

THREADING CHINA SERVING THE WORLD

CHINA GAOXIAN FIBRE FABRIC HOLDINGS LTD.

ANNUAL REPORT 2016



A leading supplier
of **premium**
differentiated fine
polyester yarn and
warp knit fabric.

Contents

- 02 • Corporate Profile
- 03 • Our Products
- 04 • Chairman's Statement
- 06 • Operations & Financial Review
- 08 • Board of Directors

- 11 • Key Management
- 12 • Corporate Information



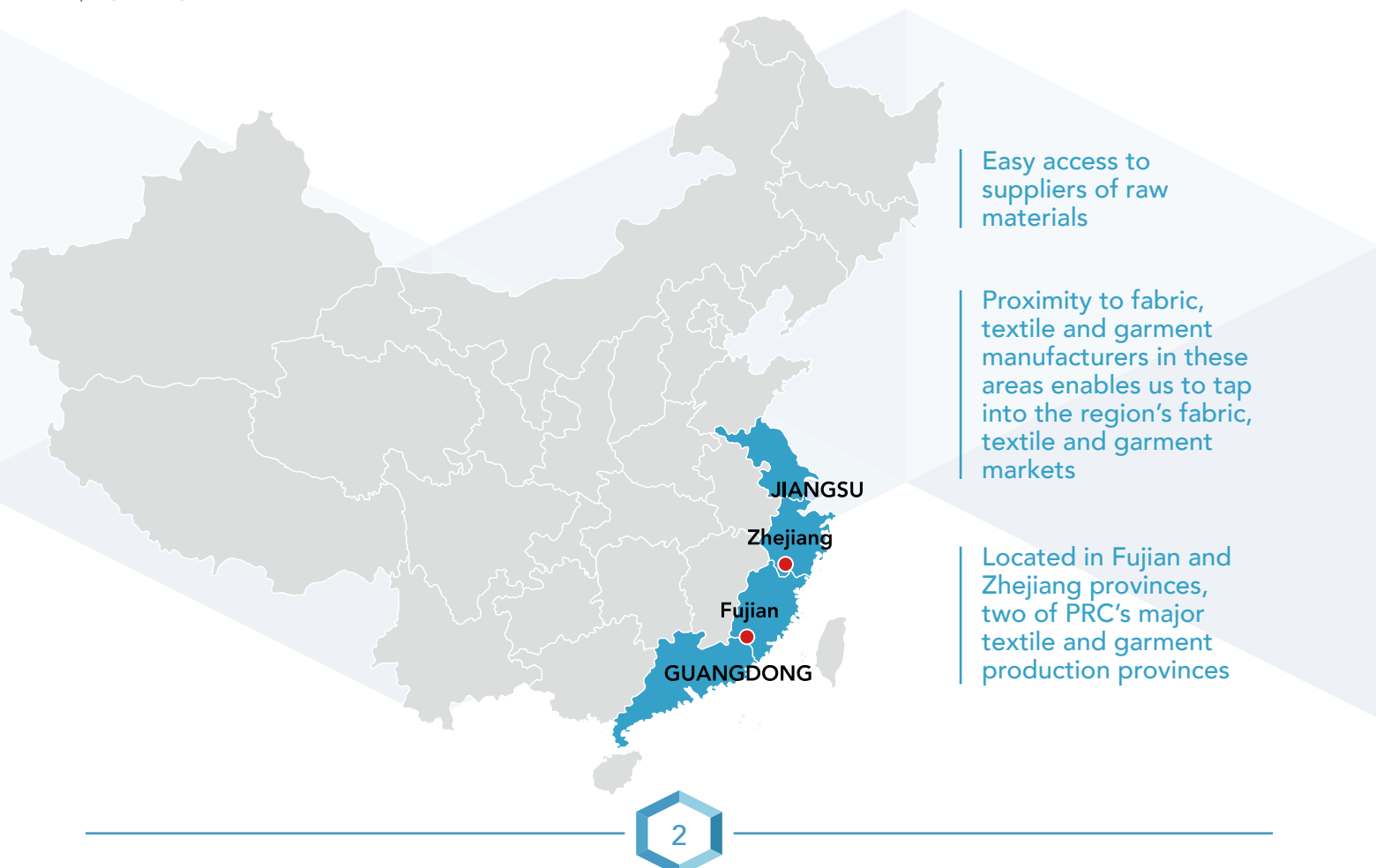
CORPORATE PROFILE

Listed on the Mainboard of Singapore Exchange in September 2009, China Gaoxian Fibre Fabric Holdings Ltd. ("China Gaoxian" or the "Company") is a leading supplier of premium differentiated fine polyester yarn and warp knit fabric in the PRC. It is principally engaged in the manufacture of premium differentiated fine polyester yarn and fabric under its own "Huaxiang" (华祥) brand.

By varying the physical, mechanical and chemical properties of the fibres, China Gaoxian produces substitutes for other fibres like silk or nylon, but with desirable properties added on in terms of warmth, texture and feel, luster, tensile strength, as well as abrasion resistance. As such, its products are widely used in the manufacture of mid to high-end apparels and utilities, including sportswear, casual wear, upholstery for automobiles and aeroplanes, sports shoes, headgear, curtains, bedding, bags and umbrellas. China Gaoxian is well positioned to capture this growing domestic market with an established customer base of over 1,500 domestic textile and garment manufacturers, and experienced management with more than 16 years of expertise in polyester yarn business.

Its three production facilities are strategically located in Zhejiang and Fujian provinces, otherwise known as the two textile hubs of the PRC, which gives it easy access to the entire production chain. It therefore enables the Company to respond quickly to customers' demands and develop long lasting relationships with many of its local customers.

In 2010, the Company announced its upstream expansion project ("Huaxiang Project"), which refers to the construction of a new integrated facility with Polyester Direct Spinning production lines which are capable of producing PET chips and four differentiated polyester yarn products. The construction and development of the New Production Facilities and the Office Property of the Huaxiang Project (Phase 1 of the Huaxiang Project) has been completed. The production of Polyethylene terephthalate (PET) chips, Partially Oriented Yarn (POY), Drawn Textured Yarn (DTY) and Fully Drawn Yarn (FDY) products has commenced.





OUR PRODUCTS

PRODUCT	PROPERTIES	OTHER FEATURES
Polyethylene terephthalate ("PET")	Excellent wear resistance; low coefficient of friction; high flexural modulus; superior dimensional stability	<ul style="list-style-type: none"> Material for designing mechanical and electro-mechanical parts
Pre-Oriented Yarn ("POY")	Primary form of polyester yarn	<ul style="list-style-type: none"> Mainly used in texturizing to make textured yarn ("DTY") Also be used in draw warping for weaving and warp knitting of fabrics
Fully Drawn Yarn ("FDY") With filament count of 24f and linear densities of 35D and 50D	High tensile strength; semi-dull; softer; smoother feel; wrinkle resistance; soft luster	<ul style="list-style-type: none"> Finer in texture as compared to more commonly available polyester FDY 150D/48f Suitable for high-end apparel and home furnishings
Drawn Textured Yarn ("DTY")	Combines desired properties of natural fibre (eg warm, bulk, soft luster) and polyester fibre (high strength, elasticity, stretch and abrasion resistance)	<ul style="list-style-type: none"> Achieved through a texturing process Fabric manufactured from DTY feels warm due to static air trapped between fibres, and have a softer and greater volume due to untwisted fibres
Blended Yarn ("BY")	Higher tensile strength; resilience; shape-retention; crease resistance; high breathability; soft and smooth	<ul style="list-style-type: none"> Highly suitable for making suits, gowns and sports apparel



CHAIRMAN'S STATEMENT



Dear Shareholders,

On behalf of the Board of Directors of China Gaoxian Fibre Fabric Holdings Ltd. (the "Company" and together with its subsidiary, the "Group"), I am pleased to present the Annual Report for the financial year ended 31 December 2016 ("FY2016").

In FY2016, the PRC's textile industry continued to be impacted by the slowdown of the PRC's economy and the market conditions. These challenges have also affected the Group's business and we have taken certain initiatives to overcome these challenges, thus, FY2016 was still a relatively stable year for the Group.

As of date of this Statement, we would like to report that the Group's total daily production capacity of spinning

and polymerisation plant is approximately 1,000 tonnes, comprising approximately 700 tonnes of POY and FDY and 300 tonnes PET polyester chips. The total number of employees of the Group is approximately 1,100 employees.

FINANCIAL REVIEW

The Group recorded an increase of RMB 1.0 billion or 698% in revenue for FY2016 to RMB 1.2 billion from RMB 147.0 million for the financial year ended 31 December 2015 ("FY2015"). The Group has also reduced its net loss after tax by RMB 412.0 million or 52.3% in FY2016 to RMB 375.1 million from RMB 787.0 million in FY2015.

In addition, the Group recorded a net cash flow generated from operating activities of approximately RMB127.3



million in FY2016, as compared to a net cash flow used in operating activities of approximately RMB 30.6 million in FY2015.

As part of the initiatives to improve the Group's financial and cash flow positions, Huaxiang (China) Premium Fiber Co., Ltd ("Huaxiang China"), a wholly owned subsidiary of the Company, had on 1 December 2016 entered into a framework supply chain cooperation agreement with a state-owned enterprise Zhejiang Materials Industry Chemical Group Co., Ltd. ("Zhejiang Materials"), for a period of 3 years, commencing from 1 December 2016 to 31 December 2019.

More details can be found in our Operations and Financial Review section on pages 6 and 7.

HUAXIANG PROJECT

As announced previously, Huaxiang China has resumed its production in April 2016 and reached a full production capacity in December 2016, after a temporary cessation of production for the PET, FDY and POY production lines on 30 December 2015.

During the financial year, Huaxiang China has completed the trial productions for semi-dull products for all 8 FDY production lines and 8 POY production lines. In addition, Huaxiang China has also started the production of 4 FDY with luster production lines between December 2016 and February 2017.

As at 31 December 2016, the total contractual amount of Huaxiang Project (Phase 1) is approximately RMB 2.47 billion. To date, the Group has expended approximately RMB 2.24 billion.

We will continue to improve the Group's profitability by reviewing our production technology, production capacity, product quality and range from time to time.

OUTLOOK

The Company believes that the macro-environment for the financial year ending 31 December 2017 is likely to continue to remain challenging due to the ongoing uncertainties in the global economy and the slowdown in the PRC economy.

On an individual scale, the Company has seen market acceptance of the quality of its products and is actively

expanding its sales channels, which includes working with trade agencies to increase its market presence. To date, the Company has more than 800 customers, both existing and new, and has been receiving a stable number of orders from repeat customers.

Although the Huaxiang plant has resumed to full production capacity level, the Management believes that the market situation is still challenging. However, the Management has taken some concrete measures to handle the situation, including negotiating with local government and banks for more financial assistances and working capital supports, postponing the repayment of the bank loans' interest and principal, as well as internal cost-saving programs. As such, the Management believes that the Group will be able to sustain itself with these efforts.

APPRECIATION

I would like to take this opportunity to express my appreciation to our shareholders for their confidences and supports, our directors and external advisors for their guidance, our Management and staff for their commitment and hard work and our business associates and partners for their continued supports.

Thank you for your continued support.

Mr Xie Ruliang

Non-Independent and Non-Executive Chairman

OPERATIONS & FINANCIAL REVIEW

The Group recorded an increase in revenue of RMB1.0 billion or 698% to RMB1.2 billion for the financial year ended 31 December 2016 ("FY2016") from RMB147.0 million for the financial year ended 31 December 2015 ("FY2015"). The increase in revenue was mainly attributed to the resumption of full production capacity of Huaxiang Plant for FDY, POY and PET chips since the second quarter of the financial year ended 31 December 2016.

In FY2016, the PRC textile industry continued to be impacted by the slowdown of the PRC economy and market conditions for the fibre industry did not improve. The Group's revenue consisted of sales of DTY of RMB145.0 million, FDY of RMB465.1 million, POY of RMB378.1 million, PET Chips of RMB172.6 million and revenue generated from supply chain cooperation of RMB12.9 million.

Cost of sales, correspondingly increased by RMB1.02 billion to RMB1.16 billion in FY2016 from RMB145.1 million in FY2015. The Group's recorded an increase of RMB 9.2 million or 491% in gross profit to RMB11.1 million for FY2016 from RMB1.9 million for FY2015. The gross profit was mainly due to higher products selling price and higher sales volume.

Selling and distribution expenses which comprises sales department's salaries and distribution costs increased by RMB0.6 million to RMB 3.3 million for FY2016 from RMB2.7 million in FY2015. The increase was mainly attributable to the higher revenue recorded.

General and administrative expenses in FY2016 decreased by RMB357.0 million or 58% from RMB612.3 million in FY2015 to RMB255.3 million in FY2016.

Financial expenses decreased by RMB59.7 million or 29.8% to RMB140.9 million in FY2016 from RMB200.6 million in FY2015, which was attributable to the lower applicable bank loan interest rate in FY2016.

In FY2016, Chinese textile industry continue to face the downturn cycle due to the global and domestic economy recession, the lower crude oil price and the oversupply production capacity in China domestic market, etc. which continued to impact the Company's assets profitability. Following the independent appraisal company's report, the Company adjusted the property, plant and equipment ("PPE") value of its three key operating subsidiaries, thereby resulting in an impairment loss of RMB112.0 million.

As a result, the Group recorded a decrease in net loss attributable to shareholders by RMB411.9 million or 52% to RMB375.1 million for FY2016 from RMB787.0 million for FY2015.

FINANCIAL POSITION

As at 31 December 2016, the Group's Property, Plant and Equipment ("PPE") decreased by RMB0.2 billion to RMB1.3 billion from RMB1.5 billion as at 31 December 2015. The decrease was mainly due to the impairment loss of the subsidiaries' PPE of RMB112.0 million during the financial year under review.

The decrease in land use rights over the four plots of state-owned lands in the PRC, where the Group's manufacturing premises reside, by RMB3.6 million to RMB148.5 million as at 31 December 2016 from RMB152.1 million as at 31 December 2015 due to amortisation charges.

The Group has incurred a total of RMB156.8 million on the construction of the investment properties, namely the office building, as at 31 December 2016 as compared to RMB154.1 million as at 31 December 2015, due to the additional payments to the construction suppliers. The Group expects to obtain the building certificates from relevant government authorities by the second quarter of the financial year ending 2017.

Prepayments under Non-Current Assets consisted of prepayments made for the land preparation fee of RMB69.3 million for Huaxiang Project (Phase 1) and the land cost of RMB56.0 million for Huaxiang Project (Phase 2). The decrease from RMB127.0 million as at 31 December 2015 to RMB125.3 million was due to normal amortization for the land preparation fee over the remaining lease period.

In terms of current assets, the Group's inventories decreased by RMB17.5 million to RMB18.9 million as at 31 December 2016 from RMB36.4 million as at 31 December 2015. The decrease was mainly due to cooperation agreement with Zhejiang industry materials. The inventories comprised mainly raw materials, auxiliary stocks and finished goods such as PET chips, POY, DTY and FDY.

The decrease in prepayment (current portion) by RMB4.0 million from RMB16.0 million as at 31 December 2015 to RMB12.0 million as at 31 December 2016, was mainly due to the receipt of goods from suppliers during the financial year under review.



As at 31 December 2016, trade and other receivables decreased by RMB21.8 million to RMB283.6 million from RMB305.4 million as at 31 December 2015. Trade and other receivables mainly comprised:

1. Trade receivable from customers for RMB31.1 million;
2. RMB151.1 million input VAT receivables from domestic machines purchased for the Huaxiang Project which can be used offset future VAT payments generated by sales from Huaxiang;
3. a remaining RMB10.1 million in receivables from Huarong Finance Asset Management Company ("Huarong") for the transfer of non-performing assets of Dibang Group as announced previously;
4. RMB 30.0 million of deposits paid to Zhejiang Materials Industry Group Co., Ltd, (please refer to the announcement dated 19 December 2016; and
5. Other receivables from third parties amounting to RMB73.3 million.

The Group's trade and other payables decreased by RMB 53.7 million to RMB 702.9 million as at 31 December 2016 from RMB 756.6 million as at 31 December 2015 due to the payments made to the trade and other payables.

Overall, financial liabilities increased to RMB1.69 billion from RMB1.19 billion due to the loans from financial and non-financial institutions as working capital for the Huaxiang Project to commence operations, and also due to reclassification of long-term loans to short term loans.

Other liabilities increased to RMB157.9 million as at 31 December 2016 from RMB99.3 million as at 31 December 2015 was mainly due to the increase in accrued staff salaries and directors remuneration, accrued for social contributions and accrued interest expenses.

As at 31 December 2016, the Group reported a deficiency in net working capital amounting to RMB2.1 billion as the Group currently uses short term financing which includes short term loans from financial institutions and third party institutions and bills payable facilities to finance its long-term Huaxiang Project and the working capital requirements for the commencement of operations at Huaxiang Plant.

CASH FLOW

The Group recorded a net cash flow generated from operating activities of approximately RMB127.3 million in FY2016, as compared to a net cash flow used in operating activities of approximately RMB30.6 million in FY2015.

As at 31 December 2016, the Group's cash and cash equivalents decreased by RMB7.5 million from RMB9.9 million as at 31 December 2015 to RMB2.4 million as at 31 December 2016. The decrease was mainly due to cash inflows from operating activities amounting to RMB127.3 million, which was offset by cash outflow from payments of capital expenditures amounting to RMB43.1 million and cash outflows from financing activities amounting to RMB91.7 million.



BOARD OF DIRECTORS

MR XIE RULIANG*Non-Independent and Non-Executive Chairman*

Mr Xie was appointed to the Board as Non-Executive and Non-Independent Chairman on 4 December 2015.

Mr Xie has more than 25 years of experience in the banking and finance industry. He is a venture partner of SAIF Partners and a member of the Community Party of China. He has held several directorships and senior positions in various financial institutions such as China Science & Merchants Venture Capital Management Co., Ltd, Xiamen Jinlanhai Investment Management Co., Ltd., CAC Group, China Everbright Bank (Fuzhou branch), and several branches of the Agriculture Bank of China.

Mr Xie graduated with a PhD of Economics (Capital) from Fujian Normal University in 1989.

MR LIN XINGDI*Chief Executive Officer*

Mr Lin Xingdi is the CEO of the Group. He was also appointed as an Executive Director of the Company on 15 May 2014 and subsequently appointed as the interim Chief Executive Officer on 31 October 2015. On 2 September 2016, Mr Lin has been re-designated from Interim CEO to CEO of the Company.

Mr Lin is also the legal representative of Fujian New Huawei Fibre Dyeing Co., Ltd, Zhejiang Huagang Polyester Industrial Co., Ltd and Huaxiang (China).

Mr Lin was previously the deputy general manager of Jin Lun High Fiber Co., Ltd where he was in charge of the production department's operations and responsible for improving production yields and quality.

Before his appointment at Jin Lun High Fiber Co., Ltd, Mr Lin worked in the production department of Dandong Chemical Fiber Co., Ltd. where he served as the Assistant Chief Engineer and Assistant General Manager from 2007 to 2009.

Mr Lin graduated from Fuzhou University with a degree in Textile Engineering.

**MR THAM WAN LOONG, JEROME***Executive Director*

Mr Jerome Tham was first appointed as a Director on 24 November 2008 and designated as an Independent Director on 30 June 2009. He was re-designated as the Group's Non-Executive Director on 29 November 2010. On 21 April 2011, Mr Tham took over as the Interim CEO. Subsequently, Mr Tham has been re-designated as an Executive Director on 18 September 2014 and is members of the Audit and Nominating Committees of the Company. He was last re-elected on 30 April 2015.

Mr Tham brings with him over 25 years of experience in equity sales and private banking. He was a Senior Relationship Manager with OCBC Private Bank. Prior to joining OCBC Private Bank in March 2008, he held several senior positions as a Private Banker with major financial institutions such as UOB Bank Ltd, Credit Industriel et Commercial, Dexia BIL Asia Pte Ltd, DMG and Merrill Lynch (Singapore).

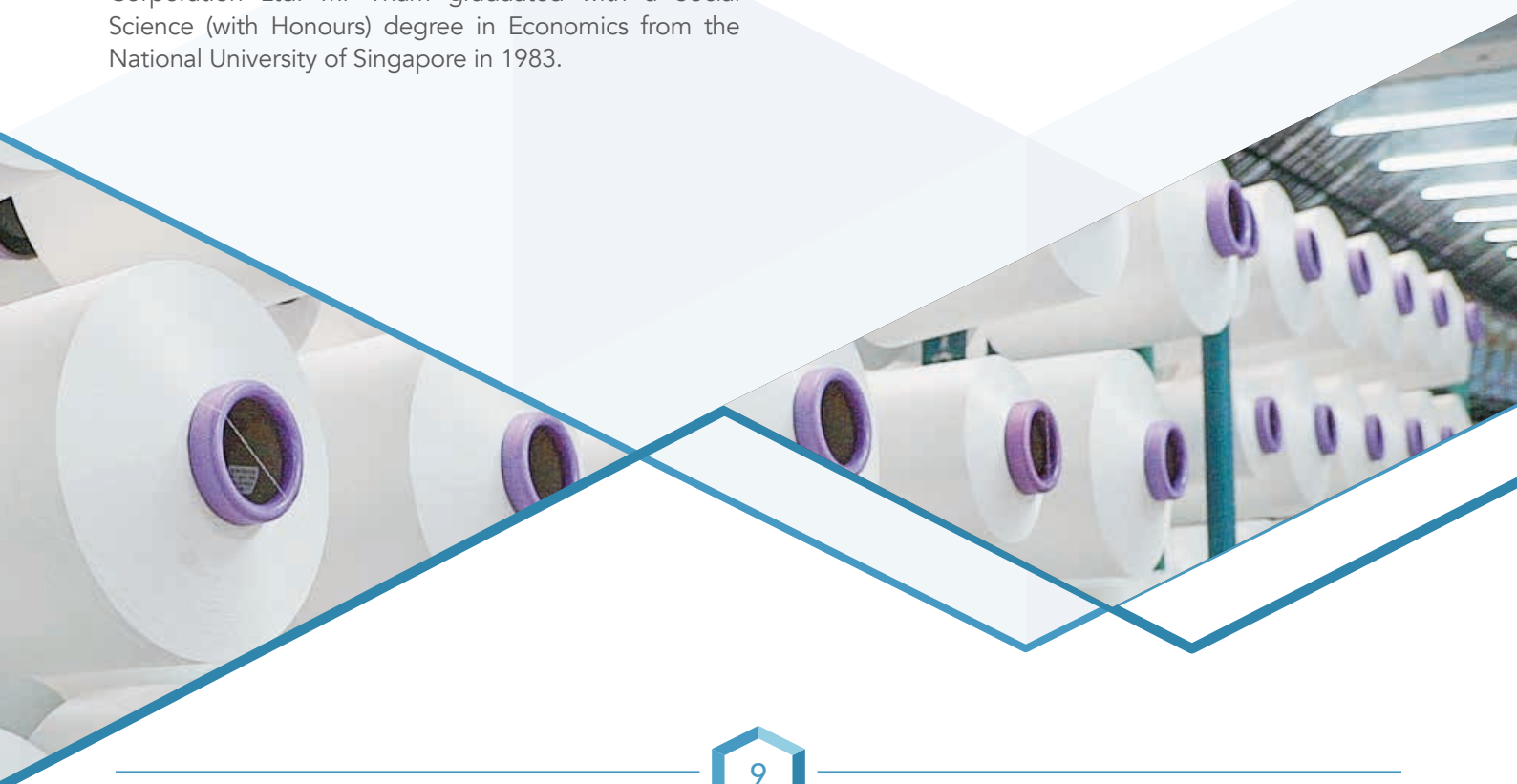
Mr Tham has equity sales experience, which includes working for companies such as Japan Asia Holdings Ltd., DMG and Partners Securities Pte Ltd, BT Brokerage and Associates Pte Ltd and Daiwa Singapore Ltd. Mr Tham is also an Independent Director at TMC Education Corporation Ltd. Mr Tham graduated with a Social Science (with Honours) degree in Economics from the National University of Singapore in 1983.

