

CHINA GAOXIAN FIBRE FABRIC HOLDINGS LTD.

(中国高纤控股有限公司)

("Company")

(Company Registration No. 200817812K)

(Incorporated in Singapore on 9 September 2008)

**FURTHER INFORMATION ON THE COMPANY'S FULL YEAR RESULTS ANNOUNCEMENT
DATED 28 FEBRUARY 2015**

Unless otherwise defined, all capitalised terms used in this announcement shall bear the same meanings as ascribed to them in the Company's Full Year Results for the financial year ended 31 December 2014 which was released to the Singapore Exchange Securities Trading Limited ("SGX-ST") on 28 February 2015 ("FY2014 Results Announcement").

The Board of Directors ("Board") of China Gaoxian Fibre Fabric Holdings Ltd. (the "Company" and together with its subsidiaries, the "Group") refers to the Company's FY2014 Results Announcement and wishes to provide further information as follows:-

SGX-ST's questions:

1. *In paragraph 8 of the Announcement, the Company disclosed that "As announced previously, the decline in operating revenue was mainly attributable to the Group suspending its own production at HG and NHW, and leasing out HG and NHW's production facilities as previously announced in August 2014."*

Please provide a breakdown of the operating revenue attributable to the Huaxiang Project and other income streams. Please also provide breakdown of the production facilities that are currently in operations (including the capacity utilization rates of the Huaxiang project) and the facilities that have been leased out. To provide details of the lease agreements, including the terms of the rental, value of the PPE which have been rented out, the tenure of the rental agreement, basis for the rent and how this arrangement is in the interest of the Company.

Company's answer to question1:-

- i) In FY2014, the Group's total revenue was RMB90.7 million, of which the revenue attributable to Huaxiang Project is RMB27.8 million, which is in the form of sales of DTY produced from the texturing workshop of the Huaxiang Project since July 2014. NHW and HG, the Group's subsidiaries, ceased production at the end of July 2014. Both NHW and HG were producing polyester yarn, and NHW was also producing WKF prior to that.
- ii) The Group's Other Income of RMB27.4 million, mainly comprise of (a) RMB24.1 million attributable to the Huaxiang Project, of which RMB20 million is a local government subsidy and OEM subcontract fees income amounting to RMB1.1 million, (b) rental income received by NHW and HG from lessees amounting to RMB1.25 million; and (c) remaining amount was from sales of scrap material.
- iii) As at end of 2014, the production facility in operation at the Huaxiang Project is the Texturing Workshop, which comprises 20 texturing machines for the production of drawn-textured yarn ("DTY") since June 2014. The designed maximum capacity for the 20 machines is 25,000 tons per year as stated in the Circular dated 29 May 2013.

During the testing phase from June 2014 to October 2014, as all the machines need to be constantly calibrated and tuned before it reaches the optimum production capacity with required product quality, the capacity utilization rate during the testing phase is around 19.7% with an output of 2,051 tons (from June 2014 to October 2014) compared to the maximal capacity of 10,417 tons (calculated based on a 5-month period).

After the five-month testing phase, from November 2014 onwards, the production for DTY had reached the normal position with the required product quality, the capacity utilization rate was increased to 64.4% with actual production of 2,683 tons (from November 2014 to December 2014) compared to the maximal capacity of 4,167 tons (calculated based on a 2-month period).

NHW and HG, the Company's subsidiaries had ceased production from 1 August 2014.

- iv) With regard to the leasing issue, the following extract from the Company's 3Q2014 results announcement is set out below for ease of reference:

"Leasing of Production Facilities at HG and NHW to Third Party Manufacturers"

For the quarter under review, the Group continued to face challenging market conditions in the current downturn of the industry cycle. As a result of unfavourable market conditions which have been affecting the Group, HG and NHW have been incurring operating losses with its manufacturing operations.

To stem further operating losses at the aforesaid two subsidiaries and to extract value from the existing machineries at the NHW and HG, the Group has decided to take steps to suspend its own production operations at NHW and HG, and lease out each of HG and NHW's existing production facilities to Huali Warp Knitting Factory (吴兴区埭溪华利经编厂) ("Huali") and Fujian Yunfeng Textile Co., Ltd (福建云丰纺织有限公司) ("Yunfeng") respectively in return for monthly rental payments. The Group is of the view that this win-win arrangement will not only substantially reduce its operating losses but will also allow the Group to extract some value from the production machines at NHW and HG as opposed to letting them remain idle. This leasing arrangement will also give the Group the flexibility to resume its own production at NHW and HG at a later stage should the market turn around.

