details:

<u>Description</u>	<u>Tonnes</u>
Maximum Monthly Capacity	5,206

<u>Month</u>	<u>Utilisation rate</u>
January 2016	9.19%
February 2016	- *
March 2016	5.16%
April 2016	6.49%
May 2016	6.56%
June 2016	5.18%
July 2016	7.30%
August 2016	6.72%
September 2016	5.77%
Average	5.82%

\* Please be noted that no production in the month of February 2016.

**11. SGX-ST'S Query**

We note on page 11 the refund of RMB20.3 million pertained to prepayments to make to Shishi Land Bureau for acquisition of the land use rights of a piece of land as announced on 19 August 2016. Please provide the following information:-

- a) When was the refund paid to the Company and disclose whether and why the amount of refund is reasonable.
- b) What is the valuation of the land use rights and how is it determined.
- c) Whether any legal advice was obtained for the negotiation to ensure that refund is reasonable.

### **Company's response**

- (a) The refund was made to the Company on 5 September 2016. The Company had made a prepayment to apply for the land use rights of the land in 2008 but not yet obtained the certificate of land use rights since 2008. The Company is of the view that the amount of refund is reasonable as the amount of refund is based on the amount paid in 2008.
- (b) Since the Company has not yet obtained the certificate of land use rights, the Company is unable to value the said land use rights.
- (c) No legal advice was obtained for the said refund. The Company is of the view that the Company has not yet obtained the certificate of land use rights and the ownership of land belongs to the government. Hence, the Company is unable to form a view whether the action taken by the government is reasonable.

## **12. SGX-ST'S Query**

We note on page 12 that based on the result obtained in FY2015 and the Group's experience with order books to date on hand, the Group expects a challenging 2016 for its dyeing business. Please elaborate on order books.

### **Company's response**

Please refer to below quantity processed for our sales orders in FY2015, FY2016 and FY2017:

Quarter	FY2015	FY2016	FY2017
	Quantity (KG'000)	Quantity (KG)	Quantity (KG)
1Q	1,340	747	100 ^
2Q	2,416	949	
3Q	2,283	1,030	
4Q	2,104	602^	
Total	8,143	3,328	100 ^

^ Sale orders in December 2016 and January 2017 are not the finalized numbers

Due to the uncertainties surrounding the claims from three claimants, trading of the Company shares will continue to be suspended until further notice to ensure a fair, orderly and transparent market.

The Company will keep shareholders informed of the outcome and the Board will release further announcements as and when there are any developments on the above.

BY ORDER OF THE BOARD

Wu Xinhua  
Executive Chairman and CEO  
22 November 2016