MR SZE MAN KAM*Independent Director*

Mr Sze was appointed to the board as an Independent Director on 9 November 2015.

Mr Sze has more than 10 years of experience in banking operations, wealth management, corporate risk management, financing and training management. He is the Regional Director (Hong Kong) of Prudential Group since 2009 and is responsible for financial planning, individual risk and wealth management, asset allocation and investments in addition to establishing a large marketing team, training and motivation. Prior to that, he was a senior branch manager of Dashing Bank Group from and a loan and credit officer at the Bank of China (Hong Kong). From 2010 to 2013, he was a Director of HK Million Profit Inc. Ltd. Mr Sze is very familiar with corporate restructuring, equity restructuring, corporate acquisitions, corporate finance, share issuance and other aspects of regulations pertaining to equity markets.

Mr Sze graduated from the Asia-Pacific institute of Business, The Chinese University of Hong Kong. He is a Fellow Chartered Financial Practitioner and holds a Professional Diploma in Financial Planning and Management.



MR LOW CHIN PARN ERIC*Independent Director*

Mr Low was appointed to the Board as an independent Director on 29 February 2016.

Mr Low has more than 20 years of experience in the finance & banking industry where he was previously the Vice President of Product & Advisory in CIMB Securities (Singapore) Private Limited.

He began his career at ANZ Bank as the regional treasury analyst before joining the fixed income sales & trading desk of a Japanese brokerage house. Moving on from being the Head of Fixed Income Sales and Trading, he has worked in business development roles in DBS Asset Management, Standard Chartered Bank and OCBC Asset Management where he led the expansion of the distribution channels before moving to the insurance industry based in Singapore and Hong Kong.

Prior to working at CIMB Securities, he worked at OCBC Bank where he held Consumer Banking roles including Head of Wealth Management OCBC China based in Shanghai, Head of Treasury Product and OCBC Private Bank Investment Advisory where he has extensive experience in product development and management, marketing and investment banking.

Mr Low holds a Master of Business Administration from Washington State University in the U.S.A.

TEO BOON HAI*Independent Director*

Mr Teo was appointed to the Board as independent Director on 4 April 2016.

Mr Teo has approximately 10 years of regional experience in corporate finance, mergers & acquisitions, general corporate & commercial exercises, corporate secretarial and compliance. He is currently the Director of B&BG Advisory Pte Ltd and Brahmavihara Berhad. Prior to that, he obtained his regional legal experience by holding corporate counsel positions in several listed companies, i.e. Sinostar PEC Holding Limited, a SGX Mainboard listed entity, and China Yuchai International Limited, a NYSE listed entity. Mr Teo started his legal career in Malaysia in 2006 and he continued it in Singapore since 2009.

Mr Teo graduated with a Bachelor of Laws (LLB) degree from the University of Malaya in 2006. He holds a professional diploma from the Malaysian Institute of Chartered Secretaries and Administrators and completed level II of the CFA program.





KEY MANAGEMENT

MR YUAN QING

General Manager

Mr Yuan was appointed as the General Manager of Huaxiang (China) Premium Fiber Co., Ltd on 13 April 2016.

Mr Yuan has more than 10 years of experience in the chemical fibre industry and is very familiar with the management of production lines, production processes and project implementation. He was the Assistant General Manager of

Huaxiang (China) Premium Fiber Co., Ltd since 2010 and was responsible for project management and overall day-to-day operations management of Huaxiang's differentiated fibre project, which has an annual 400,000 tonne capacity.

Prior to that, he was a Production Department Manager of Schaetti (Shanghai) Hotmelt Adhesive Co., Ltd and Polymerization Department Manager of Hangzhou Top Polyester Co., Ltd. From 1999 to 2002, he was a Process Specialist in the Polymerization Section, Filament Department of Xianglu Fibers (Xiamen) Co., Ltd.

Mr Yuan graduated with a Bachelor of Materials Chemistry degree from the University of Xiamen in 1996 and a Master of Polymer Science degree from the University of Xiamen in 1997.

Mr Lin Shawn Xiang

Financial Controller

Mr Lin was appointed as the Financial Controller of the Group on 14 November 2016. He is responsible for the Group's financial functions including accounting, internal controls, financial and management reporting, financing, capital management, tax, treasury, financial analysis, M&A support and risk management, loans and distressed assets.

Mr Lin specializes in distressed company restructuring and turnaround management, cash flow and operation monitoring, independent business review and cash flow projection, due diligence, asset/business disposal, and investment exit services. He worked for Ernst & Young China corporate restructuring department from 2014 to 2016 and he has served various industries' clients including shipping, real estate, shipbuilding, oil and gas, textiles and cellphone manufacturing. Prior to that, he was staff accountant of Hiwin group USA Inc in New York.

Mr Lin graduated from Rutgers University with dual bachelor degrees in Accounting and Finance. He further received his Masters Degree in Accountancy from Rutgers Graduate School of Business.



CORPORATE INFORMATION

BOARD OF DIRECTORS

Xie Ruliang

(Non-Executive and Non Independent Chairman)

Lin Xingdi

(Executive Director and Chief Executive Officer)

Tham Wan Loong, Jerome

(Executive Director)

Sze Man Kam

(Independent Director)

Low Chin Parn Eric

(Independent Director)

Teo Boon Hai

(Independent Director)

AUDIT COMMITTEE

Sze Man Kam *(Chairman)*

Teo Boon Hai

Tham Wan Loong, Jerome

NOMINATING COMMITTEE

Low Chin Parn Eric *(Chairman)*

Teo Boon Hai

Tham Wan Loong, Jerome

REMUNERATION COMMITTEE

Teo Boon Hai *(Chairman)*

Sze Man Kam

Low Chin Parn Eric

COMPANY SECRETARY

Teo Meng Keong

Cheok Hui Yee

REGISTERED OFFICE

80 Robinson Road

#02-00

Singapore 068898

Tel: +65 6236 3333

Fax: +65 6236 4399

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Industrial Area of Balidian Town

Wuxing District, Huzhou City

Zhejiang Province

People's Republic of China, 313002

Website: www.chinagaoxian.com

SHARE REGISTRAR AND WARRANT AGENT

Tricor Barbinder Share Registration
Services

(A division of Tricor Singapore Pte.
Ltd.)

80 Robinson Road #02-00

Singapore 068898

Tel: +65 6236 3333

Fax: +65 6236 4399

AUDITOR

Foo Kon Tan LLP

Public Accountants and

Chartered Accountants

24 Raffles Place, #07-03

Clifford Centre,

Singapore 048621

AUDIT PARTNER-IN-CHARGE

Kong Chih Hsiang Raymond

Appointed w.e.f. financial year

ended 31 December 2013

PRINCIPAL BANKERS

Bank of China

(Singapore Branch)

4 Battery Road Singapore 049908

Bank of China

(Huzhou Branch)

208 Renmin Road, Huzhou City,
Zhejiang Province People's Republic
of China 313000

Industrial and Commercial Bank of China Limited (Huzhou Branch)

48 Hongqi Road, Huzhou City,
Zhejiang Province People's Republic
of China, 313000

Shanghai Pudong Development Bank (Huzhou Branch)

120 Tiychang Road
Huzhou City, Zhejiang Province
People's Republic of China, 313000

China Construction Bank

118 Hongqi Road
Huzhou City, Zhejiang Province
People's Republic of China, 313000

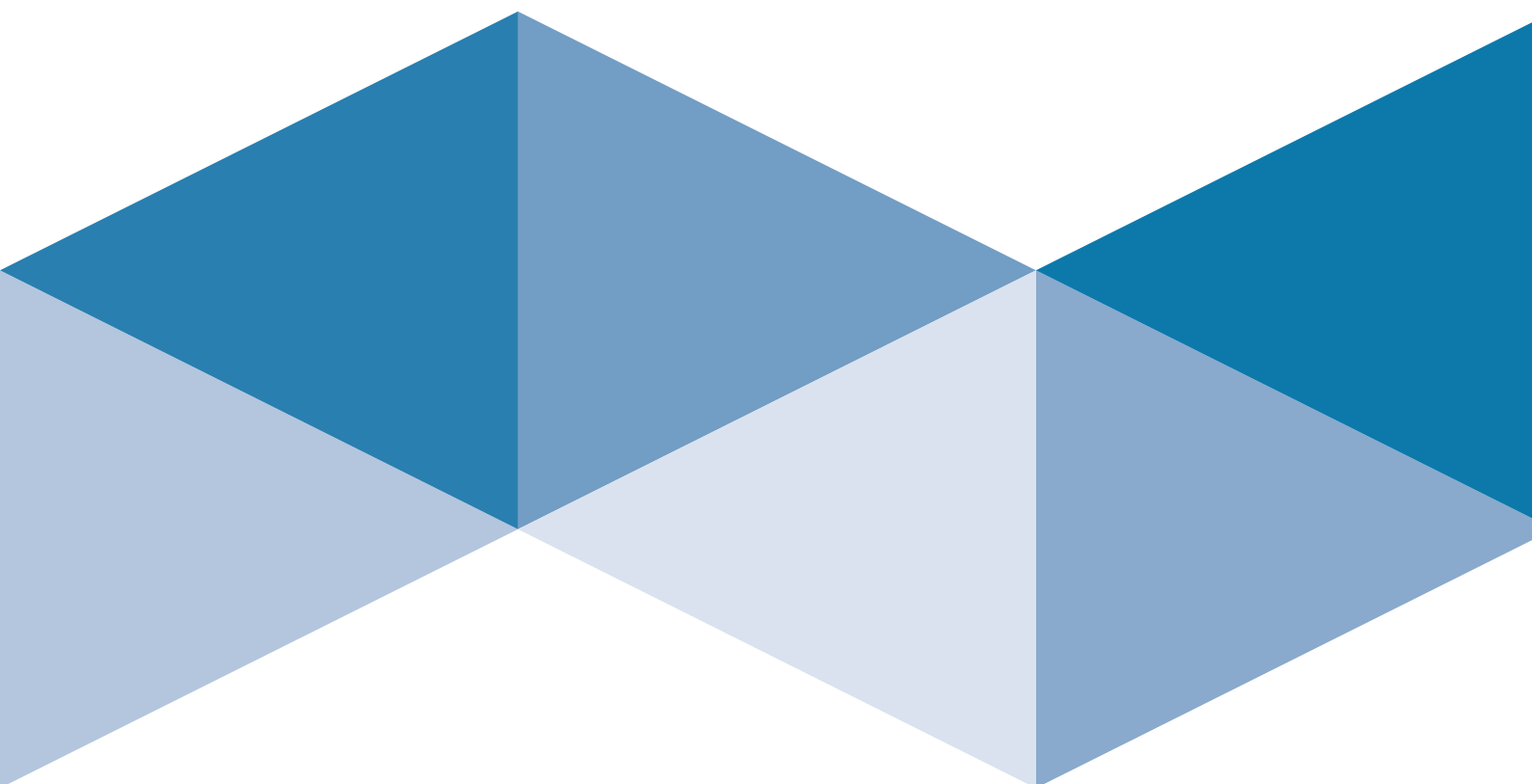
China CITIC Bank

(Fuzhou Cangshan Branch)

216 Shanya Building
Shangsan Road, Cangshan District
Fuzhou City, Fujian Province
People's Republic of China, 350001

CONTENTS

Corporate Governance Report	14
Directors' Statement	35
Independent Auditor's Report	38
Statements of Financial Position	45
Consolidated Statement of Comprehensive Income	46
Consolidated Statement of Changes in Equity	47
Consolidated Statement of Cash Flows	48
Notes to the Financial Statements	50
Shareholders' Information	103
Notice of Annual General Meeting	106



CORPORATE GOVERNANCE REPORT

Preamble

China Gaoxian Fibre Fabric Holdings Ltd. (the "Company") was listed on the Mainboard of the Singapore Exchange Securities Trading Limited ("SGX-ST") on 18 September 2009 and its Korean Depository Receipts ("KDRs") were dual listed on the Main Board of Korea Exchange ("KRX") on 25 January 2011.

During the audit of its financial year ended 31 December 2010 ("FY2010") accounts, the Audit Committee ("AC") was informed by the Company's Auditors that it could not confirm nor verify certain bank balances in the Company's subsidiaries in the People's Republic of China ("PRC"). In view of this development, the Board, upon recommendation of the AC and in consultation with SGX-ST and KRX, appointed PricewaterhouseCoopers LLP as special auditors ("Special Auditors") to conduct a special review into the financial affairs of the Group, including its cash at banks and account receivables balances, as well as capital expenditures of the Group incurred during FY2010 and the financial quarter ended 31 March 2011. The trading of the securities of the Company on the SGX-ST and KRX were also halted on 25 March 2011.

The Special Auditors completed their review and a copy of their Executive Summary was announced on 4 May 2012 ("SA Report").

In view of the findings in the SA Report, the AC had replaced Mr Cao Xiangbin and Mr Chen Fen as Directors of the Company upon completion of the investment by Fleur Growth Fund Limited ("Investor") as announced by the Company previously. Further to the release of the SA Report, the Company had sought to reconstruct its accounting records but as the bulk of the accounting records prior to 1 April 2011 were not available, it was unable to do so.

Pursuant to legal advice from the Company's PRC legal counsel, the Board subsequently lodged a report with the Public Security Bureau of Tantou Town, Changle City, Fujian Province, PRC on 31 May 2012 in relation to the missing accounting books and records and the cash discrepancies. To date, the Group has not received any report on the outcome of the preliminary investigation.

As part of the conditions imposed by SGX-ST for the resumption of trading, the AC had also on 22 August 2013 lodged a report with the Commercial Affairs Division of the Singapore Police Force on potential breaches of the Securities and Futures Act (Chapter 289) arising from the aforesaid discrepancies highlighted in the SA report. To date, the Group has not received any report on the outcome of the preliminary investigation.

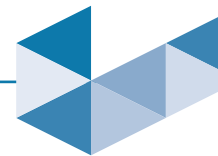
Upon the fulfilment of the resumption of trading conditions, the Company resumed trading of its securities on the SGX-ST on 18 September 2013 and its KDRs were subsequently delisted from the KRX on 4 October 2013.

Reshuffling of Board and Management prior to resumption of trading on 18 September 2013

As part of SGX-ST's requirement for resumption of trading, Mr Cao Xiangbin and Mr Chen Fen stepped down as Directors of the Company with effect from 22 August 2013. Mr Cao Xiangbin and his associates (including Mr Liu Yilin and Mr Chen Fen) had also stepped down from their existing positions as Directors, general managers, legal representatives and/or bank signatories of the Group companies. Following the aforesaid management reshuffle, new legal representative and general managers of the Company's principal PRC subsidiaries were appointed.

Further to the completion of the aforesaid investment by the Investor on 18 September 2013 (the "Completion Date"), the Investor had replaced China Success Group (International Holdings) Limited ("China Success") as the new controlling shareholder of the Company. The Investor has the right to approve the reconstituted board of directors of the Company, as well as put in place (i) a new management team, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"); and (ii) systems and controls that would augment and strengthen the corporate governance procedures of the Company (including but not limited to controls over the handling and use of the corporate seals of the Group).

In connection with the above, Mr Liu De Huang and Ms Liu Minqin were appointed as the new CEO and CFO of the Company respectively with effect from the Completion Date. Subsequently, Mr Liu De Huang and Ms Liu Minqin had resigned on 31 October 2015 and 31 March 2015 respectively.



CORPORATE GOVERNANCE REPORT (CON'T)

Mr Lin Xingdi, the Executive Director of the Company was appointed as the interim CEO while the search for a suitable candidate is in progress. After reviewing Mr Lin Xingdi's performance and contributions to the Group, the Board subsequently confirmed the re-designation and appointment of Mr Lin Xingdi as the CEO from the interim CEO since 31 October 2015. The details of the re-designation and appointment of Mr Lin Xingdi as the CEO were set out in the announcement released to SGX-ST on 2 September 2016. In this respect, the Company will no longer be searching for a replacement for the position of the CEO.

Mr Yan Qingwei (James), the Assistant CFO of the Company undertook the functions of the CFO in the interim. Subsequently, Mr James Yan had resigned as the Assistant CFO on 14 November 2016 and Mr Lin Shawn Xiang has been appointed as Financial Controller to undertake Mr James Yan's duties while the search for a suitable candidate for the position of the CFO is in progress.

Corporate Governance Framework

The Board of Directors ("Board") of the Company recognises that sound corporate governance practices are important to the proper functioning of the Company and its subsidiaries (the "Group") and enhances the interest of all shareholders.

This report describes the corporate governance framework and practices that have been adopted by the Company with specific reference to the principles of the Code of Corporate Governance 2012 (the "Code") and the Group's ongoing efforts to enhance its corporate governance practices in financial year ended 31 December 2016 ("FY2016").

This Report should be read as a whole, instead of being read separately under the different principles of the Code. Any deviations from the guidelines of the Code or areas of non-compliance have been explained accordingly. Save for the deviations disclosed in this Report, the Board confirms that the Company has adhered to the principles and guidelines of the Code (where they are applicable, relevant and practicable to the Group).

(A) BOARD MATTERS

Board's Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.

Role of the Board

The Board, in addition to its statutory responsibilities, assumes responsibility for stewardship of the Group and is primarily responsible for the protection and enhancement of long-term value and returns for the shareholders. It sets the overall strategy for the Group, oversees management of the Company ("Management") to ensure proper conduct of the business, performance and affairs of the Group, sets the values and standards (including ethical standards), and provides corporate direction to ensure that obligations to shareholders and other stakeholders are understood and met. Board members are expected to act in good faith and exercise independent judgement in the best interests of the Group. To fulfil this role, the Board's responsibilities include:

- a. providing entrepreneurial leadership, guiding and setting the strategic objectives and directions to ensure that the necessary financial and human resources are in place for the Group to achieve its objectives;
- b. advising Management on major policy initiatives and significant issues, and approving board policies, strategies and financial objectives of the Company;
- c. approving annual budgets, key operational matters, major funding proposals, material acquisition and disposal of subsidiaries or assets and liabilities, corporate or financial restructuring and interested person transactions of a material nature, significant capital expenditures and investment and divestment proposals, dividend payment (if any) and convening of shareholders' meetings;

CORPORATE GOVERNANCE REPORT (CON'T)

- d. reviewing the performance of the Group towards achieving adequate shareholders' value, including but not limited to approving announcements relating to the Group's quarterly and full year's financial results, the audited financial statements and timely announcements of material transactions;
- e. reviewing the processes relating to risk management systems and adequacy and effectiveness of internal controls, including financial, operational, compliance and information controls, identified by the Audit Committee ("AC") that are required to be strengthened for assessment and its recommendations on actions to be taken to address and monitor the areas of concern;
- f. approving all Board appointments/re-appointments and appointments of key management personnel, as may be recommended by the Nominating Committee ("NC");
- g. evaluating the performance and compensation of Directors and key management personnel, as may be recommended by the Remuneration Committee ("RC");
- h. identifying key stakeholder groups and recognise that their perceptions affect the Group's reputation; and
- i. overseeing the proper conduct of the Company's business and corporate policies, and assuming responsibility for corporate governance.

The Board provides shareholders with a balanced and understandable assessment of the Group's performance, position and prospects on a quarterly basis.

The Board will consider sustainability issues such as environmental and social factors as part of its strategic formulation in line with the recommendation of the Code. To assist in the Board in the execution of its responsibilities and to enhance the Group's corporate governance framework, the Board delegates specific authority to three Board Committees which include an AC, a NC and a RC, each of which functions within clearly defined terms of reference and operating procedures which are reviewed on a regular basis to ensure its continued relevance.

All Board Committees are chaired by an Independent Director and half of the members are Independent Directors. The Board accepts that while these Board Committees with the delegated power to make decisions, execute actions or make recommendations in their specific areas respectively and will report back to the Board with their decisions and/or recommendations, the ultimate responsibility for the decisions and actions rests with the Board.