Both Huali and Yunfeng are independent third party manufacturers of textile and other products which are the customers of the Group and which have expressed interest to lease the Group's production facilities as part of their strategy to explore upstream production. Huali's business operations include wholesale/retail of textile, chemical fibre products, lace fabric, net cloth and shoe fibre, while the business operations of Yunfeng include wholesale/retail of textile, chemical fibre products, wrap knitting cloth and nylon fabrics.

Under the terms of the operating lease agreement entered into between HG and Huali, HG has agreed to lease out its production facilities to Huali for a three-year period from 1 August 2014 to 31 July 2017 for the purpose of Huali's production operations, in consideration for monthly lease payment by Huali amounting to RMB50,000.

To assist Huali in commencing its operations at HG's production facilities, HG has further agreed to provide advances extend an interest-free, 12 months secured working capital advance of RMB3.5 million to Huali. The aforesaid advance shall be drawn down in stages by Huali in accordance with its operational requirements, and shall be repayable by Huali in full within 12-month from the date of disbursement. As of 30 September 2014, RMB1.7 million of the aforesaid advances has been provided by HG to Huali.

Similarly, NHW has also entered into an operating lease agreement with Yunfeng whereby NHW has agreed to lease out its production facilities to Yunfeng for a three-year period from 1 August 2014 to 31 July 2017, in consideration for monthly lease payment by Yunfeng amounting to RMB0.2 million.

NHW has also agreed to extend an interest-free, 12 months secured working capital advance of RMB20.0 million to Yunfeng to assist Yunfeng in commencing its operations at NHW's production facilities. The advance shall be repayable by Yunfeng in full within 12-month from the date of disbursement. As of 30 September 2014, the full amount of the aforesaid advance has been provided by NHW to Yunfeng, of which approximately RMB14.7 million has been used by Yunfeng to purchase NHW's existing inventory stocks.

The terms of the abovementioned operating lease agreements are arrived at based on arm-length commercial negotiations and after taking into account *inter alia* the existing business conditions of HG and NHW.

None of the Directors, controlling shareholders (including Mr. Cao Xiangbin) of the Company has any interest, direct or indirect, in the abovementioned transactions, save through their shareholdings in the Company (if any)."

- v) On the value of the PPE which has been leased out, please refer to the following table:

Rented Out PPE of NHW and HG			
Rented PPE carrying amount as at 1 Aug 2014	NHW (RMB)	HG (RMB)	Total (RMB)
Machinery	88,604,645	20,944,676	109,549,321
Motor vehicle	-	15,190	15,190
Building	-	4,841,638	4,841,638
	88,604,645	25,801,504	114,406,149

2) In the Income Statement, "Financial expense" amounted to RMB138.8 million.

- (a) As the Company has stated that the operation is not a viable operation, please explain and provide details on the use of the loan proceeds.**

Company's answer to question 2(a):-

As announced in the FY2014 financial results, during 2014, from the cash flow perspective, the proceeds from loans (including short and long term and non-financial institution loans) is RMB2,314.5 million with a loan repayment amount of RMB1,725 million with the corresponding interest expenses.

These proceeds from these loans were mainly used by the Group as working capital and capital expenditure for the Huaxiang Project, such as the repayment of due bank loans, procurement of raw material, salary, utilities, and Project expenses such as construction fees, and additional machineries.

In addition, as announced in the FY2014 financial results cash flow statement, the proceeds were also used for the repayment of due bills payable, payment of guarantee fee to a shareholder, purchase of non-performing assets from Huarong, repayment of finance lease liabilities, and to pay the interest expense including non-financial institution loans.

- (b) Please provide details on the repayment of such loans and how the Company will be able to make repayment of the loans.**

Company's answer to question 2(b):-

As at 31 December 2014, the balance of short-term loans is RMB698million (including RMB378 million short-term bank loans and RMB320 million non-financial institution loans), which the Company should be able to repay to the banks when they fall due. The balance of the long-term bank loans is RMB416 million.

With regard to the RMB378 million of short-term bank loans, there are different loan maturity dates from the different banks. The Company has the ability to repay the loan that is due first before applying for a loan renewal using the same collateral(s), and the banks will usually renew the loans after a simple application process.