The members of the reconstituted Board ("Reconstituted Board") and Board Committees as at date of this annual report are as follows:-

Board of Directors	AC	NC	RC
Xie Ruliang (Non-Independent and Non-Executive Chairman)	–	–	–
Lin Xingdi (Executive Director and CEO) ¹	–	–	–
Tham Wan Loong, Jerome (Executive Director) ²	M	M	–
Sze Man Kam (Independent Director) ³	C	–	M
Low Chin Parn Eric (Independent Director) ⁴	–	C	M
Teo Boon Hai (Independent Director) ⁵	M	M	C



CORPORATE GOVERNANCE REPORT (CON'T)

Notes:

C – Chairman

M – Member

- ¹ Mr Lin Xingdi has been re-designated and appointed as CEO from interim CEO since 31 October 2015.
- ² Mr Tham Wan Loong, Jerome was first appointed as a Director on 24 November 2008 and designated as an Independent Director on 30 June 2009.
In connection with the Dual Listing on the KRX, the Company re-designated Mr Jerome Tham from an Independent Director to a Non-Executive Director of the Company with effect from 29 November 2010. The re-designation of Mr Jerome Tham as a Non-Executive Director was in compliance with KRX requirements in relation to independent directors, as Mr Jerome Tham was deemed non-independent under the KRX requirements, due to him having acted as a nominee resident director of the Company prior to the Company's conversion into a public limited liability company for purposes of its listing on the SGX-ST.
With effect from 21 April 2011, Mr Jerome Tham (who was the Non-Executive Director of the Company then) took over as interim CEO to supervise the day-to-day operation, review the financial controls and facilitate any investigation into the affairs of the Group, in place of Mr Cao Xiangbin who stepped down as CEO pending the release of the report of the Special Auditors.
Mr Jerome Tham was subsequently re-designated as an Executive Director on the Completion Date to assist the new Management.
On 29 February 2016, Mr Tham stepped down as a member of the RC and remains as an Executive Director and members of the AC and NC.
- ³ Mr Sze Man Kam was appointed as an Independent Director, the RC Chairman and a member of the AC of the Company in place of Mr Kwak Kyung Jik who had resigned with effect from 9 November 2015.
On 29 February 2016, Mr Sze relinquished his position as the RC Chairman and remains as a RC member. He was also re-designated as the AC Chairman.
- ⁴ Mr Low Chin Parn Eric was appointed as an Independent Director of the Company, the NC Chairman and a member of the RC of the Company with effect from 29 February 2016.
- ⁵ Mr Teo Boon Hai was appointed as an Independent Director of the Company, the RC Chairman and members of the AC and the NC with effect from 4 April 2016.

Each Executive Director was provided with a Service Agreement setting out their terms of office, terms and conditions of appointment. The NC and the Board are satisfied that the Non-Executive Directors are familiar with their duties and aware of their obligations.

Board Meetings and Meetings of Board Committees

The Board meets on a quarterly basis and ad-hoc Board meetings will be convened when they are deemed necessary for the discharge of their duties. These meetings are scheduled in advance to facilitate the individual Directors' planning in view of their ongoing commitments. The Company's Constitution allows meetings of the Board and Board Committees to be conducted by way of telephone and video conferencing or other similar means of communications. In place of physical meetings, decisions of the Board and Board Committees may also be obtained through circular resolutions.

Directors may request further explanations, briefing or discussion on any aspect of the Group's operations or business from Management. When circumstances require, Board members exchange views outside the formal environment of Board meetings. The Board conducts an annual review of its processes to ensure that it is able to carry out its functions in the most effective manner.

The approval of the Board is required for any matters which are likely to have a material impact on the Group's operating units and/or financial positions as well as matters other than in the ordinary course of business. In addition, the Listing Manual of the SGX-ST ("SGX Listing Manual") and the Act provides for certain transactions that require the Board's approval. The Board believes that when taking decisions, all directors of the Board discharge their duties and responsibilities at all times as fiduciaries and act objectively in the interests of the Company.

CORPORATE GOVERNANCE REPORT (CONT'D)

The number of meetings held by the Board and Board Committees and attendance thereat in respect of the FY2016 are as follows:

DIRECTORS	BOARD	AC	RC	NC
No. of meetings held ¹	4	4	1	1
ATTENDANCE				
Xie Ruliang	4/4			
Lin Xingdi	4/4			
Tham Wan Loong Jerome ²	4/4	4/4		1/1
Sze Man Kam ³	3/4	3/4	1/1	
Low Chin Parn Eric ⁴	4/4		1/1	1/1
Teo Boon Hai ⁵	4/4	4/4	1/1	1/1

Notes:

- ¹ The attendance records were based on Board and Board Committees meetings held on 1 January 2016 to 31 December 2016.
- ² Mr Tham Wan Loong, Jerome stepped down as a member of the RC with effect from 29 February 2016.
- ³ Mr Sze Man Kam was appointed as an Independent Director, the RC Chairman and a member of the AC of the Company with effect from 9 November 2015. On 29 February 2016, Mr Sze relinquished his position as the RC Chairman and remains as a RC member and was also re-designated as the AC Chairman.
- ⁴ Mr Low Chin Parn Eric was appointed as an Independent Director, the NC Chairman and a member of the RC of the Company with effect from 29 February 2016.
- ⁵ Mr Teo Boon Hai was appointed as an Independent Director, the RC Chairman and members of the AC and NC of the Company with effect from 4 April 2016.

Training

All Directors have many years of corporate experience and are familiar with their duties and responsibilities as Directors. The Directors also have the opportunity to visit the Group's operational facilities and meet up with Management to gain a better understanding of the Group's business operations. In addition, the Company has in place a programme whereby newly appointed Directors will be given briefings and orientation training by key management personnel of the Company on the business activities of the Group, Group structure, its strategic direction, vision and values, policies and governance practice as well as their duties and responsibilities as directors. The Directors are also briefed by professionals either during Board meetings or at separate meetings on regulatory changes which have an important bearing on the Company and the Directors' obligations to the Company.

Directors may also attend relevant courses, conferences, seminars, workshops or training programs at the Company's expense to enable them to effectively discharge their duties as a Director, if required, from time to time.

Board Composition and Balance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The current composition of the Directors in the Board and Board Committees is set out under Principle 1 above.

Presently, the Board comprises two Executive Directors and four Non-Executive Directors, three of whom are independent. Accordingly, pursuant to Guideline 2.2 of the Code, the Independent Directors make up at least half of the Board.



CORPORATE GOVERNANCE REPORT (CON'T)

The size and composition of the Board are reviewed from time to time by the NC to ensure that the size of the Board is appropriate and conducive to facilitate effective discussions and decision making.

The review will also ensure that there is an appropriate mix of expertise and experience, which the Group may tap on for assistance in furthering its business objectives and shaping its business strategies. The NC, with the concurrence of the Board, is of the view that the current Board size of six members is adequate, taking into account the nature and size of the Group's operations, and the requirements of the business.

Together, the current Board and Board Committees comprise Directors who as a group provide an appropriate balance and diversity of expertise, experience and knowledge of the Company. They also provide core competencies such as accounting, legal, business, management, finance and risk management, industry knowledge and strategic planning experience necessary to meet the Company's requirements. The diversity of the Directors' background allows for the useful exchange of ideas and views.

Non-Executive Directors contribute to the Board process by monitoring and reviewing Management's performance against goals and objectives. Their views and opinions provide alternative perspectives to the Group's business. When challenging Management proposals or decisions, they bring independent judgement to bear on business activities and transactions involving conflicts of interest and other complexities.

The Reconstituted Board shall serve for a period of three (3) years from the Completion Date and shall, unless they are disqualified to act as Directors in accordance with applicable laws or are in breach of their duties to the Company, not be removed during this period without the prior consent of the Investor.

The appointment and continuation of service by any such Director to and on the Reconstituted Board shall require the prior approval (such approval shall not be unreasonably withheld) of the Investor.

Shareholders should note that as the directors are appointed at a Shareholders' meeting, Shareholders would have the right to remove such Directors if they so wish. However, the Company would be required to obtain the Investor's concurrence for any appointment of new Directors during the aforesaid three (3) year-period.

Notwithstanding the above, the directors will be subject to retirement by rotation under the Company's Constitution as disclosed in Principle 4 – Board Membership.

Key information regarding the Directors is set out on pages 8 and 10 of the Annual Report.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

Mr Lin Xingdi was appointed as the CEO while Mr Xie Ruliang was appointed as the Non-Independent and Non-Executive Chairman of the Company.

As the CEO, Mr Lin Xingdi is responsible for the day-to-day operations of the Group and the execution of the strategic plans set out by the Board and ensures that the Directors are kept updated and informed of the Group's business and the Huaxiang Project as defined in the Company's Circular dated 29 May 2013. The CEO, together with the Executive Director, Assistant CFO/Financial Controller and Management comprising each subsidiary's general managers and key management personnel, are responsible for the day-to-day management of the Group. Mr Yuan Qing has been appointed as General Manager of Huaxiang (China) Premium Fibre Co., Ltd. on 13 April 2016 and he is responsible for the operations of Huaxiang Project.

CORPORATE GOVERNANCE REPORT (CON'T)

As Chairman of the Board, Mr Xie bears responsibility for the effectiveness of the Board. He is responsible for, amongst others, setting agenda, in particular, strategic issues and ensuring that adequate time is available for discussion of all agenda items and ensuring that the Directors receive complete and adequate, timely and clear information. In addition to making sure that effective communication is achieved with the shareholders, he acts as facilitator to Non-Executive Directors for them to effectively contribute to the Group. He is also responsible for encouraging constructive relations within the Board and between Management and the Board, and promoting high standards of corporate governance. The Company Secretary assists the Chairman in scheduling the Board and Board Committees' meetings with the CEO, Executive Director, Assistant CFO/Financial Controller and Management.

Accordingly, different individuals assume the roles of the Chairman of the Board and the CEO respectively. The separation of the roles of the Chairman and CEO ensures a balance of power and authority such that no one individual represents a considerable concentration of power. Mr Lin Xingdi and Mr Xie Ruliang are not related to each other.

The above is not an exhaustive description of the current or future roles of the Chairman and CEO. The roles of the Chairman and the CEO may change in line with any developments that affect the Group.

While the Board acknowledges that the Non-Executive Chairman is not an independent Director, the Board is of the view that the appointment of a Lead Independent Director is not necessary as the Company has established a process for handling shareholders' feedback through the AC. Besides, the Independent Directors confer amongst themselves when necessary, without the presence of the other directors, and the Independent Directors provide feedback to the Chairman after such meetings as appropriate.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

Currently, the NC comprises three Directors, majority of whom including the NC Chairman are Independent Directors, as set out below:

Low Chin Parn Eric (Independent Director) ¹	- NC Chairman
Teo Boon Hai (Independent Director) ²	- NC Member
Tham Wan Loong, Jerome (Executive Director)	- NC Member

Notes:

¹ Mr Low Chin Parn Eric was appointed as the NC Chairman of the Company with effect from 29 February 2016 in place of Mr Roberto Fabbri who stepped down as the NC Chairman of the Company with effect from 6 January 2016.

² Mr Teo Boon Hai was appointed as the NC member of the Company with effect from 4 April 2016 in place of Mr Yeung Kin Bond Sydney who stepped down as the NC member of the Company with effect from 6 January 2016.

The primary functions of the NC are as follows:

- to identify candidates and review all nominations for the appointment and reappointment or re-election of members of the Board, the CEO of the Group, and to determine their selection criteria;
- to ensure that all Board appointees undergo an appropriate induction programme;
- to regularly review the Board structure, size and composition and make recommendations to the Board with regard to any adjustments that are deemed necessary;
- to identify gaps in the mix of skills, experience and other qualities required in an effective Board and to nominate or recommend suitable candidates to fill these gaps;



CORPORATE GOVERNANCE REPORT (CONT'D)

- to decide whether a Director is able to and has been adequately carrying out his duties as a Director of the Company, particularly where the Director has multiple board representations;
- to review the independence of each Director annually;
- to decide how the Board's performance may be evaluated and propose objective performance criteria for the Board's approval; and
- to evaluate the effectiveness of the Board as a whole and assesses the contribution by each individual Director, to the effectiveness of the Board.

For the year under review, the NC held one (1) meeting.

The NC had adopted a set of Terms of Reference in line with the Code.

Mr Xie Ruliang, Mr Sze Man Kam, Mr Low Chin Parn Eric and Mr Teo Boon Hai did not have any prior experience as a director of a listed company in Singapore.

Notwithstanding the above, since their appointment, Mr Xie Ruliang, Mr Sze Man Kam, Mr Low Chin Parn Eric and Mr Teo Boon Hai had attended and participated in all Board meetings as well as other Board Committees' meetings by invitation to familiarise themselves with the workings of the Board and Board Committees since their appointments. The Company will make the necessary arrangements for them to attend appropriate training courses so as to familiarise them with the roles and responsibilities as a director of a listed company in Singapore.

The NC is responsible for reviewing the independence of each Director on an annual basis. The NC had adopted the Code's definition of what constitutes an independent director and guidelines as to relationships which would deem a director not to be independent. In addition, the NC requires each Independent Director and members of the AC to assess his own independence by completing a Confirmation of Independence form which is drawn up in accordance with the guidelines of the Code and which forms part of the NC and the Board's rigorous review of the Director's Independence. The said form requires each Director to state whether he considers himself independent despite having any of the relationships identified in the Code which would deem him not to be independent, if any, and to declare whether he has served on the Board beyond nine years from the date of his first appointment and if so, the reason(s) why he should be considered independent.

Mr Tham Wan Loong, Jerome, who is an Executive Director, is considered not independent of the Company's Management as contemplated by the Code. Both the NC and the Board had noted Mr Tham's declaration.

Save as disclosed, none of the other aforementioned Directors are related and do not have any relationship with the Company, its related corporations, its substantial shareholder with a shareholding of 10% or more, or its officers or are in any circumstances that could interfere or be reasonably perceived to interfere, with the exercise of their independent business judgement with a view to the best interests of the Company.

The Board, with the concurrence of the NC, having considered the Confirmation of Independence forms submitted by Mr Sze Man Kam, Mr Low Chin Parn Eric and Mr Teo Boon Hai, concluded that they are independent and free from any relationships outlined in the Code. None of the Independent Directors has served on the Board beyond nine years from the date of his first appointment.

The NC has reviewed whether a director has been adequately carrying out his duties as a director of the Company, particularly if he has multiple Board representations in listed companies and other principal commitments pursuant to the recommendations of the Code.

Having considered the confirmations received from Mr Tham Wan Loong, Jerome, Mr Sze Man Kam, Mr Low Chin Parn Eric and Mr Teo Boon Hai, the NC concluded that such multiple Board representations and other principal commitments (where applicable) do not hinder each Director from carrying out his duties as Director of the Company. The NC is satisfied that sufficient time and attention have been accorded by these Directors to the affairs of the Company. The Board concurred with the NC's views.

CORPORATE GOVERNANCE REPORT (CON'T)

In determining whether each Director is able to devote sufficient time to discharge his duty, the NC has taken cognizance of the Code requirement, but is of the view that its assessment should not be restricted to the number of board representations of each Director and his respective principal commitments per se. The contributions by Directors to and during meetings of the Board and Board Committees as well as their attendance at such meetings, in addition to each of their principal commitments, should also be taken into account. The NC and the Board will review the number of listed company board representations of the Directors on an annual basis or from time to time when the need arises.

The Directors will submit themselves for re-nomination and re-election at regular intervals of at least once every three (3) years. Under Article 114 of the Company's Constitution, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to but not lesser than one-third) shall retire from office by rotation. Article 118 of the Company's Constitution also requires any person appointed as a Director of the Company during the year to hold office only until the next Annual General Meeting ("AGM") following their appointment.

The retiring Directors are eligible to offer themselves for re-election. In reviewing and recommending to the Board the re-nomination and re-election of existing Directors, the NC takes into consideration the Directors' contribution and performance at Board meetings, including attendance, preparedness, participation and candour.

The NC, having considered the attendance and participation of the following Directors at Board and Board Committees meetings, in particular, their contributions to the business and operations of the Company as well as Board processes, had recommended to the Board the re-election of Mr Tham Wan Loong, Jerome and Mr Xie Ruliang who will be retiring pursuant to Article 114 of the Company's Constitution at the forthcoming AGM.

The Board had accepted the recommendation of the NC and accordingly, Mr Tham Wan Loong, Jerome and Mr Xie Ruliang will be offering themselves for re-election.

Each member of the NC had abstained from making any recommendations and/or participating in any deliberation of the NC and from voting on any resolution, in respect of the assessment of his own performance or re-nomination, if any, as a Director.

In its search and nomination process for new directors, the NC has, at its disposal, search companies, personal contacts and recommendations, to cast its net as wide as possible for the right candidates.

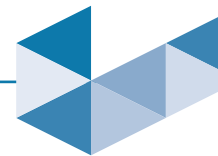
As mentioned in Principle 2 above, the composition and membership of the Board had been reconstituted upon completion of the investment by the Investor and any appointment and confirmation of service by any Director to and on such Reconstituted Board shall also require the prior approval of the Investor (such approval shall not be unreasonably withheld).

Board Performance

Principle 5: *There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.*

The NC reviews the criteria for evaluating the Board's performance and recommends to the Board a set of objective performance criteria focusing on enhancing long-term shareholders' value. Based on the recommendations of the NC, the Board has established processes for evaluating the effectiveness of the Board as a whole.

Currently, the Board does not assess the performance of each Director or at the Board Committees' level. The NC and Board will review the need to have the assessments of Board Committees and individual Board members. To date, no external facilitator has been used.



CORPORATE GOVERNANCE REPORT (CON'T)

The Board had adopted a Board Performance Evaluation questionnaire which is in line with the Code, the content of which are as follows:-

- size and composition of the Board
- Board's access to information
- Board's Process, Internal Control & Risk Management
- Board Accountability
- CEO/Top Management
- Standards of Conduct

An evaluation of Board performance will be conducted annually by the NC as a form of good Board management practice.

The evaluation exercise will provide feedback from each director, his views on the Board process and procedures as well as the effectiveness of the Board as a whole. The results of the Board performance evaluation would be collated and presented to the NC for discussion with comparatives from the previous year's results.

The NC was generally satisfied with the results of the Board performance evaluation for FY2016, which indicated areas of strengths and those that could be improved further. The NC would continue to evaluate the process for such review and its effectiveness from time to time.

Access to Information

Principle 6: In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

To assist the Board in fulfilling its responsibilities, Management is required to provide complete, adequate and timely updates on Board affairs and issues that require the Board's decision to the Board from time to time and, when applicable, as and when requested by the Board. Information provided included background or explanations relating to matters to be brought before the Board and copies of disclosure documents, budgets, forecasts and internal financial statements. In respect of budgets, any material variance between the projection and actual results were also disclosed and explained.

The CEO, Executive Director, Assistant CFO/Financial Controller and Management keep Board members abreast of key developments affecting the Group as well as material transactions in order that the Board is fully aware of the affairs of the Group. Management provides reports and financial statements to the Board on a quarterly basis. The bulk of the Board and Board Committees' papers are sent to Directors before such meeting so that the Directors may have a better understanding of the matters prior to the meeting and discussions may be focused on questions that the Directors have on these matters.

Financial highlights of the Group's performance and developments are presented on a quarterly basis at Board meetings. The CEO and Management are present at these presentations to address any queries which the Board may have. All Directors have separate and independent access to Management and Company Secretary at all times. Directors are also entitled to request from Management and be provided with additional timely information as needed in order for them to make informed decisions.

CORPORATE GOVERNANCE REPORT (CONT'D)

The Company Secretary and/or her representative(s) attend all Board meetings and ensure that Board procedures and all other rules and regulations applicable to the Company are complied with. The Company Secretary also follow the direction of the Chairman to ensure that there is sufficient/pertinent information flow within the Board and its committees and between Management and Non-Executive Directors, as well as to facilitate orientation and assist with professional development when required to do so. The appointment and removal of the Company Secretary are subject to approval by the Board.

Changes to regulations are closely monitored by Management and for changes which have an important bearing on the Company or the Directors' disclosure obligations, the Directors are briefed during Board meetings.

The Directors and the chairmen of the respective committees, whether as a group or individually, are able to seek independent professional advice as and when necessary in furtherance of their duties at the Company's expense. The appointment of such independent professional advisor is subject to approval by the Board.

(B) REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

Currently, the RC comprises three Directors, all of whom including RC Chairman are Independent Directors, as set out below:

Teo Boon Hai (Independent Director) ¹	- RC Chairman
Sze Man Kam (Independent Director) ²	- RC Member
Low Chin Parn Eric (Independent Director) ³	- RC Member

Notes:

¹ Mr Teo Boon Hai was appointed as the RC Chairman of the Company with effect from 4 April 2016.

² Mr Sze Man Kam was appointed as the RC Chairman of the Company in place of Mr Kwak Kyung Jik who stepped down as the RC Chairman of the Company with effect from 9 November 2015. On 29 February 2016, Mr Sze relinquished his position as the RC Chairman and remains as a RC member in place of Mr Roberto Fabbri who had stepped down as a RC member with effect from 6 January 2016.

³ Mr Low Chin Parn Eric was appointed as a member of the RC of the Company in place of Mr Tham Wan Loong, Jerome who stepped down as a member of the RC with effect from 29 February 2016.

The members of the RC have many years of corporate experience and are knowledgeable in the field of executive compensation. In addition, the RC has access to expert professional advice on remuneration matters as and when necessary.

The responsibilities of the RC include the following:

- to review Directors' fees to ensure that they are at sufficiently competitive levels;
- to review and advise the Board on the terms of appointment and remuneration of its members, CEO, key management personnel of the Group and all managerial staff who are related to any of the Directors, CEO or Controlling Shareholders of the Group;
- to review the terms of the employment arrangements with Management so as to develop consistent group wide employment practices subject to regional differences;
- to recommend to the Board in consultation with key management personnel and the Chairman of the Board, any long term incentive scheme; and



CORPORATE GOVERNANCE REPORT (CON'T)

- to review and approve any proposals or recommendations relating to key management personnel's remuneration.

For the year under review, the RC held one (1) meeting.

The RC had adopted a set of Terms of Reference in line with the Code.

The recommendation of the RC for the remuneration of Directors would be submitted for endorsement by the Board and should cover all aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards, and benefits in kind. No Director or member of the RC is involved in deciding his own remuneration.

The Company did not appoint any remuneration consultant. If required, the RC will seek expert advice inside and/or outside the Company on remuneration of all Directors and key management personnel.

Level and Mix of Remuneration

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

In setting remuneration packages, the RC takes into consideration the prevailing economic situation, the pay and employment conditions within the industry and in comparable companies such that Directors are adequately but not excessively remunerated. As part of its review, the RC ensures that the performance related elements of remuneration form a significant part of the total remuneration package of Executive Directors and is designed to align the Directors' interests with those of shareholders and link rewards to corporate and individual performance. The RC also reviews all matters concerning the remuneration of Non-Executive Directors to ensure that the remuneration commensurate with the contribution and responsibilities of the Directors. The Company submits the quantum of directors' fees of each year to the shareholders for approval at each AGM.

The service contract of the Company's then CEO and Executive Chairman, Mr Cao Xiangbin, dated 25 November 2008 was suspended on 21 April 2011 when he was re-designated to Non-Executive Chairman. As a condition for the Investor's investment, Mr Cao had entered into a consultancy agreement (in a form satisfactory to the Company and the Investor) with the Company.

Further to the reconstitution of the Board, Mr Tham Wan Loong, Jerome and Mr Lin Xingdi, the Executive Directors, had entered into a Service Agreement with the Company commencing 18 September 2013 and 15 May 2014 respectively, pursuant to which he is paid a monthly salary and allowances and is further entitled to an annual variable performance bonus payable at the Board's sole discretion and it shall be dependent on the Group and individual's performance. The said Service Agreement is in force without any limit or until the termination by either party upon giving to the other party notice in writing of at least one (1) month and supersedes all earlier Service Agreement entered into, including the Service Agreement dated 6 June 2011 for Mr Tham's appointment as an interim CEO.

There are no onerous compensation commitments on the part of the Company or its subsidiary in the event of an early termination of the service of an Executive Director or key management personnel.

Given the current situation of the Group, the Company is of the view that it is not necessary to use contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company.

CORPORATE GOVERNANCE REPORT (CON'T)

The RC will carry out an annual review of the Executive Directors and key management personnel's remuneration packages to ensure that their remuneration commensurate with their performance, giving due regard to the financial health and business needs of the Group. For FY2016, the RC is satisfied with the Executive Directors and key management personnel's remuneration packages which is in accordance with their Service Agreement as well as the fees paid to Mr Cao which is in accordance with his consultancy agreement and recommended the same for Board approval. The Board had approved the RC's recommendation accordingly. The RC had considered the Director's fees against the average directors' fees for small listed companies with market capitalisation below S\$100 million and Directors' fees amounting to S\$100,000 for FY2016 was proposed and approved by the shareholders at the last AGM.

Directors' fees amounting to S\$100,000 for the financial year ending 31 December 2017 have been proposed for payment in arrears on a quarterly basis. This recommendation has been endorsed by the Board and will be tabled at the forthcoming AGM for shareholders' approval.

The RC, with the concurrence of the Board, is of the view that the current remuneration of the Non-Executive Directors is appropriate to the level of contribution, taking into account factors such as effort and time spent, and responsibilities of the Directors, including the Company's current financial situation. Other than directors' fees, which have to be approved by shareholders at every AGM, the Independent Directors do not receive any other forms of remuneration from the Company.

No Director is involved in deciding his or her own remuneration.

Presently, the Company does not have any share option or long term incentive scheme in place.

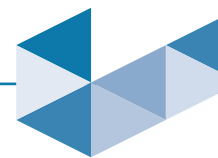
Disclosure on Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

A breakdown of the remuneration of the Directors and the top key management personnel (who are not directors) for the FY2016 are set out below:

Remuneration of the Directors

Remuneration band and names of Directors	Salary %	Variable/ Performance-related Income/Bonus %	Benefits in Kind %	Directors' fees %	Total %
Below S\$250,000					
(1) Tham Wan Loong, Jerome	100	-	-	-	100
(2) Lin Xingdi	100	-	-	-	100
(3)(4) Xie Ruliang	-	-	-	100	100
(3)(4) Sze Man Kam	-	-	-	100	100
(3)(4) Low Chin Parn Eric	-	-	-	100	100
(3)(4) Teo Boon Hai	-	-	-	100	100



CORPORATE GOVERNANCE REPORT (CON'T)

- (1) Pursuant to Service Agreement. Please refer to details set out under Principle 8 on Mr Tham Wan Loong, Jerome's remuneration.
- (2) Pursuant to Service Agreement. Please refer to details set out under Principle 8 on Mr Lin Xingdi's remuneration.
- (3) The Directors' fees had been approved at the AGM held on 30 May 2016.
- (4) Mr Xie Ruliang had been appointed as the Non-Independent and Non-Executive Chairman and Mr Sze Man Kam, Mr Low Chin Parn Eric and Mr Teo Boon Hai had been appointed as Independent Directors of the Company. Please refer to details set out under Principle 1 for more information on the reconstitution of the Board.

Remuneration of Top 2 Key Management Personnel (who are not directors) for FY2016:-

Remuneration band and names of key management personnel (who are not directors)	Salary %	Variable/ Performance-related Income/ Bonus %	Benefits in Kind %	Total %
Below S\$250,000				
(1) Lin Shawn Xiang	100	-	-	100
(2) Yuan Qing	100	-	-	100

- (1) Mr Lin Shawn Xiang was appointed as Financial Controller of the Company with effect from 14 November 2016.
- (2) Mr Yuan Qing was appointed as the General Manager of Huaxiang (China) Premium Fibre Co., Ltd.

Notwithstanding Guideline 9.1 of the Code, as there were only 2 key management personnel (who are not Directors) during FY2016, disclosure was only made in respect of the remuneration of that key management personnel of the Group. For confidentiality reasons and given the competitive hiring pressures and disadvantages that this might bring, the Company is not disclosing the remuneration of the only key management personnel.

There are no employees of the Group who are immediate family members of a Director or the CEO during FY2016.

There are no termination, retirement and post-employment benefits that may be granted to Directors, the CEO and the top key management personnel. Due to the confidentiality and commercial sensitivity attached to remuneration matters and the highly competitive environment the Group operates in, the Company has not fully disclosed the remuneration of each individual director. Instead, the disclosures had been provided in applicable bands of S\$250,000 as above, with a breakdown in percentage of remuneration/fees earned through fees, base/fixed salary, variable or performance-related income/bonuses and benefits in kind.

(C) ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

The Board believes in conducting itself in ways that deliver the maximum sustainable value to the shareholders. In presenting the financial statements and periodic results announcements to the shareholders, it is the Board's aim to provide a balanced, understandable and comprehensive assessment of the Group's performance and prospects, with detailed analysis and explanations.

In line with the requirements of the SGX-ST, negative assurance statements were issued by the Board to accompany the Group's quarterly financial results announcements, confirming to the best of the Board's knowledge that nothing had come to the Board's attention which could render the Company's results announcements to be false and misleading.

The Company is not required to issue negative assurance statements for its full year results announcement.

CORPORATE GOVERNANCE REPORT (CON'T)

Risk Management, Internal Controls and Internal Audit

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that the Management maintains a sound system of risk management and internal controls to safeguard the shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

Principle 13: The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The Board acknowledges that it is responsible for the overall internal control framework and ensuring that Management maintains a sound system of internal controls to safeguard shareholders' interests and the assets of the Group.

The role of the Internal Auditors is to support the AC in ensuring that the Group maintains a sound system of internal controls by monitoring and assessing the effectiveness of key controls and procedures, conducting in-depth audits of high risk areas and undertaking investigations as directed by the AC.

Management reviews all significant control policies and procedures and highlights all significant matters to the Directors and AC. Management regularly reviews the Company's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks.

As mentioned in the preamble, the Investor has the right to put in place new systems and controls that would augment and strengthen the corporate governance procedures of the Group. In addition, the Investor also has the right to (i) request for the existing legal representative(s) of any or all of the Group Companies to step down from his or her position and relinquish the corporate seal of such Group Companies; (ii) appoint new legal representative(s) for such Group Companies; and (iii) appoint new candidates as CEO and CFO.

The Group has outsourced its internal audit function to BDO LLP ("BDO") in place of JF Virtus Pte. Ltd. which reports to the Chairman of the AC on audit matters in FY2016. BDO plans the internal audit program which includes a review of the Group's risks assessments and the effectiveness of the Group's material internal controls to address the identified risks. This is done in consultation with, but independent of Management.

The AC is satisfied that BDO is adequately resourced and has the appropriate standing and expertise to undertake its activities independently and objectively.

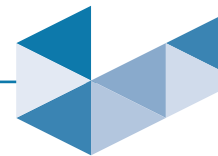
BDO performs detailed work to assist the AC in the evaluation of the Group's operational, compliance, financial and information technology controls based on an internal audit plan approved by the AC. Any material non-compliance or weaknesses noted in internal controls, including recommendations for improvements, are reported to the AC. The AC also reviews the effectiveness of actions taken by Management in response to recommendations made by BDO.

A Risk Management Committee ("RMC") comprising the following members of Management was set up to identify, assess and manage the risks of the Group:

- Mr Lin Xingdi, CEO
- Mr Lin Shawn Xiang, Financial Controller *
- Mr Tham Wan Loong, Jerome, Executive Director

* With the resignation of Mr Yan Qingwei (James), Assistant CFO on 14 November 2016, he had ceased as a Member of the RMC accordingly and his functions had been undertaken by Mr Lin Shawn Xiang, the Financial Controller.

The RMC will hold monthly meetings and the members of the AC are invited to attend the RMC meetings should they wish to attend.



CORPORATE GOVERNANCE REPORT (CON'T)

The AC, with the assistance of the RMC, Internal and External Auditors, reviews the adequacy and effectiveness of the Company's internal financial controls, operational, information technology and compliance controls, and risk management policies and internal controls systems established by Management on an annual basis.

The AC will review the adequacy of the internal audit function annually to ensure that the internal audit function is sufficiently resourced and is able to perform its function effectively and objectively. For FY2016, the AC is satisfied that BDO LLP has adequate resources and experience to meet its internal audit obligations.

The Internal and External Auditors have, during the course of their audits, carried out a review of the effectiveness of key internal controls within the scope of their audit. Material non-compliance and internal control weaknesses noted during their respective audits and their recommendations are reported to the AC. The AC has reviewed the ERM and Internal Audit Reports and Internal/External Auditors' comments to ensure that there are adequate internal controls in the Group and follow up actions from the last audit reviews have been implemented. The AC will ensure that recommendations by the Internal and External Auditors, arising from the FY2016 audits be followed up and implemented by Management at the next audit reviews or within the timeline stipulated in the respective audit reports for FY2017.

For FY2016, the CEO and Financial controller had provided a Management Assurance Statement confirming that:

- (i) the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances;
- (ii) to the best of its knowledge, nothing has come to their attention as Management, which would render the interim financial statements to be false or misleading in any material aspect;
- (iii) Management is aware of their responsibilities for establishing, maintaining and evaluating the effectiveness of the risk management and internal control systems of the Company;
- (iv) Management is not aware of any known significant deficiencies in the risk management and internal control systems relating to preparation and reporting of financial data, or of any fraud; and
- (v) the internal controls, including financial, operational, compliance and information technology controls, and risk management systems are adequate and effective.

Management has updated the AC that there are no known significant deficiencies or lapses in risk management and internal controls systems relating to the Company's financial, operational, compliance and information technology controls which could adversely affect the Company's ability to record, process, summarise or report financial data, or any fraud, whether material or not that involves Management or other employees who have a significant role in the Company's internal controls.

The Board recognises that no internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The review of the Group's internal control system is a concerted and continuing process.

As recommended by the SGX-ST, an opinion of the Board with the concurrence of the AC on the adequacy and effectiveness of the internal controls, addressing financial, operational, compliance and information technology risks, and risk management systems, is set out in the Directors' Statement under page 37 of the Annual Report.

The Group's financial risk management is disclosed under Note 29 of the Notes to the Financial Statements on pages 94 to 100 of this Annual Report.

CORPORATE GOVERNANCE REPORT (CON'T)

Audit Committee

Principle 12: The Board should establish an AC with written terms of reference which clearly set out its authority and duties.

The AC comprises three Directors, majority of whom including the AC Chairman are Independent Directors, as set out below:

Sze Man Kam (Independent Director) ¹	- AC Chairman
Teo Boon Hai (Independent Director) ²	- AC Member
Tham Wan Loong, Jerome (Executive Director) ³	- AC Member

Notes:

¹ On 29 February 2016, Mr Sze Man Kam was re-designated as the AC Chairman in place of Mr Yeung Kin Bond Sydney who had stepped down as the AC Chairman with effect from 6 January 2016.

² Mr Teo Boon Hai was appointed as a member of the AC of the Company with effect from 4 April 2016.

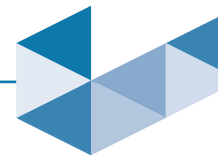
³ To assist the new Management, Mr Jerome Tham was appointed on some Board Committees, including the AC, on the Completion Date. For more information, please refer to details set out under Principle 1.

All members of the AC have many years of experience in senior management positions in financial, legal and industrial sectors. The Board is of the view that the AC members, having recent and relevant accounting and/or related financial management expertise or experience, are appropriately qualified to discharge their responsibilities. In view of the challenges the Company and its Group are facing and to assist in the transition of the Reconstituted Board and AC, Mr Jerome Tham has remained as a member of the AC to provide direct assistance to the Company's financial performance.

The AC, *inter alia*, oversees the quality and integrity of the accounting, auditing, internal controls and financial practices of the Group.

During the past year, the AC held four meetings with professionals and Management to discuss and review *inter alia* the following matters:

- the findings of the Auditors and the measures to be taken in safeguarding the Group's assets, including the change of Group's management structure;
- the proposed investment by the Investor;
- the appointment of legal counsels, financial advisers, internal auditor, investor relations and consultants;
- the audit plans of the external auditors and their reports arising from the audit, and the follow-up actions taken by the AC;
- the internal audit plans of the internal auditors, and their reports arising from the audit, and the follow-up actions taken by the AC;
- the adequacy of the assistance and cooperation given by the Company's Management to the external and internal auditors;
- the financial statements of the Company and the consolidated financial statements of the Group;
- the quarterly and annual announcement of the results of the Group before submission to the Board for approval;
- the adequacy of the Group's internal controls in respect of the management, business and service systems and practices;



CORPORATE GOVERNANCE REPORT (CONT'D)

- legal and regulatory matters that may have material impact on the financial statements, compliance policies and programmes and any reports received from regulators;
- the cost effectiveness, independence and objectivity of the external auditors;
- the approval of compensation to the external auditors;
- considering and reviewing with the external auditors and internal auditors (as the case may be) at least annually the adequacy, effectiveness and efficiency of management process, financial controls, operational controls, compliance controls, information technology controls, security, and risk managements, and all other material controls, and any related significant findings and recommendations of the auditors, together with management's responses thereto;
- the nature and extent of non-audit services provided by the external auditors;
- the recommendation to the Board for the appointment or re-appointment of the external auditors of the Company;
- to report actions and minutes of the AC to the Board with such recommendations as the AC considers appropriate; and
- interested person transactions to ensure that the current procedures for monitoring of interested party transactions have been complied with.

The AC had adopted a set of Terms of Reference in line with the Code.

The AC has the explicit powers to conduct or authorise investigations into any of the abovementioned matters. The AC has full access to and co-operation by Management and also full discretion to invite any Director or executive officer to attend its meetings as well as reasonable resources to enable it to discharge its function properly.

The AC meets with the Group's Internal and External Auditors and Management to review accounting, auditing and financial reporting matters so as to ensure that an effective system of control is maintained in the Group. For FY2016, the AC has:

- met with the external and internal auditors, without the presence of the Management. Both the Internal and External Auditors had confirmed that they had received the full co-operation of Management and no restrictions were placed on the scope of the respective audits;
- has explicit authority to investigate any matter relating to the Group's accounting, auditing, internal controls and financial practices brought to its attention with access to records, resources and personnel to enable it to discharge its function properly;
- has access to and co-operation of Management and discretion to invite any Director or executive officer to attend its meetings;
- conducted a review of the non-audit services provided by the External Auditors. No non-audit fees were paid to the External Auditors as they did not provide any non-audit services to the Group. The External Auditors had also confirmed their independence in this respect. The audit fees amounting to S\$250,000 were approved;
- confirmed that Company had complied with Rule 712 of the SGX-ST Listing Manual in relation to the appointment of a suitable auditing firm to meet its audit obligations. Messrs Foo Kon Tan LLP, the appointed Auditors of the Group, is registered with the Accounting and Corporate Regulatory Authority in Singapore;

Together with the audit engagement partner and his team assigned to the audit of the Group, the AC was satisfied that the resources and experience of Messrs Foo Kon Tan LLP, the Audit Engagement Partner and his team assigned to the audit were adequate to meet their audit obligations, given the size, nature, operations and complexity of the Group; and

CORPORATE GOVERNANCE REPORT (CON'T)

- confirmed that the Company had complied with Rule 715 of the SGX-ST Listing Manual in relation to the appointment of the same auditing firm based in Singapore to audit its accounts, and its significant foreign incorporated subsidiaries. The Group's subsidiaries are disclosed under Note 9 of the Notes to the Financial Statements on pages 77 and 78 of this Annual Report.

The AC, with the concurrence of the Board, had recommended the re-appointment of Messrs Foo Kon Tan LLP as External Auditors for FY2016 at the forthcoming AGM, based on their performance and quality of their audit.

The External Auditors and/or the Assistant CFO/Financial Controller and Management will update the AC on the changes to accounting standards and issues which have a direct impact on the financial statements from time to time.

The Board had adopted a revised whistle blowing policy in financial year ended 31 December 2015. The policy provides well-defined and accessible channels in the Group through which employees may raise concerns about improper conduct within the Group and no adverse report has been received for FY2016.

(D) SHAREHOLDER RIGHTS AND COMMUNICATION WITH SHAREHOLDERS

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Company believes that a high standard of disclosure is the key to raising the level of corporate governance.

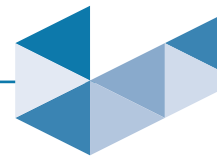
Quarterly results are published through the SGX-NET and news releases. All information of the Company's new initiatives are disseminated via SGX-NET.

The Company does not practise selective disclosure. Price sensitive information is publicly released and results and annual reports are announced or issued within the mandatory period. All shareholders of the Company receive the annual report and notice of AGM which are despatched to shareholders, together with explanatory notes or a circular on items of special business, if any, at least 14 days before the meeting for ordinary resolutions and 21 days before the meeting for special resolutions. There are separate resolutions on each distinct issue. The notice of AGM and/or Extraordinary General Meeting ("EGM") is/are also advertised in the newspapers.

The AGM is the principal forum for dialogue with shareholders, who have an opportunity to raise issues or seek clarifications either informally or formally before or at the AGM. The Board welcomes the views of and questions from the shareholders on matters concerning the Company and encourages shareholders' participation at the AGM. The chairmen of the AC, NC and RC of the Company are normally present at the general meetings to answer questions from the shareholders. The External Auditors are also present to assist the Directors in addressing any relevant queries by shareholders about the conduct of audit and the preparation and content of the auditor's report.

The Company currently does not have an investor relations policy but considers advice from its corporate lawyers and professionals on appropriate disclosure requirements before announcing material information to shareholders. The Company will consider the appointment of professional investor relations officer to manage the function should the need arises.

In view of the above, the Board has taken the steps to solicit and understand the views of the shareholders through the general meetings. In addition, shareholders are encouraged to attend the AGM to ensure a high level of accountability and to stay informed of the Group's strategy and goals. Shareholders may vote in person or in absentia by way of proxy forms deposited, in person or by mail, at the office of the Share Registrar of the Company at least 48 hours before the meetings for FY2016's AGM.



CORPORATE GOVERNANCE REPORT (CON'T)

To promote transparency and as good corporate governance practices, the Company has been conducting its voting by poll at its general meetings in the past few years.

The Company Secretary prepares minutes of shareholders' meetings, which incorporates substantial comments or queries from shareholders and responses from the Board and Management. These minutes are available to shareholders upon request.

The Company does not have a policy on payments of dividends. The form, frequency and amount of dividends declared each year will take into consideration the group's profit growth, cash position, positive cash generated from operations, projected capital requirements for business growth and other factors as the Board may deem appropriate.

The Company endeavours to pay dividend and where dividends are not paid, the Company will disclose its reason(s) accordingly. For FY2016, no dividends would be paid as the Company is in a loss position.

(E) DEALINGS IN SECURITIES

The Company has issued a guideline on share dealings to all Directors and employees of the Group which sets out the code of conduct on transactions in the Company's shares by these persons, the implications of insider trading and general guidance on the prohibition against such dealings.

In line with Rule 1207(19) of the Listing Manual, the Company has adopted a compliance code to issue a notification to all officers of the Company informing them that they should not deal in the securities of the Company during the periods commencing one month before the announcement of the Company's full-year results and two weeks before the Company's quarterly results until after the announcement. They are also discouraged from dealing in the Company's shares on short term considerations and when they are in possession of any unpublished material price sensitive information of the Group.

The Board confirms that for FY2016, the Company has complied with Rule 1207(19) of the Listing Manual.

(F) INTERESTED PERSON TRANSACTION

As a listed company on the SGX-ST, the Company is required to comply with Chapter 9 of the Listing Manual of the SGX-ST on interested person transactions. To ensure compliance with Chapter 9, the Company has taken the following steps:

- The Board meets to review if the Company will be entering into any interested person transaction. If the Company intends to enter into an interested person transaction, the Board of Directors will ensure that the Company complies with the requisite rules under Chapter 9.
- The AC has met and will meet regularly to review if the Company will be entering into an interested person transaction, and if so, the AC ensures that the relevant rules under Chapter 9 are complied with.

The current aggregate value of guarantee fee and consultancy fees owes to Mr Cao Xiangbin is RMB25.233 million occurred in FY2014 and FY2015. For FY2016, Mr Cao Xiangbin had agreed to waive all consultancy fees and guarantee fees payable to him for the entire FY2016 until such time when the Group is profitable and that he would not reclaim such fees in the future when the Group is profitable. In addition, there were no Interested Party Transactions ("IPTs") with value more than S\$100,000 transacted during FY2016. The Company does not have a general mandate from shareholders for IPTs.