As for the long-term loans, the total amount to be repaid in 2015 is RMB100 million (by 31 May 2015 and 31 November 2015 respectively). When the Huaxiang Project is put into operation, it is expected to generate annual revenue of approximately RMB2 to 2.5 billion and this will help the Company to generate sufficient cash flow to repay these bank loans.

In addition, from the perspective of financing, the Company has received the certificate for its office property which can be used as collateral to apply for additional loans from the banks. According to the current market value, the value of the Company's office property is worth approximately RMB200 million. Also, after the other two plants (polymerization plant and spinning plant) of the Huaxiang Project are in operation in April, certain inventories and other assets, if need be, can also be used by the Company as collateral to obtain additional loans. In view of the above, through these aforementioned activities, the Company has the cash flow to repay debts that have reached their maturity date.

- 3) ***In paragraph 8 of the Announcement, the Company disclosed that “Bills and Other receivables increased to RMB343.1 million from RMB156.8 million mainly due to (i) receivable from Huarong Finance Asset Management (“Huarong”) amounting to RMB80.7 million relating to a payment made to Huarong for the transfer of non-performing assets of Dibang Group ... (iii) 1-year interest-free working capital loans amounting to RMB20.0 million and RMB3.2 million respectively extended by the Group to Yunfeng & Huali as part of the lease agreements entered during the year, (iv) higher VAT receivables from domestic machines purchased for the Huaxiang Project following the verification of the VAT invoice by the China Tax Department during the financial year.”***

- (a) ***Please provide details on how much has been invested in the Huaxiang Project to date and what is the current Net Book Value reported in the Company's Balance Sheet.***

Company's answer to question 3(a):-

As at 31 December 2014, the property, plant and equipment (“PPE”) excluding land use rights and investment property, capitalised for the Huaxiang Project amounted to RMB1.63 billion. The Group expects to incur an additional capital commitment of RMB168.0 million in FY2015.

The Huaxiang Project is undertaken by Huaxiang (China) Premium Fibre Co., Ltd (“Huaxiang China”), which is a wholly owned subsidiary of Huaxiang China Gaoxian International Holdings Limited (“Huaxiang Hong Kong”). Huaxiang Hong Kong is primarily an investment holding company, holding interests in Huaxiang China. The Huaxiang China project is funded by the proceeds received by Huaxiang Hong Kong from the capital injection of RMB407 million as well as quasi-equity loan of RMB930.4 million extended by the Company.

- (b) ***Please provide the valuation amount of the domestic machines purchased for the Huaxiang Project and what is the Book Value of the machines in the Company's Balance Sheet.***

Company's answer to question 3(b):-

There was no valuation performed on the domestic machines purchased for the Huaxiang Project in FY2014. The underlying domestic machines were only installed in FY2014 and the costs that were capitalised represent and approximate their fair values based on the prices stated in the supplier invoices. The costs incurred were also consistent with the contract prices stated in “Appendix IV- Schedule of Contracts Entered Into” in the Shareholder Circular dated 29 May 2013. Please note that the carrying amount of the machines is capitalised in the books of Huaxiang China, which is a wholly owned subsidiary of the Company.

- 4) *In paragraph 8 of the Announcement, the Company disclosed that “In terms of current liabilities, the Group’s trade payables increased to RMB89.7 million as at 31 December 2013 from RMB42.2 million as at 31 December 2013 as the Group entered into some back-to-back transactions which have yet been settled as of the balance sheet date.”*

(a) *Please disclose what are these back-to-back transactions and who are they entered with.*

Company’s answer to question 4(a):-

During the current financial year, the Company entered into arrangements with Shanghai Lijing international trading Co.,Ltd.(上海利景贸易有限公司) and Huayi trading Co.,Ltd. (华易贸易有限公司) (collectively known as “the suppliers”) and in turn, sold the same raw materials to Youli trading Co.,Ltd (友利贸易有限公司) and Xiamen International trading Co.,Ltd. (厦门国贸有限公司) (collectively known as “the customers”) under a back to-back arrangement with nil margin.

The main reason for the said arrangements is because of perpetual delays in the texturing production of the Huaxiang project. In order to prepare for production, the Company has to buy raw materials in advance. However, the long duration of storing these raw materials may affect the quality of texturing products. Hence, on several occasions, the Company has sold the raw materials at the original cost price.