CORPORATE GOVERNANCE REPORT (CON'T)

(G) MATERIAL CONTRACTS

On 23 July 2012, the Company entered into an Implementation Agreement with Fleur Capital (S) Pte. Ltd. ("Fleur Capital") and China Success in relation to the proposed investment by Fleur Capital in the Company.

On 4 October 2012, the Company entered into a Novation Agreement with the Investor, Fleur Capital and China Success pursuant which the Fleur Capital has novated its rights and obligations under the Implementation Agreement to the Investor.

On 8 February 2013, the Company further entered into a Supplemental Agreement with the Investor and China Success pursuant which the parties agreed to amend certain terms and conditions of the Implementation Agreement.

On 18 September 2013, the Company entered into a Consultancy Agreement with Mr Cao Xiangbin, pursuant which Mr Cao has been engaged as a consultant for a period of three (3) years (subject to further extension upon mutual agreement of the parties) to provide Consultancy Services. Please refer to the Company's Circular dated 29 May 2013 for more information.

Shareholders may refer to the Company's announcements dated 23 July 2012, 4 October 2012 and 8 February 2013 for further details of the aforesaid agreements, respectively.

Save as disclosed above, under "Material Contracts" on the section of General and Statutory Information of the Prospectus dated 9 September 2009, the Executive Summary of the SA Report, in the Directors' Statement and these financial statements, no material contracts to which the Company or any subsidiary, is a party and which involve the interests of the chief executive officer, directors or controlling shareholders, were subsisting at the end of the financial year or entered into since the date of listing of the Company.



DIRECTORS' STATEMENT

for the financial year ended 31 December 2016

We submit this annual report to the members of the Company together with the audited consolidated financial statements for the financial year ended 31 December 2016.

In our opinion,

- (a) the accompanying financial statements of the Group and the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Companies Act, (Chapter 50) and Singapore Financial Reporting Standards; and
- (b) at the date of this statement, except as disclosed in Note 2 to the financial statements, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

Names of directors

The directors of the Company in office at the date of this report are:

Xie Ruliang (Non-Independent and Non-Executive Chairman)
Lin Xingdi (Executive Director and Chief Executive Officer)
Tham Wan Loong, Jerome (Executive Director)
Sze Man Kam (Independent Director)
Low Chin Parn Eric (Independent Director)
Teo Boon Hai (Independent Director)

Arrangements to enable directors to acquire shares, debentures, warrants or options

During and at the end of the financial year, neither the Company nor any of its subsidiaries was a party to any arrangement of which the object was to enable the directors to acquire benefits through the acquisition of shares, debentures, warrants or options of the Company or of any other corporate body, other than as disclosed in this report.

Directors' interest in shares, debentures, warrants or options

According to the Register of Directors' Shareholdings kept by the Company under Section 164 of the Companies Act, (Chapter 50), none of the directors who held office at the end of the financial year had any interest in the shares, debentures, warrants or options of the Company or its related corporations, except as follows:

DIRECTORS' STATEMENT (CONT'D)

for the financial year ended 31 December 2016

Directors' interest in shares, debentures, warrants or options (Cont'd)

Name of director	Direct interest		Deemed interest	
	As at 1.1.2016	As at 31.12.2016	As at 1.1.2016	As at 31.12.2016
	Ordinary Shares			
Tham Wan Loong, Jerome ⁽¹⁾	30,000	30,000	-	-
	Warrants			
Tham Wan Loong, Jerome ⁽¹⁾	30,000	30,000	-	-

⁽¹⁾ There was no change in any of the interests of Mr Tham Wan Loong, Jerome between the end of the financial year and 21 January 2017.

Audit Committee

The Audit Committee ("AC") at the end of the financial year comprises the following members:

Sze Man Kam (Chairman)
Teo Boon Hai
Tham Wan Loong, Jerome

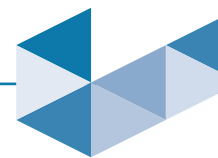
The AC carried out its functions in accordance with Section 201B(5) of the Companies Act (Chapter 50) and the Listing Manual of the Singapore Exchange Securities and Trading Limited ("SGX-ST Listing Manual"). The functions performed are detailed in the Report on Corporate Governance set out in the Annual Report of the Company for the financial year ended 31 December 2016.

The AC has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any director or executive officer to attend its meetings. The AC also recommends the appointment of the external auditor and reviews the level of audit and non-audit fees.

The AC is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditor, Foo Kon Tan LLP, Chartered Accountants, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

In appointing our auditors for the Company and the subsidiaries, we have complied with Rules 712 and 715 of SGX Listing Manual.

Full details regarding the AC are provided in the on Corporate Governance Report.



DIRECTORS' STATEMENT (CONT'D)

for the financial year ended 31 December 2016

Compliance with Rule 1207(10) of the SGX-ST Listing Manual

The Company has conducted an internal audit in the course of the year where recommendations were provided with regards to improving internal controls over revenue, cash and procurement purchases. As announced on 19 December 2016, the Company has just started their operating relationship with Zhejiang Materials Industry Chemical Group Co., Ltd and given the fundamental change in business processes to manage the new transactions, the Company is in the process of strengthening internal controls over the new processes which will include especially actions to address the issues arising from the internal audit review. The Company will works together with the internal auditors to enhance the internal controls within the next audit reviews and a follow up internal audit will be conducted subsequently to check on the status of the remediation actions taken. Other than the above, the Audit Committee with the concurrence of the Board is of the opinion that the risk management system and the internal controls addressing financial, operation, compliance and technology risks are adequate as at 31 December 2016.

Details on the duties and functions carried out by the AC, adequacy of the internal controls and internal audit during the financial year ended 31 December 2016 are set out under the Corporate Governance Report in the Annual Report 2016.

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, and reviews carried out by Management, various Board Committees and the Board, the AC and the Board are of the opinion that the Group's internal controls, addressing financial, operational, compliance and information technology risks, and risk management systems were adequate and effective as at 31 December 2016.

Independent auditor

The independent auditor, Foo Kon Tan LLP, Chartered Accountants, has expressed its willingness to accept re-appointment.

On behalf of the Directors

.....
THAM WAN LOONG, JEROME
DIRECTOR

.....
SZE MAN KAM
DIRECTOR

1 June 2017

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of China Gaoxian Fibre Fabric Holdings Ltd. and its subsidiaries

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of China Gaoxian Fibre Fabric Holdings Ltd (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position of the Group and the statement of financial position of the Company as at 31 December 2016, 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 and other explanatory information.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and financial position of the Company as at 31 December 2016, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Group incurred losses for the financial year of RMB 375.1 million (2015 - RMB 787.0 million) for the financial year ended 31 December 2016. As of that date, the Group and the Company reported deficiencies in net current assets of RMB 2.1 billion and RMB 91.0 million (2015 - deficiency in net current assets of RMB 1.48 billion and RMB 87.9 million). The Company also reported a deficiency in net assets of RMB 91.0 million (2015 - RMB 88.0 million) as at the balance sheet date. These events or conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.



INDEPENDENT AUDITOR'S REPORT (CONT'D)

To the Shareholders of China Gaoxian Fibre Fabric Holdings Ltd. and its subsidiaries

Key Audit Matters (Cont'd)

Key Audit Matter	Risk	Our responses and work performed
Impairment of property, plant and equipment	<p>As at 31 December 2016, the Group's property, plant and equipment amounted to RMB 1.35 billion and it represents the largest category of assets on the Group's statement of financial position. During the current financial year, management recognised an additional impairment loss on property, plant and equipment amounting to RMB 112.0 million in the consolidated statement of comprehensive income. The cumulative impairment losses recognised on the Group's property, plant and equipment as at 31 December 2016 amounted to approximately RMB 803.7 million.</p> <p>The Group has been incurring operating losses since its resumption of trading on 18 September 2013. The textile industry in PRC continues to be impacted by the slowdown of the PRC economy. The macro environment remains challenging due to intense competition within the industry and rising production costs.</p> <p>The production facilities located at the Group's other production facilities in Zhejiang Huagang Polyester Industrial Co., Ltd and Fujian New Huawei Fibre Dyeing Co., Ltd remain shut since FY 2014 and were partially leased to third parties.</p>	<p>We have identified the impairment of the Group's property, plant and equipment is significant to our audit.</p> <p>Our audit procedures included, among others, obtaining an understanding of and challenging management's assumptions in determining the recoverable amounts of the Group's property, plant and equipment. The recoverable amounts of the Group's property, plant and equipment were determined either based on (i) value-in-use methodology or (ii) fair value less costs to sell, estimated using the depreciated replacement cost method.</p> <p>Our procedures to address the key audit matter include:-</p> <ol style="list-style-type: none"> 1. Evaluated the reasonableness of the Group's judgements as to the existence of impairment indicators, and consequently, the requirement to perform related impairment tests of the Group's property, plant and equipment; 2. Critically assessed the appointed valuer's assumptions and estimates used to determine the recoverable amounts of the Group's property, plant and equipment and consequently any impairment losses recognised;

INDEPENDENT AUDITOR'S REPORT (CONT'D)

To the Shareholders of China Gaoxian Fibre Fabric Holdings Ltd. and its subsidiaries

Key Audit Matters (Cont'd)

Key Audit Matter	Risk	Our responses and work performed
Impairment of property, plant and equipment (Cont'd)	<p>FRS 36 – <i>Impairment of Assets</i> requires management to assess whether there has been a change in the estimates used to determine the recoverable amounts or whether there is an indication that the impairment losses recognised previously no longer exists or decreases. Management engaged an independent valuer to determine the recoverable amounts of the Group's three cash generating units in which the various assets belong. The recoverable amounts are determined based on either (i) value-in-use methodology or (ii) fair value less cost to sell, estimated using the depreciated replacement cost method.</p> <p>The valuation process involves significant judgement in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. The valuations are highly sensitive to key assumptions applied, such as the weighted average cost of capital (discount rate), price fluctuations in raw materials and finished goods, price indices used to estimate the replacement costs of like assets, useful lives and assets utilisation scale factors; i.e. a small change in the assumptions can have a significant impact to the valuation.</p>	<p>Our procedures to address the key audit matter include:-</p> <ol style="list-style-type: none"> 3. Evaluated the qualifications and competency of the business valuer. We read the terms of engagement of the valuer to determine whether there were any matters that might have affected their objectivity or limited the scope of their work; 4. Engaged an auditor's expert to assist us in determining the appropriateness of the discount rate used; 5. Evaluated whether the auditor's expert has the necessary competencies, capabilities and objectivity for the auditor's purposes; 6. Ran a range of sensitivity analysis where a reasonably possible change in assumptions could have a significant impact to the valuation; and 7. Considered the adequacy of the descriptions in the financial statements, in describing the inherent degree of subjectivity and key assumptions in the estimates. This includes the relationships between the key unobservable inputs and fair values, in conveying the uncertainties.



INDEPENDENT AUDITOR'S REPORT (CONT'D)

To the Shareholders of China Gaoxian Fibre Fabric Holdings Ltd. and its subsidiaries

Key Audit Matters (Cont'd)

Key Audit Matter	Risk	Our responses and work performed
Impairment assessment on financial assets	<p>As at 31 December 2016, the Group's loans and receivables as disclosed in Note 11 in the consolidated financial statements amounted to approximately RMB 128.2 million. They comprised mainly of (i) trade receivables of RMB 31.1 million, (ii) other receivable from a third party for non-performing loans previously acquired of RMB 10.1 million, (iii) deposits of RMB 37.9 million and (iv) non-trade advances extended to third parties of RMB 34.7 million respectively.</p> <p>The economic slowdown in PRC created a higher inherent risk relating to credit default. Management monitors and assesses the Group's credit risk, and where required, adjusts the level of allowance for impairment losses, which requires management to make significant judgement regarding the expected future financial conditions and the ability of future receipts from the debtors.</p>	<p>We have identified the recoverability of the Group's trade and other receivables as a key audit matter. The focus of our work involved auditing the Group's credit analyses and associated impairment assessments of trade and other receivables that were either in default, significantly overdue as at 31 December 2016.</p> <p>Our procedures to address the key audit matter include:-</p> <ol style="list-style-type: none"> 1. Assessed the Group's processes and controls relating to the monitoring of trade receivables and considered ageing to identify collection risks; 2. Sent confirmations on a sampling basis and reviewed for collectability by way of obtaining evidence of subsequent receipts from the trade receivables; 3. Discussed with management on the recoverability of the long outstanding debts and evaluated management's assumptions and estimates used to determine the trade receivable impairment amount through detailed analyses of ageing of receivables, assessment of material overdue individual trade receivables and where applicable, review of customers' payment history and correspondences between the Group and the customers; and 4. Assessed the adequacy of the Group's disclosures on the trade receivables and the related risks such as credit risk in the financial statements.

INDEPENDENT AUDITOR'S REPORT (CONT'D)

To the Shareholders of China Gaoxian Fibre Fabric Holdings Ltd. and its subsidiaries

Key Audit Matters (Cont'd)

Key Audit Matter	Risk	Our responses and work performed
Presentation of revenue	<p>On 1 December 2016, the Group entered into a framework supply chain cooperation agreement (the "Cooperation Agreement") with Zhejiang Materials Industry Chemical Group Co., Ltd. ("Zhejiang Materials") for a period of 3 years, commencing from 1 December 2016 to 31 December 2019.</p> <p>Under the Cooperation Agreement, Zhejiang Materials will act as the sole distribution agent of the Group's finished goods. The Group will be entitled to (i) a fee computed based on the actual raw material prices used in its production plus a pre-determined fixed processing fee, which will be revised quarterly and (ii) a profit share arising from the sale of the finished goods by Zhejiang Materials to its end customers after deducting certain related costs.</p> <p>Arrangements that involve multiple parties within a distribution chain providing goods or services to customers require the Group within that chain to exercise significant judgement in evaluating whether it is a principal (presenting revenue gross) or an agent (presenting revenue net) in the transaction. The determination is based on an evaluation of whether the Group has the substantial risks and rewards of ownership under the terms of the arrangement.</p>	<p>We evaluated whether the Group's accounting policy for the presentation of revenue under the Cooperation Agreement complied with the requirements of FRSs.</p> <ol style="list-style-type: none"> 1. Obtained and read the Cooperation Agreement and discussed with management to obtain an understanding on the nature of the arrangement; 2. Conducted interviews with key management personnel from the Group and Zhejiang Materials to understand the roles and responsibilities of the respective parties in respect of the Cooperation Agreement; and 3. Evaluated the risks and responsibilities undertaken by the Group in accordance with FRS 18 – <i>Revenue</i>; and 4. Assessed and validated the adequacy and appropriateness of the related disclosures made in the notes to the financial statements.



INDEPENDENT AUDITOR'S REPORT (CONT'D)

To the Shareholders of China Gaoxian Fibre Fabric Holdings Ltd. and its subsidiaries

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information obtained at the date of this auditor's report is information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 the provisions of the Act and 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

INDEPENDENT AUDITOR'S REPORT (CONT'D)

To the Shareholders of China Gaoxian Fibre Fabric Holdings Ltd. and its subsidiaries

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Kong Chih Hsiang Raymond.

Foo Kon Tan LLP
Public Accountants and
Chartered Accountants

Singapore,

1 June 2017



STATEMENTS OF FINANCIAL POSITION

as at 31 December 2016

		The Group		The Company	
	Note	31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
ASSETS					
Non-current					
Property, plant and equipment	5	1,348,779	1,530,276	—	—
Investment property - Construction work-in-progress	6	156,780	154,060	—	—
Land use rights prepayments	7	148,500	152,146	—	—
Prepayments	8	125,302	126,967	—	—
Investment in subsidiaries	9	—	—	—	—
		1,779,361	1,963,449	—	—
Current					
Land use rights prepayments	7	3,646	3,646	—	—
Prepayments	8	12,000	15,984	—	—
Inventories	10	18,929	36,357	—	—
Trade and other receivables	11	283,607	305,402	—	—
Bank deposits pledged	12	118,930	238,056	—	—
Cash and short term deposits	13	2,464	9,928	38	40
		439,576	609,373	38	40
TOTAL ASSETS		2,218,937	2,572,822	38	40
EQUITY AND LIABILITIES					
Capital and Reserves					
Share capital	14	2,190,580	2,190,580	2,190,580	2,190,580
Merger reserve	15	(369,563)	(369,563)	—	—
Warrant reserve	15	13,840	13,840	13,840	13,840
Accumulated losses	15	(2,170,712)	(1,795,622)	(2,295,404)	(2,292,370)
		(335,855)	39,235	(90,984)	(87,950)
LIABILITIES					
Non-current					
Borrowings	16	—	432,000	—	—
Obligations under finance leases	17	—	10,398	—	—
		—	442,398	—	—
Current					
Borrowings	16	1,693,928	1,189,670	—	—
Obligations under finance leases	17	—	44,821	—	—
Trade and other payables	18	702,938	756,646	61,582	58,946
Other liabilities	19	157,926	99,268	29,440	29,044
Provision for income tax		—	784	—	—
		2,554,792	2,091,189	91,022	87,990
TOTAL EQUITY AND LIABILITIES		2,218,937	2,572,822	38	40

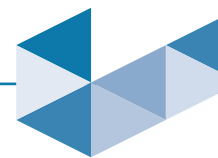
The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the financial year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Revenue	20	1,173,742	147,006
Cost of sales		(1,162,610)	(145,121)
Gross profit		11,132	1,885
Other income	21	12,122	24,578
Selling and distribution expenses		(3,262)	(2,655)
General and administrative expenses		(255,359)	(612,311)
Other expenses		(1,341)	(4,458)
Finance income	22	2,491	6,531
Finance expense	22	(140,873)	(200,612)
Loss before tax	23	(375,090)	(787,042)
Income tax expense	25	–	–
Net loss for the year, representing total comprehensive loss for the year attributable to equity holders of the Company		(375,090)	(787,042)
Loss per share attributable to equity holders of the Company (RMB)			
Basic and diluted	26	(3.30)	(6.92)

The annexed notes form an integral part of and should be read in conjunction with these financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2016

The Group	Share capital RMB'000	Warrant reserve RMB'000	Merger reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2015	2,190,580	13,840	(369,563)	(1,008,580)	826,277
Loss net of tax representing total comprehensive loss for the year	–	–	–	(787,042)	787,042
Balance at 31 December 2015	2,190,580	13,840	(369,563)	(1,795,622)	39,235
Loss net of tax representing total comprehensive loss for the year	–	–	–	(375,090)	(375,090)
Balance at 31 December 2016	2,190,580	13,840	(369,563)	(2,170,712)	(335,855)

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the financial year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Cash Flows from Operating Activities			
Loss before tax		(375,090)	(787,042)
Adjustments for:			
Amortisation of land use rights	7	3,646	3,646
Amortisation of land preparation cost	8	1,665	1,667
Depreciation of property, plant and equipment	5	138,457	38,694
Impairment losses on property, plant and equipment	5	112,010	504,459
Impairment loss on trade and other receivables	11	29,228	1,579
Property, plant and equipment written off	23	–	39
Interest expense	22	140,873	200,612
Interest income	22	(2,491)	(6,531)
Operating profit/(loss) before working capital changes		48,298	(42,877)
Changes in inventories		17,428	(18,458)
Changes in prepayments		3,984	(15,191)
Changes in trade and other receivables		(7,432)	(31,012)
Changes in trade and other payables		62,505	22,155
Changes in other liabilities and provisions		–	48,291
Cash flows generated from/(used in) operations		124,783	(37,092)
Interest received		2,491	6,531
Income taxes paid		–	–
Net cash flows generated from/(used in) operating activities		127,274	(30,561)
Cash Flows from Investing Activities			
Purchase of property, plant and equipment, representing net cash flows used in investing activity (Note A)		(40,351)	(142,688)
Additions to investment property – construction work-in-progress	6	(2,720)	(12,828)
Net cash flows used in investing activities		(43,071)	(155,516)
Cash Flows from Financing Activities			
Proceeds from bank loans and non-financial institutions		1,240,148	1,012,253
Repayment of bank loans and non-financial institutions		(1,167,890)	(740,748)
Repayment of obligations under finance leases		(55,219)	(42,992)
Proceeds received from disposal of securities pledged against the non-performing assets		–	69,057
Proceeds of interest-free loans from a government-linked entity, a non-related third party and a shareholder		220,000	–
Working capital loans extended to lessees under operating leases		–	(20,300)
Repayment of working capital loans extended to lessees under operating leases		–	20,000
Decrease in bills payables		(356,855)	(45,137)
Interest paid		(90,977)	(152,449)
Decrease in bank deposits pledged		119,126	29,848
Net cash flows (used in)/generated from financing activities		(91,667)	129,532
Net decrease in cash and cash equivalents		(7,464)	(56,545)
Cash and cash equivalents as at beginning of financial year		9,928	66,473
Cash and cash equivalents as at end of financial year	13	2,464	9,928

The annexed notes form an integral part of and should be read in conjunction with these financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

for the financial year ended 31 December 2016

Note:

A. Property, plant and equipment

	Note	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Additions to property, plant and equipment	5	68,970	134,289
Less: Prepayments made in prior year		–	(8,186)
Amounts included in accrued capital expenditure in current year	18	(91,909)	(63,290)
Add: Amounts included in accrued capital expenditure in prior year		63,290	79,875
Net cash outflow for purchase of property, plant and equipment		40,351	142,688

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2016

1 General Information

The financial statements of the Company and the Group for the financial year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on the date of the Directors' Statement.

China Gaoxian Fibre Fabric Holdings Ltd. (the "Company") is a limited liability company incorporated and domiciled in Singapore. The Company is listed on the Singapore Exchange Securities Trading Limited (SGX-ST).

The registered office of the Company is at 50 Raffles Place #32-01 Singapore Land Tower, Singapore 048623 and the principal places of business of the Group are located at Industrial Area of Balidian Town, Wuxing District, Huzhou City, Zhejiang Province, Peoples' Republic of China ("PRC") and No. 574, Caozhu Village Industry Zone, Tantou Town, Changle City, Fujian Province, PRC.

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are disclosed in Note 9 to the financial statements.

2 Going concern

The Group incurred losses for the financial year of RMB 375.1 million (2015 - RMB 787.0 million) for the financial year ended 31 December 2016. At that date, the Group and the Company reported deficiencies in net current assets of RMB 2.1 billion and RMB 91.0 million (2015 - deficiency in net current assets of RMB 1.48 billion and RMB 87.9 million). The Company also reported a deficiency in net assets of RMB 91.0 million (2015 - RMB 88.0 million) as at the balance sheet date. Furthermore, on 2 March 2016, the Company announced that the Singapore Exchange Securities Trading Limited (the "SGX-ST") has notified the Company that pursuant to Rule 1311 (1), the Company would be placed on the Watch-List for 36 months from 3 March 2016, failing which the SGX-ST may either remove the Company from the official list of the SGX-ST (the "Official List") or suspend trading of the Company with a view to remove the Company from the Official List. These factors indicate the existence of a material uncertainty which may cast significant doubt on the Group and the Company's ability to continue as a going concern.

The matters set out in the paragraphs above indicate the existence of a material uncertainty which may affect the validity of the going concern assumption on which the accompanying financial statements are prepared.

The directors are of the view that the going concern assumption is appropriate for the preparation of these financial statements as the directors believe that:

- (a) Huaxiang (China) Premium Fibre Co., Ltd. ("Huaxiang China") has been included in the list of local enterprises shortlisted by the People's Government of Huzhou City in FY2016 to receive financial assistance, including but not limited to the restructuring of existing loans from its principal bankers. This is part of the government wide initiatives to assist local enterprises who are facing financial difficulties. Following this, the Group was able to obtain fresh borrowings amounting to RMB 1,240.1 million and repaid approximately RMB 1,167.9 million during FY 2016. Furthermore, the major financial institutions have restructured the Group's bills payables into short-term borrowings, which bear lower interest rates. As at 31 December 2016, the Group's bills payable has reduced to RMB 130.6 million from RMB 487.5 million a year ago include in trade and other payables (Note 18);



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

2 Going concern (Cont'd)

- (b) Huaxiang China has resumed full production capacity on 15 April 2016 and production level has improved to full capacity since Q2 FY 2016. The commencement of the Framework Supply Chain Cooperation Agreement with Zhejiang Materials Industry Chemical Group Co., Ltd. ("Zhejiang Materials") with effect from 1 December 2016 will allow management to draw raw materials directly from Zhejiang Materials under a "Just-in-Time" inventory model. The Group will no longer need to utilise its "free cash" to purchase raw materials for production, which is currently on a cash on delivery basis. The surplus cash can be used to repay the banks' and third parties' borrowings, thereby reducing the high interest expenses;
- (c) One of the shareholders continues to undertake and provide the necessary financial support to the Group and the Company so that the Group and the Company are able to pay its debts as and when they fall due. In the event of any shortfall in working capital requirements for the next twelve months, management believes that the Group and the Company will have the ability to obtain further short-term financing from financial and non-financial institutions and third parties (collectively known as the "Lenders") since these loans will continue to be secured by guarantees from that shareholder. In FY2016, the Group was able to obtain fresh funding amounting to RMB 574.0 million from non-financial institutions to settle the Group's borrowings of RMB 696.0 million owing to these non-financial institutions. The loans due to these lenders amounted to RMB 1,824.5 million as at 31 December 2016 (2015 – RMB 2,109.1 million) and were secured by personal guarantees from that shareholder.

The financial statements have been prepared on a going concern basis, which contemplate the realisation of assets and the satisfaction of liabilities in the normal course of business. The viability of the Group and the Company's operations to continue as a going concern for the next twelve months after the end of the reporting period is dependent on (i) continual support from the local government, financial and non-financial institutions, (ii) the ability to maintain production level in Huaxiang China's production plant and generate required cash flows; (iii) the ability of one of the shareholders in providing continuing financial support to the Group and the Company as and when the liabilities fall due. As described above, management is of the view that they have a reasonable expectation that the Group and the Company has adequate resources to continue in operational existence for the foreseeable future.

If for any reason the Group is unable to continue as a going concern, 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 reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group and the Company may have to provide for further liabilities which may arise and to reclassify non-current assets and liabilities as "current assets" and "current liabilities" respectively. No such adjustments have been made to the financial statements of the Group and the Company in respect of these.

3 Basis of preparation

3.1 Background

Financial year ended 31 December 2010

In March 2011, certain discrepancies were noted in respect of the balances of bank accounts of the two principal subsidiaries of the Group namely, Zhejiang Huagang Polyester Industrial Co., Ltd ("Zhejiang Huagang") and Fujian New Huawei Fibre Dyeing Co., Ltd ("New Huawei") as at 31 December 2010. Special Auditors were then appointed by the Audit Committee to conduct an independent investigation into the Group's financial affairs, including its cash and bank balances, trade receivables balances as well as the capital expenditure of the Group incurred during the financial year ended 31 December 2010 and the financial quarter ended 31 March 2011.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.1 Background (Cont'd)

Financial year ended 31 December 2010 (Cont'd)

Based on the interim findings of the Special Auditors announced by the Company on 30 June 2011 and other information obtained by the ex-management (comprising inter alia ex-interim CEO, Jerome Tham and ex-CFO, Chen Guo Dong), certain adjustments were subsequently made to the financial statements pertaining to cash at banks, bank deposits pledged, bank borrowings, bills payables, land use rights and property, plant and equipment. The net effect of these adjustments amounting to RMB 980,000,000 had been taken to the statement of comprehensive income for the financial year ended 31 December 2010 as "Exceptional loss".

The Special Auditors released their report on 4 May 2012 which stated that they were unable to obtain satisfactory explanations for, inter alia, unaccounted bank balances and bank liabilities as at 31 December 2010 of approximately RMB 978 million, as well as the unaccounted net outflow of cash of approximately RMB 366 million for the period from 1 January 2011 to 31 March 2011.

As the predecessor statutory auditors were unable to complete the necessary audit procedures to determine the appropriateness of the account balances in the financial statements of the Group as at and for the financial year ended 31 December 2010, a disclaimer audit opinion was rendered by the predecessor statutory auditors in respect of the financial statements for the financial year ended 31 December 2010 in the auditors' report dated 14 October 2011.

1 January 2011 to 31 March 2011 (1QFY2011)

The bulk of the Group's accounting books and records for the period prior to 1 April 2011 could not be located. Hence, the Special Auditors were unable to reconstruct the Group's accounts as at 31 December 2010 and 31 March 2011 based on the limited information provided to them. While the Company is seeking to recover these missing records, the chance of recovering the aforesaid records within a reasonable amount of time may be remote. Moreover, even if the aforesaid missing records could be recovered, there is no assurance that these financial records would be complete or that all material supporting documents and information required for reconstructing the Group's accounts as at 31 December 2010 and 31 March 2011 would be available.

Balance sheets as at 31 March 2011

The 31 March 2011 balance sheets had been prepared based on information and supporting documents available to the ex-management (comprising inter alia ex-interim CEO, Jerome Tham and ex-CFO, Chen Guo Dong) after they took over the finance functions and records of the Group in May 2011.

The current auditors had carried out the appropriate audit procedures on opening balances in accordance with SSA when appointed for financial year ended 31 December 2013.

The consolidated financial statements of the Group and the balance sheet of the Company have been prepared in accordance with Financial Reporting Standards in Singapore ("FRSs"), including related Interpretations promulgated by the Accounting Standards Council ("ASC"). The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below. All the financial information presented in Chinese Renminbi ("RMB") has been rounded to the nearest thousand ("RMB'000") unless otherwise stated.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.2 Interpretations and amendments to published standards effective in 2016

The directors do not anticipate that the adoption of the FRSs will have a material impact on the financial statements of the Group and the Company in the period of their initial adoption except for the following new or amended FRS and INT FRS issued and effective in year 2016:

Reference	Description
Amendments to FRS 1	<i>Disclosure Initiatives</i>

The amendments to FRS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing FRS 1 requirements. The amendments clarify:

- The materiality requirements in FRS 1
- That specific line items in the statement(s) of profit or loss and Other Comprehensive Income ("OCI") and the statement of financial position may be disaggregated
- That entities should adopt a systemic order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. The amendments to FRS 1 are effective for annual periods beginning on or after 1 January 2016. As this is a disclosure standard, it will have no impact to the financial position and performance of the Group when applied in.

3.3 FRS and INT FRS not yet effective

The Accounting Standards Council announced on 29 May 2014 that Singapore-incorporated companies listed on the SGX-ST will apply a new financial reporting framework identical to the International Financial Reporting Standards ("IFRS") for financial year ending 31 December 2018 onwards. Singapore-incorporated companies listed on the SGX-ST will have to assess the impact of IFRS 1 *First-time adoption of IFRS* when transitioning to the new reporting framework. The Group is currently assessing the impact of transitioning to the new reporting framework on its financial statements.

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by ASC that are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. The directors do not anticipate that the application of these new and revised FRSs will have a material impact on the financial statements of the Group and the Company except for the following which may be relevant to the Group and may have a significant effect on the consolidated financial statements in future financial periods.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.3 FRS and INT FRS not yet effective (Cont'd)

Reference	Description	Effective date (Annual periods beginning on)
Amendments to FRS 7	<i>Statement of Cash Flows</i>	1 January 2017
FRS 115	<i>Revenue Contract from Customer</i>	1 January 2018
Clarifications to FRS 115	<i>Revenue Contract from Customer</i>	1 January 2018
FRS 109	<i>Financial Instruments</i>	1 January 2018
Amendments to FRS 40	<i>Transfer of Investment Property</i>	1 January 2018
FRS 116	<i>Leases</i>	1 January 2019

Amendments to FRS 7 *Statement of Cash Flows*

The Amendments to FRS 7 *Statement of Cash Flows* required entities to reconcile cash flows arising from financing activities as reported in the statement of cash flows – excluding contributed equity – to the corresponding liabilities in the opening and closing statements of financial position and to disclose on any restrictions over the decisions of an entity to use cash and cash equivalent balances, in particular way – e.g. any tax liabilities that would arise on repatriation of foreign cash and cash equivalent balances. These amendments are effective on beginning or after 1 January 2017. As this is a disclosure standard, it will have no impact to the financial position and performance of the Group when applied in.

FRS 115 *Revenue Contracts with Customers*

FRS 115 *Revenue from Contracts with Customers* establishes a framework for determining when and how to recognise revenue. The objective of the standard is to establish the principles that an entity shall apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. It established a new five-step model that will apply to revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods and services to a customer.

The standard replaces FRS 11 *Construction Contracts*, FRS 18 *Revenue*, INT FRS 113 *Customer Loyalty Programmes*, INT FRS 115 *Agreements for Construction of Real Estate*, INT FRS 118 *Transfer of Assets from Customers* and INT FRS 31 *Revenue – Barter Transactions involving Advertising Services*. The new standard applies to contracts with customers. However, it does not apply to insurance contracts, financial instruments or lease contracts, which fall into the scope of other standards.

FRS 115 is effective for annual periods beginning on or after 1 January 2018. The Group is currently assessing the impact to the consolidated financial statements.

Clarifications to FRS 115 *Revenue Contracts with Customers*

The amendments clarify how to:

- Identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract
- Determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided)
- Determine whether the revenue from granting a licence should be recognised at a point in time or over time.

The amendments have the same effective date as the Standard, FRS 115, i.e. on 1 January 2018.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.3 FRS and INT FRS not yet effective (Cont'd)

FRS 109 Financial Instruments

FRS 109 *Financial Instruments* replaces the FRS 39 and it is a package of improvements introduced by FRS 109 which include a logical model for:

- Classification and measurement;
- A single, forward – looking “expected loss” impairment model and
- A substantially reformed approach to hedge accounting

FRS 109 is effective for annual periods beginning on or after 1 January 2018. The Group is currently assessing the impact to the consolidated financial statements.

Amendments to FRS 40 Transfer of Investment Property

The amendments in FRS 40 *Transfers of Investment Property* state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

The amendments are effective on 1 January 2018. However, earlier adoption is permitted. The amendments would be applied retrospectively in accordance with FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group is currently assessing the impact to the consolidated financial statements.

FRS 116 Leases

FRS 116 *Leases* replaces accounting requirements introduced more than 30 years ago in accordance with FRS 17 *Leases* that are no longer considered fit for purpose, and is a major revision of the way in which companies require lessees to recognise most leases on their balance sheets. Lessor accounting is substantially unchanged from current accounting in accordance with FRS 17. FRS 116 *Leases* will be effective for accounting periods beginning on or after 1 January 2019. Early adoption will be permitted, provided the Group has adopted FRS 115. The Group is currently assessing the impact to the consolidated financial statements.

3.4 Summary of significant accounting policies

3.4.1 Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

Consolidation of the subsidiaries in the People's Republic of China (“PRC”) is based on the subsidiaries' financial statements prepared in accordance with FRS. Profits reflected in the financial statements prepared in accordance with FRS may differ from those reflected in the PRC statutory financial statements of the subsidiary, prepared for PRC reporting purposes. In accordance with the relevant laws and regulations in PRC, profit available for distribution by the PRC subsidiaries are based on the amounts stated in the PRC statutory financial statements.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.4 Summary of significant accounting policies (Cont'd)

3.4.1 Consolidation (Cont'd)

Losses and other comprehensive income are attributable to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- de-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts as at that date when control is lost;
- de-recognises the carrying amount of any non-controlling interest;
- de-recognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognised in the statement of comprehensive income and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to the statement of comprehensive income or transferred to another category of equity as specified/permitted by applicable FRSs).

The fair value of any investment retained in the former subsidiary at the date when the control is lost is regarded as the fair value on the initial recognition for subsequent accounting under FRS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

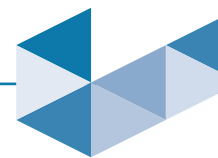
Transactions eliminated on consolidation

All inter-company balances and significant inter-company transactions and resulting unrealised profits or losses are eliminated on consolidation and the consolidated financial statements reflect external transactions and balances only.

Transactions with Non-Controlling Interest

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the statement of financial position, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.4 Summary of significant accounting policies (Cont'd)

3.4.2 Functional currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements of the Group and the Company are presented in RMB, which is also the functional currency of the Company.

Conversion of foreign currencies

Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the reporting date are recognised in the statement of comprehensive income. However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

When a foreign operation is disposed of or any borrowings forming part of the net investment of the foreign operation are repaid, a proportionate share of the accumulated translation differences is reclassified to statement of comprehensive income, as part of the gain or loss on disposal.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within "finance expense". Foreign currency gains and losses are reported on a net basis as either other income or other operating expense depending on whether foreign currency movements are in a net gain or net loss position.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

Group entities

The results and financial position of all the Group entities (*none of which has the currency of a hyperinflationary economy*) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing rates at the end of that statement of financial position;
- (ii) Income and expenses for each statements presenting profit or loss and other comprehensive income (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions; and
- (iii) All resulting currency translation differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.4 Summary of significant accounting policies (Cont'd)

3.4.3 Subsidiaries

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, the Group controls an investee if and only if the Group has all of the following:

- power over the investee;
- exposure, or rights or variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less allowance for any impairment losses on an individual subsidiary basis.

3.4.4 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 3.4.13. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Depreciation is computed on a straight-line basis over the estimated useful life of the assets as follows:

Production and office buildings	20 to 30 years
Plant and machinery	10 to 15 years
Office equipment and furniture	5 to 8 years
Motor vehicles	5 to 8 years
Renovation	5 years



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.4 Summary of significant accounting policies (Cont'd)

3.4.4 Property, plant and equipment (Cont'd)

Construction-in-progress, which represents plant and equipment and buildings under construction, is stated at cost less any impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. Capitalisation of these costs ceases and construction-in-progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed and the assets are available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. The residual value, useful life and depreciation method are reviewed at each financial year end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income in the year the asset is derecognised.

3.4.5 Investment properties

Investment properties include those portions of office buildings that are held for long-term rental yields and/or for capital appreciation and land under operating leases that are held for long-term capital appreciation or for a currently indeterminate use, and where an insignificant portion is held for the group's own occupation. Investment properties comprise completed investment properties and properties under construction or development for future use as investment properties.

Investment properties are initially recognised at cost and subsequently, measured at cost less accumulated depreciation and any accumulated impairment losses.

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised as additions and the carrying amounts of the replaced components are written off to the statement of comprehensive income. The cost of maintenance, repairs and minor improvement is charged to the statement of comprehensive income when incurred.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. On disposal or retirement of an investment property, the difference between any disposal proceeds and the carrying amount is recognised in the statement of comprehensive income.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sell.

3.4.6 Land use rights prepayments

The land use rights held by the Group are regarded as operating leases. The amounts paid for these rights are treated as prepayments and are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised in the statement of comprehensive income over the lease term of 50 years.

3.4.7 Land preparation costs

Land preparation costs relate to the cost of relocation of the farmers, land tiling and pavement of roads and other infrastructure work. The land preparation cost is amortised in the statement of comprehensive income on a straight line over the land lease term of 50 years.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.4 Summary of significant accounting policies (Cont'd)

3.4.8 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets subject to impairment are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belong will be identified.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value-in-use, based on an internal discounted cash flow evaluation. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Any impairment loss is charged to the statement of comprehensive income.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

A reversal of an impairment loss is recognised as income in the statement of comprehensive income.

3.4.9 Financial assets

Financial assets can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each reporting date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.4 Summary of significant accounting policies (Cont'd)

3.4.9 Financial assets (Cont'd)

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in the statement of comprehensive income when received, regardless of how the related carrying amount of financial assets is measured.

The Group does not hold any financial assets at fair value through profit or loss, held-to-maturity investments or available-for-sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the reporting date which are classified as non-current assets.

Loans and receivables include trade and other receivables (excluding VAT receivables, advances received and prepayments) and cash and bank balances. They are subsequently measured at amortised cost using the effective interest method, less allowance for impairment. If there is objective evidence that the asset has been impaired, the financial asset is measured at the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The impairment or write-back is recognised in the statement of comprehensive income.

3.4.10 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and bank deposits net of any pledged bank deposits.

3.4.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition, are accounted for as follows:

- Raw materials – purchase cost on a weighted average basis.
- Work-in-progress and finished goods – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Allowance is made for obsolete, slow-moving and defective inventories in arriving at the net realisable value. The amount of any write-down of inventories to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.4 Summary of significant accounting policies (Cont'd)

3.4.12 Financial liabilities

The Group's financial liabilities include borrowings, obligations under finance leases, trade and other payables and other liabilities and provisions.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges are recognised as an expense in "finance expense" in the statement of comprehensive income. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Borrowings are recognised initially at the fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the statement of comprehensive income over the period of the borrowings using the effective interest method. The interest expense is chargeable on the amortised cost over the period of the borrowings using the effective interest method.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Borrowings which are due to be settled within 12 months after the end of reporting period are included in current borrowings in the statement of financial position even though the original terms was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the end of reporting period. Borrowings to be settled within the Group's normal operating cycle are classified as current. Other borrowings due to be settled more than twelve months after the end of reporting period are included in non-current borrowings in the statement of financial position.

3.4.13 Borrowing costs

Borrowing costs are capitalised as part of a qualifying asset if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3.4.14 Leases

Where the Group is the lessee

Finance leases

Where assets are financed by lease agreements that give rights approximating to ownership, the assets are capitalised as if they had been purchased outright at values equivalent to the lower of the fair values of the leased assets and the present value of the total minimum lease payments during the periods of the leases. The corresponding lease commitments are included under liabilities. The excess of lease payments over the recorded lease obligations are treated as finance charges which are amortised over each lease to give a constant effective rate of charge on the remaining balance of the obligation.

The leased assets are depreciated on a straight-line basis over their estimated useful lives as detailed in the accounting policy on "Property, plant and equipment".



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.4 Summary of significant accounting policies (Cont'd)

3.4.14 Leases (Cont'd)

Where the Group is the lessee (cont'd)

Operating leases

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Rentals on operating leases are charged to the statement of comprehensive income on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in the statement of comprehensive income when incurred.

Where the Group is the lessor

Operating leases

Rental income is recognised on a straight-line basis over the lease term.

3.4.15 Employee benefits

Pension obligations

The Group participates in the defined contribution national pension schemes as provided by the laws of the countries in which it has operations.

Pursuant to the relevant regulations of the PRC government, the employees of the subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government (the "Central Pension Scheme"), whereby the PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the Central Pension Scheme. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the PRC subsidiaries. The only obligation of the PRC subsidiaries with respect to the Central Pension Scheme is to pay the ongoing required contributions under the Central Pension Scheme. Contributions under the Central Pension Scheme are charged to the statement of comprehensive income as incurred. The assets of the Central Pension Scheme are held separately from those of the PRC subsidiaries in independently administered funds.

A defined contribution national pension scheme is a post-employment benefit plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. The contributions to national pension schemes are charged to the statement of comprehensive income in the period to which the contributions made. The Group is subject only to defined contribution plans.

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Accrual is made for the unconsumed leave as a result of services rendered by employees up to the end of each reporting period.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and certain general managers are considered key management personnel.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.4 Summary of significant accounting policies (Cont'd)

3.4.16 Revenue

Revenue from sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes goods and services taxes and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

The Group assesses its revenue arrangements to determine if it is acting as principal or agent. In a transaction where the Group acts as an agent, such commission income is recognised net on an accrual basis. The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of goods and scrap materials

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer, usually on delivery of goods. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) Interest income

Interest income is recognised as it accrues in the statement of comprehensive income, using the effective interest method.

3.4.17 Government Grant

An unconditional government grant is recognised in the statement of comprehensive income as "other income" when the grant becomes receivable.

Other government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. These grants are then recognised in the statement of comprehensive income as "other income" on a systematic basis over the useful life of the asset. Grants that compensate the Group for expenses incurred are recognised in the statement of comprehensive income as "other income" on a systematic basis in the same periods in which the expenses are recognised.