(b) *What is the value of the total transactions entered and the balance outstanding.*

Company’s answer to question 4(b):-

The total transaction value was RMB148.9 million. As at 31 December 2014, the Group has an amount of RMB96.3 million due from a customer with a corresponding amount of RMB82.9 million owing to the suppliers.

- 5) *In paragraph 8 of the Announcement, the Company disclosed that “Other payables, liabilities and provision increased to RMB206.5 million as at 31 December 2014 from RMB142.4 million as at 31 December 2013, mainly due to increase in the advances extended from third parties amounting to RMB73.4 million.”*

Please disclose who are the third parties and why they extended advances to the Company and the use of such funds.

Company’s answer to question 5:-

As at 31 December 2014, the advances from third parties include amounts received from Shanghai Lijing international trading Co.,Ltd (上海利景国际贸易有限公司) of RMB 51.4 million (31/12/2013: RMB 1.7 million) and Huazhou Wuxing Nan Taihu construction Co.,Ltd (湖州吴兴南太湖建设投资有限公司), a state owned enterprise of RMB 54.2 million (31/12/2013: RMB 34.2 million). These advances were used for temporary working capital purposes.

- 6) *In paragraph 8, the Company is required to disclose any variance between the prospects statement made in paragraph 10 of its 3Q2014 Results and its actual FY2014. Please disclose accordingly.*

Company’s answer to question 7:-

In 3Q2014 Results, the Company announced that “the Company aims to complete phase 1 of Huaxiang Project by the first quarter of 2014...” and due to the factual situation of 2014, the Company has updated in each quarterly announcement the Huaxiang project status. Other than that, there is no material variance to be disclosed.

- 7) *In paragraph 10 of the Announcement, the Company disclosed that “The Company believes that the operating environment for the financial year 2015 (“FY2015”) is likely to continue to remain challenging, due to the ongoing uncertainties in the global economy and the slowdown in the PRC economy.”*

It is noted that the Company made a loss of RMB 221.1 million in FY2014, has negative cash flow for operating activities and negative working capital. As the Company has reported in Paragraph 10 of its announcement, the outlook remains to be challenging and the Company requires another RMB 224.3 million to complete Phase 1 of the Huaxiang Project, please confirm if the Company will be able to operate as a going concern.

Company's answer to question 7:-

Based on the considerations set out in the response to question 2(b) above, there are reasonable grounds to believe that the Company will be able to operate as a going concern.

- 8) *In paragraph 10 of the Announcement, the Company disclosed that “Reference is made to the Company's 3-year RMB242 million term loan extended by China Citic Bank (Fujian Branch) which the Company had to acquire from Citic Bank a non-performing loan by Fujian DiBang Group Co., Ltd which was transferred through China Huarong Asset Management Co., Ltd (“China Huarong”). As previously announced, the aforeseaid non-performing loan was backed by 40.63 million equity shares in Rural Commercial Bank of Fuzhou and a commercial unit located on the 12th floor of Fuzhou Wuyi Center Building and underground carpark (collectively the “DB assets”). The Company has been informed by China Citic Bank (Fuzhou Branch) that the DB assets have been put up for sale via auction. The assessed value and starting auction price of the equity shares are all approximately RMB73.4 million. As for the commercial unit, its valuation is approximately RMB12.3 million and its auction price will start from RMB10.4 million.”*

- (a) *Please provide details on the status of the Company's loans and the due date of the loans. Please also disclose the collaterals backed for these loans.*

Company's answer to question 8(a):-

The loans of RMB242 million from China Citic Bank comprised both long-term (RMB236 million, repayable in FY2016 and FY2017) and short-term loans (RMB6 million). The loans were drawn down in June 2014. The loans bear a fixed interest rate of 6.15% per annum and are secured by corporate guarantees from the Company's subsidiaries, Zhejiang Huagang Polyester Industrial Co., Ltd and Huaxiang (China) Premium Fibre Co., Ltd and a personal guarantee from Mr. Cao Xiang Bin.

- (b) *Please disclose how much are the assets acquired for.*

Company's answer to question 8(b):-

As announced in 7 September 2014, the Company paid China Huarong Asset Management Company Limited a total of RMB83.9 million (inclusive of an approximate RMB3.2 million consultation fee levied by China Huarong) for the transfer of the Non-Performing Loan and the security rights over the DB Assets.

BY ORDER OF THE BOARD

Tham Wan Loong, Jerome
Executive Director
20 March 2015