3.4.18 Taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.4 Summary of significant accounting policies (Cont'd)

3.4.18 Taxes (Cont'd)

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the end of reporting period, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in the statement of comprehensive income, except to the extent that the tax arises from a business combination or a transaction which is recognised either in other comprehensive income or directly in equity. Deferred income tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority.

3.4.19 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. All operating segments' operating results are reviewed regularly by the Group's directors to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Additional disclosures on operating segments are shown in Note 27 to the financial statements, including the factors used to identify the reportable segments and the measurement basis of segment information.

Segment results that are reported to the Group's directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3.4.20 Share capital and share issue expenses

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

3.4.21 Related parties

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Group and Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Group or Company or of a parent of the Company

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

3 Basis of preparation (Cont'd)

3.4 Summary of significant accounting policies (Cont'd)

3.4.21 Related parties (Cont'd)

- (b) An entity is related to the Group and the Company if any of the following conditions applies:
- (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) both entities are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third party and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

3.4.22 Contingencies

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) The amount of the obligation cannot be measured with sufficient reliability.

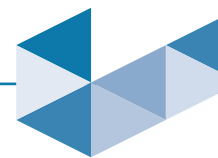
Contingent liabilities are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

3.4.23 Intra-group financial guarantees

Financial guarantee contracts are accounted for as insurance contracts. A provision is recognised based on the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date. The provision is assessed by reviewing individual claims and tested for adequacy by comparing the amount recognised and the amount that would be required to settle the guarantee contract.

3.4.24 Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

4 Significant accounting estimates and judgements

The preparation of the financial statements in conformity with FRS requires the management to exercise judgements in the process of applying the Group's accounting policies and requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the reporting periods, and the reported amounts of revenues and expenses during the financial years. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the financial year in which the estimate is revised if the revision affects only the financial year or in the financial year of the revision and future financial years if the revision affects both current and future financial years.

4.1 Significant judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the consolidated financial statements:

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the respective entities in the Group, judgement is required to determine the currency that mainly influences sales prices of goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on the local management's assessment of the economic environment in which the entities operate and the respective entities' process of determining sales prices.

Classification of leases

The Group entered into a number of lease arrangements with third parties as disclosed in Notes 5(f) and 5(g) to the financial statements. Lease classification depends on the substance of the transaction rather than the form of the contract and involves significant management's judgement. For each of the lease arrangement entered, management has evaluated the terms and conditions of the lease agreement entered and determined the appropriate classification of the lease arrangement in accordance with FRS 17 – Leases.

Classification of land use rights (Note 7)

As at 31 December 2016, included in "prepayments" to the financial statements was prepaid land use rights of RMB 56.0 million (2015 – RMB 56.0 million) relating to a plot of state owned land in the PRC. There was no formal agreement signed with the relevant authorities and no land title has been obtained. The directors are of the opinion that there is no recoverability issue as the prepayment was made to 潮州市吴兴区人民政府.

Within the PRC, it is the practice for the State to issue land use rights to individuals or entities. Such rights are evidenced through the granting of a land use right certificate, which gives the holder the right to use the land (including the construction of buildings thereon) for a given length of time. An upfront payment is made for this right. Management judges that the substance of this arrangement is an operating lease over the land, and that the upfront payment represents prepaid lease rental. As such, a prepayment is recognised in the consolidated statements of financial position, analysed between current and non-current assets which represent amounts to be utilised within and after 12 months from the end of each reporting period respectively. The prepaid lease cost is amortised to spread the lease cost over the duration of the term of the land use right, as specified in the land use right certificate.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

4 Significant accounting estimates and judgements (Cont'd)

4.1 Significant judgements made in applying accounting policies (Cont'd)

Recoverability of other receivable from a third party (Note 11)

In FY 2014, the Group acquired a non-performing loan of a third party amounting to RMB 80.7 million from China Citi Bank via China Huarong Assets Management Co., Ltd ("China Huarong"), a state-owned financial asset management company. The amount was secured by certain equity shares in a commercial bank and a commercial property (collectively known as the "pledged assets"). The Group received partial payment of RMB 69.1 million in FY2015 and the outstanding amount of RMB 11.6 million remained outstanding as at 31 December 2016.

There is currently a dispute by other creditors of the third party over the rights of the pledged assets and the Court has subsequently informed the creditors that only RMB 10.1 million was left to be distributed amongst 13 creditors including the Group. As at 31 December 2016, the Group has an outstanding receivable due from China Huarong amounting to RMB 10.1 million and management is of the view that the Group continues to have first rights over the remaining undistributed proceeds of RMB 10.1 million on the basis that the Group had paid the principal amount of RMB 80.7 million for the non-performing loan to Citic Bank in 2014.

Recognition of contingencies (Note 32)

On 8 March 2016, the Company announced that on 1 December 2015, a claim was brought against the Company by Daewoo Securities Co., Ltd (the "Plaintiff") in Korea, in connection with an alleged breach of an underwriting agreement signed between the Company and the Plaintiff in 2010. The Plaintiff was then the lead arranger for the Company's public offering of depository receipts ("DRs") which were listed on the Korea Exchange in 2011. In connection with the said listing of the DRs, the Company had entered into an underwriting agreement with the Plaintiff. The Plaintiff had filed a claim for damages of 1 billion Korean Won (plus interest) (i.e. approximately RMB 5.4 million or S\$1.15 million), for the alleged breach by the Company for violating its representation and warrant obligation under the Underwriting Agreement in respect of the provision of inaccurate financial statements to the Plaintiff and false description of cash and assets in the statements submitted in relation to the listing of the DRs. The Board of Directors of the Company met the representative of the Plaintiff in May 2016. The first hearing was postponed to 8 July 2016. As at the date of the report, there was no further development on this matter.

The Company intends to defend the plaintiff's claims and is currently seeking legal advice. Management has assessed that the financial impact, including any outflows to settle this obligations, if any, will not be significant to the Group.

Presentation of revenue under the Framework Supply Chain Cooperation Agreement

On 1 December 2016, Huaxiang China, a wholly owned subsidiary of the Company entered into a framework supply chain cooperation agreement (the "Cooperation Agreement") with a state-owned enterprise Zhejiang Materials, for a period of 3 years, commencing from 1 December 2016 to 31 December 2019.

Under the Cooperation Agreement, Zhejiang Materials will act as the sole distribution agent of the Group's finished goods. The Group will be entitled to (i) a fee computed based on the actual raw material prices used in its production plus a pre-determined fixed processing fee, which will be revised quarterly and (ii) a profit share arising from the sale of the finished goods by Zhejiang Materials to its end customers after deducting certain related costs.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

4 Significant accounting estimates and judgements (Cont'd)

4.1 Significant judgements made in applying accounting policies (Cont'd)

Presentation of revenue under the Framework Supply Chain Cooperation Agreement (Cont'd)

Arrangements that involve multiple parties within a distribution chain providing goods or services to customers require the Group within that chain to exercise significant judgement in evaluating whether it is a principal (presenting revenue gross) or an agent (presenting revenue net) in the transaction. The determination is based on an evaluation of whether the Group has the substantial risks and rewards of ownership under the terms of the arrangement.

Management evaluated the risks and responsibilities undertaken by the Group in accordance with FRS 18 – Revenue. Factors taken into consideration to establish principal vs agent relationship include whether the Group (i) has primary responsibility for providing the goods or services to the customer, (ii) bears inventory risks before, or after the customer order, during shipping or on return, (iii) has latitude in establishing prices, either directly or indirectly and (iv) bears the customers' credit risks for the amount receivable from the customers. Judgement is required and all relevant facts and circumstances need to be considered.

Following the assessment, management concluded that Huaxiang China acts as a principal in respect of the sales of goods to Zhejiang Materials and an agent in respect of the arrangement between Zhejiang Materials and its end customers. Accordingly, management presents the revenue from the sales of goods to Zhejiang Materials amounting to RMB 142.1 million on a "gross basis" and records its share of the profits amounting to RMB 12.9 million generated from the arrangement in the consolidated statement of comprehensive income, respectively.

4.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimate on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future development, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumption when they occur.

Useful life of property, plant and equipment (Note 5)

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Changes in the expected level of usage, maintenance programmes, and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's property, plant and equipment as at 31 December 2016 was approximately RMB 1.35 billion (2015 - RMB 1.53 billion). A reduction/ extension in the useful life of the production plant and machinery by one year (2015 - one year) would increase/decrease the Group's loss for the financial year by approximately RMB 10,732,000/RMB 8,444,000 (2015 - RMB 5,089,000/RMB 1,775,000).

Allowance for inventory obsolescence (Note 10)

The Group reviews the ageing analysis of inventories at the end of each reporting period, and makes allowance for obsolete and slow moving inventory items identified that are no longer suitable for sale. The net realisable value for inventories is estimated based primarily on the latest invoice prices and current market conditions to assess future demand for products. Possible changes in these estimates could result in revisions to the valuation of inventories. The carrying amount of the Group's inventories at the end of each reporting period is disclosed in Note 10 to the financial statements. If the net realisable values of finished goods were to decrease by 5% from management estimates, the Group's allowance for inventory obsolescence will increase by RMB 0.3 million (2015 - RMB 1.21 million).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

4 Significant accounting estimates and judgements (Cont'd)

4.2 Key sources of estimation uncertainty (Cont'd)

Impairment loss recognised on property, plant and equipment (Note 5)

The Group assessed the carrying amount of its property, plant and equipment against their recoverable amounts at each reporting date to determine whether there is an indication of impairment. The estimated recoverable amounts of each cash generating unit are determined either based on (i) fair value less costs to sell, based on the depreciated replacement cost method or (ii) value-in-use methodology which is deriving using the discounted forecast cash flow model.

The recoverable amounts of the property, plant and equipment could change significantly as a result of changes in the assumptions used in determining the fair value less costs to sell and value-in-use. The key assumptions used based on depreciated replacement cost approach are those regarding (i) price indices to estimate the replacement cost of like assets, (ii) useful lives of the property, plant and equipment and (iii) the asset utilisation factor to arrive at the depreciable replacement cost to reflect the appropriate physical deterioration, functional and economic obsolescence of the Group's property, plant and equipment. The key assumptions used based on value-in-use approach include estimates of future sales volumes, estimated selling prices and operating costs, estimated input and output ratio and the weighted average cost of capital (discount rate).

The above estimates are particularly sensitive in the following areas:

- 1) By keeping other variable constant, a decrease/increase of useful lives of Zhejiang Huagang and New Huawei property, plant and equipment by one year would have increased/decreased the impairment loss by RMB 55.9 million or RMB 62.1 million respectively; or
- 2) By keeping other variable constant, a 0.1 decrease/increase to the asset utilisation factor of Zhejiang Huagang and New Huawei would have increased/ decreased the impairment loss by RMB 78.0 million or RMB 40.6 million respectively; or
- 3) By keeping other variable constant, a 1% decrease/increase to the weighted average cost of capital of Huaxiang China would have decreased/increased the impairment loss by RMB 73.0 million or RMB 68.1 million respectively; or
- 4) By keeping other variable constant, a 1% decrease/increase to the input and output ratio of Huaxiang China would have increased/decreased the impairment loss by RMB 159.5 million or RMB 161.9 million respectively; or
- 5) By keeping other variable constant, a 1% decrease/increase to the selling price of Huaxiang China would have increased/decreased the impairment loss by RMB 151.7 million or RMB 154.7 million respectively; or
- 6) By keeping other variable constant, a 1% decrease/increase to the raw materials operating cost of Huaxiang China would have decreased/increased the impairment loss by RMB 123.0 million or RMB 120.9 million respectively.

The carrying amount as at 31 December 2016 was disclosed in Note 5 to the financial statements.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

4 Significant accounting estimates and judgements (Cont'd)

4.2 Key sources of estimation uncertainty (Cont'd)

Impairment of trade and other receivables (Note 11)

Impairment of trade and other receivables are based on an assessment of the recoverability of trade and other receivables. Impairment are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgement and estimates. Where the expected outcome is different from the original estimate, such difference will impact carrying value of trade and other receivables and impairment loss in the period in which such estimate has been changed.

The carrying amount of the Group's trade and other receivables at the end of each reporting period is disclosed in Note 11 to the financial statements. If the present value of estimated future cash flows on loans and receivables decrease by 5% from management's estimates, the Group's allowance for impairment will increase by RMB 6.4 million (2015 – RMB 7.3 million).

Income taxes (Note 25)

The Group has exposure to income taxes in the PRC. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

The PRC subsidiaries make tax submissions to the local tax authorities in accordance with interpretations and local practices. Management has assessed and concluded that all tax submissions are appropriate and except for the outstanding payments so determined, there are no further tax and related liabilities.

As at 31 December 2016, the Group did not recognise deferred tax assets in relation to unutilised tax losses and temporary differences arising from deductible expenses due to uncertainty over which future taxable profit will be available against which the Group can utilise such benefit.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

5 Property, plant and equipment

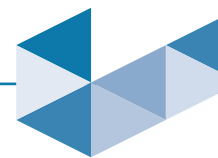
The Group	Production and office buildings RMB'000	Plant and machinery RMB'000	Office equipment and furniture RMB'000	Motor vehicles RMB'000	Renovation RMB'000	Construction work-in-progress RMB'000	Total RMB'000
<u>Cost</u>							
At 1 January 2015	149,757	739,281	2,400	10,894	385	1,564,297	2,467,014
Additions	112	1,503	2,627	1,417	–	128,630	134,289
Transfers	588,499	1,040,055	–	–	452	(1,629,006)	–
Written off	–	–	(88)	(332)	–	–	(420)
At 31 December 2015	738,368	1,780,839	4,939	11,979	837	63,921	2,600,883
Additions	–	2,393	422	38	–	66,117	68,970
Transfers	5,951	124,087	–	–	–	(130,038)	–
At 31 December 2016	744,319	1,907,319	5,361	12,017	837	–	2,669,853

Accumulated depreciation and impairment losses

At 1 January 2015	66,024	452,527	2,007	6,929	348	–	527,835
Depreciation charge for the year	5,373	31,183	643	1,448	47	–	38,694
Impairment loss for the year	164,675	322,081	–	–	26	17,677	504,459
Written off	–	–	(81)	(300)	–	–	(381)
At 31 December 2015	236,072	805,791	2,569	8,077	421	17,677	1,070,607
Depreciation charge for the year	27,117	108,927	861	1,508	44	–	138,457
Transfers	–	17,677	–	–	–	(17,677)	–
Impairment loss for the year	–	111,731	92	–	187	–	112,010
At 31 December 2016	263,189	1,044,126	3,522	9,585	652	–	1,321,074

Net carrying amount

At 31 December 2016	481,130	863,193	1,839	2,432	185	–	1,348,779
At 31 December 2015	502,296	975,048	2,370	3,902	416	46,244	1,530,276



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

5 Property, plant and equipment (Cont'd)

(a) Assets pledged as security

As at 31 December 2016, certain of the Group's production and office buildings, plant and machinery and construction in progress are pledged as security for the Group's short-term bank loans, bills payable to banks and Zhejiang Materials as disclosed below:

Carrying amount of assets pledged as security	Bank loans and bills payable to bank (Notes 16 & 18)		Mortgaged to Zhejiang Materials (Note 20)		Obligations under finance leases (Note 17)		Total	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Production and office buildings	72,570	341,251	–	–	–	–	72,570	341,251
Plant and machinery	424,413	68,108	104,964	–	–	92,677	529,377	160,785
	496,983	409,359	104,964	–	–	92,677	601,947	502,036

(b) Construction-in-progress in FY2015

As at 31 December 2015, the carrying amount of the Group's construction work-in-progress relates to certain FDY production lines that have not commenced its testing phase.

(c) Depreciation expense

Depreciation expense is recognised in the statement of comprehensive income as follows:

The Group	2016 RMB'000	2015 RMB'000
Depreciation expense charged to:–		
– Cost of sales	84,630	5,726
– Administration expenses	53,827	32,968
	138,457	38,694

(d) Fully depreciated assets

As at 31 December 2016, the Group's fully depreciated assets that are still in use mainly relate to production and office building, plant and equipment, office equipment and furniture and motor vehicles. Both the cost (gross) and accumulated depreciation amounts were approximately RMB 38.2 million (2015 – RMB 38.2 million), RMB 19.2 million (2015 – RMB 14.0 million), RMB 2.0 million (2015 – RMB 1.7 million) and RMB 4.8 million (2015 – RMB 4.1 million) respectively.

(e) Idle assets

As at 31 December 2016, the Group's temporarily idle assets relate mainly to Zhejiang Huagang Polyester Industrial Co., Ltd. ("Zhejiang Huagang")'s and New Huawei Fibre Dyeing Co., Ltd. ("New Huawei")'s plant and equipment with aggregate carrying amount of approximately RMB 94.1 million (2015 – RMB 97.1 million).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

5 Property, plant and equipment (Cont'd)

(f) Assets under finance leases in FY2015

As at 31 December 2015, the carrying amount of plant and machinery acquired under finance leases for the Group amounted to RMB 92.7 million.

(g) Assets leased out under operating leases

As at 31 December 2016, the carrying amount of plant and machinery leased out to third parties under operating leases arrangements amounted to RMB 82.0 million (2015 – 85.4 million). The Group recorded operating lease income amounting to RMB 3.0 million for the current financial year (2015 – RMB 3.0 million).

(h) Impairment losses

The Group continues to incur substantial operational loss since its resumption of trading on 18 September 2013. The textile industry in PRC continues to be impacted by the slowdown of the PRC economy. The macro environment remains challenging due to intense competition within the industry and rising production costs. The production facilities located at the Group's other production facilities in Zhejiang Huagang and New Huawei remain shut since FY2014 and the facilities are partially leased out to third parties. Management carried out a review of the recoverable amounts of the production and office building and plant and equipment of the respective CGU based on either their fair values less costs to sell or value-in-use as at 31 December 2016. An impairment loss on Zhejiang Huagang's and New Huawei's property, plant and machinery, totalling RMB 112.0 million (2015 – 504.5 million) was recognised in the consolidated statement of comprehensive income. The respective recoverable amounts were determined based on the valuation reports produced by Jones Lang LaSalle Corporate Appraisal & Advisory Limited ("Jones Lang"), an independent firm of professional valuers, who have the appropriate recognised professional qualification and recent experience in the location and category of property, plant and equipment being valued. The fair values were primarily determined based on fair value measurement category within Level 3.

(i) Interest expenses capitalised in Construction Work-In-Progress and transferred to Property, plant and equipment in FY2015

In FY2015, Included in "property, plant and equipment" were capitalised borrowing costs related to the construction of Huaxiang Project of RMB 36.6 million.

(j) Capitalisation of direct attributable costs under testing phase for production facilities of Huaxiang China in FY2015

In FY2015, management capitalised a gross loss of RMB 4 million, comprising revenue of RMB 773.7 million less related cost of sale of RMB 777.7 million, arising from the production and sale of FDY, POY and PET chips, in "property, plant and equipment" in accordance with FRS 16 – *Property, Plant and Equipment*. Management was of the view that the production of FDY, POY and PET chips were under the testing phase in FY2015 and accordingly, the amounts constituted the costs of testing to ascertain whether the new production facilities were functioning properly, after deducting the net proceeds from selling any items produced while bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management.

Other than certain FDY production lines that had not yet commenced its testing phase, the remaining assets were reclassified from "construction work-in-progress" to "production and office buildings" and "plant and equipment" respectively, in December 2015 after the remaining assets achieved a stable and consistent quality of "AA" graded products.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

6 Investment property – Construction work-in-progress

The Group	2016 RMB'000	2015 RMB'000
At 1 January	154,060	141,232
Additions	2,720	12,828
At 31 December	156,780	154,060

- (a) The details of the investment property - Construction work-in-progress, held by a wholly-owned subsidiary, are as follows:

Location	Description	Construction Gross Floor Area (Sq. metres)	Tenure
Blk 18, No. 789 Yi Shan Road, Wuxing District, Huzhou City, Zhejiang Province, China	26-storey commercial and office building with two basement floors	46,993.33	40 years lease, commencing from 10 June 2010

- (b) Investment property - Construction work-in-progress is recorded at cost as at 31 December 2016. Management has not obtained the Fire & Safety Certificates from relevant Issuing Government Ministries and accordingly, the investment property is not ready for its intended use and accordingly, no depreciation was recognised in the consolidated statement of comprehensive income.
- (c) The land use right of the investment property commenced on 10 June 2010 and expires on 9 June 2050, for a term of 40 years. The unexpired lease term of the land use right as at 31 December 2016 was 33 years.
- (d) On 7 April 2016, the Group received a Letter of Intent from the People's Government of Huzhou City that the latter has the intention to acquire the entire investment property at an estimated consideration of RMB 217.8 million based on RMB 4,200 per square metre. As the construction of the investment property was not completed as at the balance sheet date, Jones Lang has accordingly approximated the estimated the fair value less costs of disposals to be RMB 176.8 million as at 31 December 2016 (2015 – RMB 176.8 million).

7 Land use rights prepayments

The Group	2016 RMB'000	2015 RMB'000
Cost		
At 31 December	176,477	176,477
Accumulated amortisation		
At 1 January	20,685	17,039
Amortisation charge for the year	3,646	3,646
At 31 December	24,331	20,685
Net carrying amount		
At 31 December	152,146	155,792
Non-current	148,500	152,146
Current	3,646	3,646
	152,146	155,792

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

7 Land use rights prepayments (Cont'd)

The land use rights prepayments relate to the following parcels of land:

Location	Land area	Cost RMB'000	Tenure
湖州市八里店镇西环吴兴大道南侧	454,760 square metres	144,373	50 years (commenced on 16 July 2010 and expiring on 29 September 2060)
湖州市吴兴大道北经六路西 (八里店分区BLD28-3C)	9,949 square metres	18,549	40 years (commenced on 10 June 2010 and expiring on 9 June 2050)
吴兴区八里店镇升山村318国道北侧	33,305 square metres	4,555	50 years (commenced on 21 February 2004 and expiring on 10 February 2054)
吴兴区八里店镇升山村 (织西分区ZX75-1号地块)	34,063 square metres	9,000	50 years (commenced on 3 December 2008 and expiring on 2 December 2058)
		<u>176,477</u>	

As at 31 December 2016, the Group has land use rights over four plots of state-owned land in the PRC where the Group's PRC manufacturing and storage facilities reside. The land use rights have remaining tenures ranging from 37 to 43 years (2015 – 38 to 44 years).

Assets pledged as security

As at 31 December 2016, the Group's land use right with a carrying amount of approximately RMB 152.1 million (2015 – RMB 155.8 million) were pledged as security for the Group's bank loans and bills payables to financial institutions, as disclosed in Note 16 to the financial statements.

8 Prepayments

	The Group		The Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Non-current				
Prepayment for future land use (Note 1)	55,988	55,988	–	–
Prepayments relating to land preparation costs (Note 2)	69,314	70,979	–	–
	<u>125,302</u>	<u>126,967</u>	<u>–</u>	<u>–</u>
Current				
Prepaid rental	12,000	–	–	–
Prepayments made to trade suppliers	–	15,984	–	–
	<u>12,000</u>	<u>15,984</u>	<u>–</u>	<u>–</u>

Note 1: Prepayment for future land use

Included in prepayment is an amount of RMB 56.0 million (2015 – RMB 56.0 million) prepaid for a plot of state owned land in the PRC, in respect of which there is no formal contract or agreement signed with the relevant local authorities and no land title has been obtained. The prepayment was made in connection with the second phase of the expansion plan to construct a new integrated facility for the Polyester Direct Spinning production lines and an office building. The lease amortisation will commence upon the receipt of the land title.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

8 Prepayments (Cont'd)

Note 2: Prepayments relating to land preparation costs

The Group	2016 RMB'000	2015 RMB'000
Cost		
At 1 January and 31 December	84,580	84,580
Accumulated amortisation		
At 1 January	13,601	11,934
Amortisation charge for the year	1,665	1,667
At 31 December	15,266	13,601
Net carrying amount	69,314	70,979

Land preparation costs relate to cost of relocation of the farmers, land tiling and pavement of roads and other infrastructure works. The land preparation cost is amortised in the consolidated statement of comprehensive income on a straight line over the land lease term of 50 years.

9 Investment in subsidiaries

The Company	2016 RMB'000	2015 RMB'000
Unquoted equity investment, at cost	1,089,421	1,089,421
Accumulated impairment losses		
At 1 January	(1,089,421)	(826,531)
Impairment losses recognised	-	(262,890)
At 31 December	(1,089,421)	(1,089,421)
Unquoted equity investment, net	-	-
Amount due from a subsidiary (non-trade)	930,390	930,390
Less: Impairment losses recognised	(930,390)	(930,390)
	-	-
Total impairment losses recognised during the year	-	(1,193,280)

The non-trade amount due from a subsidiary amounting to RMB 930.4 million (2015: RMB 930.4 million) represents an extension of the Company's net investment in a subsidiary. The amount is unsecured and interest-free, and settlement is neither planned nor likely to occur in the foreseeable future. As the amount is, in substance, a part of the Company's net investment in the subsidiary, it is considered to be part of the cost of investment and is stated at cost, less impairment losses.

As at 31 December 2016, management performed an assessment and concluded that impairment indicators continue to exist and accordingly, no reversal of the impairment losses on the investment in subsidiaries was made. In FY2015, management carried out a review of the recoverable amount of its investments in subsidiaries. The review led to the recognition of an impairment loss of RMB 1.19 billion that had been recognised in the statement of comprehensive income of the Company. The recoverable amounts of the relevant investments in subsidiaries, including the net investments via quasi-equity loans, had been determined based on their respective fair value less costs of disposal. The fair value was primarily determined based on fair value measurement category within Level 3.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

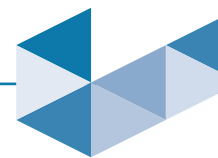
for the financial year ended 31 December 2016

9 Investment in subsidiaries (Cont'd)

Details of the subsidiaries are:

Name of subsidiary	Country of incorporation/ Principal place of business	Principal activities	Effective equity interest held by the Group		Cost of Investment	
			2016 %	2015 %	2016 RMB'000	2015 RMB'000
Held by the Company						
Zhejiang Huagang Polyester Industrial Co., Ltd ("Zhejiang Huagang")^	PRC	Production and sales of various specifications of premium differentiated fine polyester yarn, warp knit fabric and chemical fibre materials. Production ceased in June 2014.	100	100	682,406	682,406
Huaxiang China Gaoxian International Holdings Limited ("Huaxiang Hong Kong") ^	Hong Kong	Investment holding company	100	100	407,015	407,015
					1,089,421	1,089,421
Held by Huaxiang Hong Kong						
Huaxiang (China) Premium Fibre Co., Ltd. ("Huaxiang China")^	PRC	Production and sale of premium differentiated fine polyester yarn and polyester chips	100	100		
Held by Zhejiang Huagang						
Fujian New Huawei Fibre Dyeing Co., Ltd ("New Huawei") ^	PRC	Production and sale of premium differentiated fine polyester yarn and polyester chips. Production ceased in June 2014.	100	100		
Changle Bole Trading Co., Ltd. ("Bole") ^	PRC	Trading of textile related products, construction material, textile machine and related parts; import and export all kind of products	100	100		
Changle Guangda Trading Co., Ltd. ("Guangda") ^	PRC	Trading of textile related products, construction material, textile machine and related parts; import and export all kind of products	100	100		
Held by Huaxiang China						
Huzhou Huaxiang Property Co., Ltd. ("Huaxiang Property") ^	PRC	Real estate development and property management	100	100		

[^] – Audited by Foo Kon Tan LLP for consolidation purposes



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

10 Inventories

The Group	2016 RMB'000	2015 RMB'000
Raw materials (at cost)	8,564	11,521
Work-in-progress (at cost)	4,379	620
Finished goods (at cost)	5,986	24,216
	18,929	36,357

11 Trade and other receivables

The Group	2016 RMB'000	2015 RMB'000
Trade receivables	61,415	45,351
Allowance for impairment of trade and other receivables	(30,350)	(1,122)
Net trade receivables	31,065	44,229
Deposits (Note A)	37,881	35,066
Advances to staff	3,438	4,293
Other receivables from a third party for non-performing loans (Note B)	11,647	11,647
Allowance for impairment of trade and other receivables	(1,579)	(1,579)
Other receivables from a third party for non-performing loans (Note B)	10,068	10,068
Working capital loans extended to lessees under operating leases (Note C)	8,950	23,500
Amount due from third parties (non-trade) (Note D)	34,700	27,152
Other receivables	2,030	1,234
Bills receivables	50	–
Loans and receivables at amortised cost	128,182	145,542
Advances to suppliers	4,316	–
Input VAT receivables	151,109	159,860
Total trade and other receivables	283,607	305,402

Note A:

Included in deposits as at 31 December 2016 was an amount of RMB 30.0 million (Note 20) paid to Zhejiang Materials pursuant to the Framework Supply Chain Cooperation Agreement. During the current financial year, the Group received a refund of deposit amounting to RMB 30.7 million, previously paid to Hua Rong, as part of the equipment finance lease, as disclosed in Note 17 to the financial statements.

Note B:

In FY 2014, the Group acquired a non-performing loan of a third party amounting to RMB 80.7 million from China Citi Bank via China Huarong Assets Management Co., Ltd ("China Huarong"), a state-owned financial asset management company. The amount was secured by certain equity shares in a commercial bank and a commercial unit (collectively known as the "pledged assets"). The Group received partial payment of RMB 69.1 million in FY2015 and the outstanding amount of RMB 11.6 million remained outstanding as at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

11 Trade and other receivables (Cont'd)

Note B (Cont'd):

There is currently a dispute by other creditors of the third party over the rights of the pledged assets and the Court has subsequently informed the creditors that only RMB 10.1 million was left to be distributed amongst 13 creditors including the Group. Management believes that they continue to have first rights over the remaining undistributed proceeds on the basis that the Group had paid the principal amount of the non-performing loan to Citic Bank in FY2014. As at 31 December 2016, the Group has an outstanding receivable due from China Huarong amounting to RMB 10.1 million, net of an impairment loss of RMB 1.6 million recognised in prior year.

Note C:

On 31 Dec 2016, the Group entered into a Tripartite Agreement with the lessor of the New Huawei's production facilities and one of its current lessees, where the lessor agreed to offset a partial rental expenses of RMB 18.0 million owed by the Group against the working capital loan, currently due from its lessee.

Pursuant to the completion of the Tripartite Agreement, the outstanding non-trade receivables due from the lessees amounted to RMB 8.95 million as at 31 December 2016. The Group has agreed to further extend the remaining interest-free working capital loans for another 12 months, ending August 2017 to assist the lessees to finance their operations as part of the operating lease agreements as mentioned under Note 5(g).

Note D:

The non-trade advances extended to third parties were unsecured, interest-free and repayable on demand.

Financial assets that are neither past due nor impaired

Loans and receivables that are neither past due nor impaired are creditworthy debtors with a good payment record with the Group.

Financial assets that are not impaired

The ageing of loans and receivables that were not impaired at the reporting date was:

The Group	2016 RMB'000	2015 RMB'000
No credit terms*	88,167	77,814
Not past due	19,045	23,500
Past due but not impaired:		
– Not more than 6 months	12,544	–
– More than 6 months and not more than 12 months	8,398	99
– More than 12 months	28	44,129
	128,182	145,542

* – Comprised mainly (i) deposits, (ii) a financial asset disclosed in Note B, (iii) non-trade amounts due from third parties disclosed in Note D and (iv) advances to staff and other receivables.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

11 Trade and other receivables (Cont'd)

The ageing of loans and receivables that were past due and impaired at the reporting date was:

The Group	The Group	
	2016 RMB'000	2015 RMB'000
No credit terms	1,579	1,579
Past due and impaired:		
– More than 12 months	30,350	1,122
	31,929	2,701

The change in impairment losses in respect of loans and receivables during the year is as follows:

The Group	The Group	
	2016 RMB'000	2015 RMB'000
At 1 January	2,701	1,122
Impairment loss recognised	29,228	1,579
At 31 December	31,929	2,701

Trade receivables are non-interest bearing and are normally settled on 90 days' credit terms. They are recognised at their original invoiced amounts which represent their fair values on initial recognition. The Group's historical experience in the collection of trade receivables fall within the recorded allowances. As a result, management believes no additional credit risk beyond the amounts provided for, is inherent in the Group's trade receivables.

12 Bank deposits pledged

Bank deposits pledged as security for the Group's bills payables facilities, import bill advance facilities and fixed deposit as disclosed below:

The Group	The Group	
	2016 RMB'000	2015 RMB'000
Bills payables facilities (Note 18)	44,001	226,730
Import bill advance facilities	9,409	5,726
Fixed deposit	65,520	5,600
	118,930	238,056

The weighted average effective interest rate on bank deposits pledged, with a maturity of 90 days and 180 days, was 1.13% (2015 – 2.71% per annum) for the financial year ended 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

13 Cash and short term deposits

Cash and short term deposits consist of cash on hand, cash at banks and unpledged bank deposits. Cash and cash equivalents included in the consolidated statements of cash flows comprise the following balance sheet amounts:

	The Group		The Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Cash on hand	484	237	–	–
Cash at banks	120,910	247,747	38	40
Cash and bank balances	121,394	247,984	38	40
Less: Bank deposits pledged (Note 12)	(118,930)	(238,056)	–	–
Cash and short term deposits	2,464	9,928	38	40

Cash and bank balances have an effective interest rate of 0.30% to 0.42% per annum (2015 – 0.30% to 0.38% per annum) for the financial year ended 31 December 2016.

14 Share capital

	2016		2015	
The Company	No. of shares issued '000	RMB'000	No. of shares issued '000	RMB'000
Issued and fully paid ordinary shares				
At 1 January	113,750	2,190,580	2,275,000	2,190,580
Share consolidation	–	–	(2,161,250)	–
At 31 December	113,750	2,190,580	113,750	2,190,580

On 23 June 2015, the Company completed a share consolidation of every twenty (20) existing issued ordinary shares in the capital of the Company held by shareholders of the Company into one (1) ordinary share. Fractional entitlements are disregarded.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regards to the Company's residual assets. The ordinary shares have no par value.

15 Other reserves

	The Group		The Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Merger reserve	(369,563)	(369,563)	–	–
Warrant reserve	13,840	13,840	13,840	13,840
Accumulated losses	(2,170,712)	(1,795,622)	(2,295,404)	(2,292,370)
	(2,526,435)	(2,151,345)	(2,281,564)	(2,278,530)



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

15 Other reserves (Cont'd)

(a) Merger reserve

This represents the difference between the consideration paid and the paid-in capital of the subsidiaries when business combination of entities under common control was accounted for by applying the pooling of interest method.

(b) Warrant reserve

Warrant reserve relates to the fair value ascribed to warrants issued, net of issue expenses. As and when the warrants are exercised, the related balance in the warrant reserve is transferred to the share capital account. Each warrant carries the right to subscribe for one new ordinary share in the capital of the Company at an exercise price of S\$0.10. The warrants will expire on 18 September 2018. At the expiry of the warrants, the balance in the warrant reserve is transferred to retained earnings.

16 Borrowings

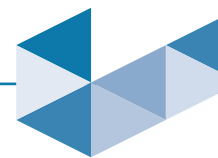
The Group	2016 RMB'000	2015 RMB'000
Short-term secured loans from banks:		
Industrial and Commercial Bank of China ¹	112,178	70,900
China CITIC Bank ²	519,000	134,000
Bank of Communications ³	–	10,000
China Minsheng Bank ⁴	45,000	45,000
China Everbright Bank ⁵	98,000	97,970
Hu Zhou Wuxing Rural cooperative ⁶	25,000	15,000
Chouzhou Commercial Bank ⁷	20,000	20,000
Syndicated bank loans ¹⁰	405,000	205,000
	1,224,178	597,870
Other short-term secured loans ⁸	469,750	591,800
Total short-term financial liabilities	1,693,928	1,189,670
Long-term secured loans from banks:		
China CITIC Bank ⁹	–	232,000
Syndicated bank loans ¹⁰	–	200,000
Total long-term financial liabilities	–	432,000
Total short-term and long-term borrowings	1,693,928	1,621,670
Breakdown of syndicated bank loans¹⁰:		
Shanghai Pudong Development Bank ¹⁰	78,000	78,000
China Construction Bank ¹⁰	249,000	249,000
Bank Of China ¹⁰	78,000	78,000
	405,000	405,000

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

16 Borrowings (Cont'd)

- ¹ As at 31 December 2016, these eighteen (2015 - 8) secured short-term bank loans bear interest at a rate of 4.35% to 5.0% (2015 - 5.00% to 6.16%) per annum and are secured by pledges of third parties' land use rights and certain property, plant and equipment (Note 5), Land use rights (Note 6) and a pledged deposit of RMB 8.92 million (Note 12), corporate guarantees from the Company's subsidiaries, Zhejiang Huagang Polyester Industrial Co., Ltd and Huaxiang (China) Premium Fibre Co., Ltd and two third parties, and a personal guarantee from a shareholder.
- ² As at 31 December 2016, these nineteen (2015 - 7) secured short-term bank loans bear interest at a rate of 5.22% to 6.15% (2015 - 5.76% to 6.72%) per annum and are secured by pledges of certain property, plant and equipment (Note 5), 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 a shareholder.
- ³ As at 31 December 2015, this one secured short-term bank loan borne interest at a rate of 7.25% per annum and were secured by pledges of certain property, plant and equipment (Note 5), land use rights (Note 6), corporate guarantees from the Company's subsidiaries, Fujian New Huawei Fibre Dyeing Co., Ltd and Huaxiang (China) Premium Fibre Co., Ltd and a personal guarantee from a shareholder.
- ⁴ As at 31 December 2016, these four (2015 - 4) secured short-term bank loans bear interest at a rate of 6.0% (2015 - 5.36% to 6.00%) per annum and are secured by corporate guarantee from the Company's subsidiary, Zhejiang Huagang Polyester Industrial Co., Ltd. and a personal guarantee from a shareholder.
- ⁵ As at 31 December 2016, these three (2015 - 6) secured short-term bank loans bear interest at the same rate of 7.20% (2015 - 7.20%) 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 a shareholder.
- ⁶ As at 31 December 2016, these four (2015 - 3) secured short-term bank loans bear interest at a rate of 6.09% to 7.40% (2015 - 5.10% to 8.56%) per annum and are secured by pledge of certain property, plant and equipment (Note 5).
- ⁷ As at 31 December 2016, this one (2015 - 1) secured short-term bank loan bears interest at a rate of 7.0% (2015 - 7.80%) per annum and is secured by pledge of certain property, plant and equipment (Note 5) and a corporate guarantee from the Company's subsidiary, Huaxiang (China) Premium Fibre Co., Ltd.
- ⁸ As at 31 December 2016, the other short-term secured loans bear interest at a rate of 1.00% to 2.50% (2015 - 2.50%) per month and are secured by a personal guarantee from a shareholder.
- ⁹ As at 31 December 2015, these two secured 3-year long-term bank loans borne interest at a rate of 6.15% per annum and were 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 a shareholder.
- ¹⁰ As at 31 December 2016, these eight (2015 - 8) secured 4-year syndicated bank loans were drawdown to finance the construction and operation of new Huaxiang Project bear interest at a rate of 4.99% to 6.30% (2015 - 6.72%) per annum and are secured by pledges of certain property, plant and equipment (Note 5), land use rights (Note 6), and a personal guarantee from a shareholder.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

17 Obligations under finance leases

The Group	2016 RMB'000	2015 RMB'000
Minimum lease payments payables:		
Due not later than one year	-	46,606
Due later than one year and not later than five years	-	10,807
	-	57,413
Less: Finance charges allocated to future periods	-	(2,194)
Present value of minimum lease payments	-	55,219
Present value of minimum lease payments:		
Due not later than one year	-	44,821
Due later than one year and not later than five years	-	10,398
	-	55,219

During the current financial year, the Group made full and accelerated repayment of the outstanding obligations under finance leases to Hua Rong. In FY2014, Huaxiang China entered into an equipment finance lease with Hua Rong, pursuant to which Hua Rong agreed to provide Huaxiang China with equipment finance lease of up to RMB 300 million, comprising Huaxiang China Phase 1 and Phase 2 project of RMB 150 million each respectively. Under this arrangement, Hua Rong agreed to purchase certain machinery and equipment for Huaxiang China from the equipment manufacturers. Thereafter, Huaxiang China leased the equipment from Hua Rong for a term of 36 months at an agreed fee with the option to purchase the equipment for a nominal value of RMB 1, provided that the agreed fees have been duly paid by Huaxiang China. The finance lease obligations were secured by the underlying assets as disclosed in Note 5(a).

18 Trade and other payables

	The Group		The Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Trade payables	120,772	85,538	-	-
Other payables (Note A)	354,657	117,473	-	-
Bills payables to financial institutions	130,600	487,455	-	-
Payables for the acquisition of property, plant and equipment	91,909	63,290	-	-
Amount due to a shareholder (non-trade)	5,000	-	-	-
Amounts due to subsidiaries (non-trade)	-	-	61,582	58,946
Financial liabilities carried at amortised cost	702,938	753,756	61,582	58,946
Other operating tax payable	-	2,890	-	-
Total trade and other payables	702,938	756,646	61,582	58,946

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

18 Trade and other payables (Cont'd)

Trade payables are non-interest bearing and are normally settled on 30 to 60 days' terms and are denominated in RMB.

The non-trade amounts due to a shareholder and subsidiaries are unsecured, interest-free bearing and repayable on demand.

Note A: Other payables

The Group	2016 RMB'000	2015 RMB'000
Advances from government-linked entities (non-trade)	255,163	89,200
Advances from third parties (non-trade)	99,494	24,538
Others	–	3,735
	354,657	117,473

The non-trade advances from third parties and government-linked entities are interest-free, unsecured and repayable on demand.

Bills payables to financial institutions

As at 31 December 2016, bills payables to banks are secured by short term deposits, certain production and office building and land use rights of the Group as disclosed below:

The Group	2016 RMB'000	2015 RMB'000
Bank deposits pledged	100,600	226,730
Carrying amount of property, plant and equipment (Note 5(a))	235,963	668,297
Carrying amount of land use rights (Note 7)	–	155,792

Bills payables to financial institutions have an effective interest rate of 2.32% per annum (2015 – 1.64% per annum) for the financial year ended 31 December 2016.

19 Other liabilities

	The Group		The Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Advances from customers	2,066	1,503	–	–
Accrued interest	107,826	57,930	–	–
Accrued guarantee and consultancy fees payable to a shareholder	25,233	25,233	–	–
Other accrued expenses	22,801	14,602	29,440	29,044
	157,926	99,268	29,440	29,044

Other accrued expenses mainly comprise of accrued staff & directors remuneration, accrual for social contributions and accrued professional fees.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

20 Revenue

	2016 RMB'000	2015 RMB'000
The Group		
- Sale of goods	1,160,827	147,006
- Profit sharing from Cooperation Agreement*	12,915	-
	1,173,742	147,006

* The Group is entitled to 70% of the net profit or loss from the sale of finished goods by Zhejiang Materials to its end customers after deducting certain related costs.

21 Other income

	2016 RMB'000	2015 RMB'000
The Group		
Other income		
- Sale of scrap materials	5,437	7,260
- Trading income	-	1,589
- Government grant	3,426	9,033
- Subcontract fee income	-	3,689
- Operating lease income	3,254	3,000
- Others	5	7
	12,122	24,578

22 Finance income/(expense)

	2016 RMB'000	2015 RMB'000
The Group		
Interest income from:		
- cash and cash equivalents	2,491	6,531
Interest expense on:		
- bank loans, bill payables and other secured loans	(140,873)	(200,612)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

23 Loss before tax

The Group	Note	2016 RMB'000	2015 RMB'000
Loss before income tax is arrived at after charging/ (crediting):			
Allowance for impairment of trade and other receivables	11	29,228	1,579
Amortisation of land use rights	7	3,646	3,646
Amortisation of land preparation costs	8	1,665	1,667
Depreciation of property, plant and equipment	5	138,457	38,694
Employee compensation*	24	56,701	23,273
Foreign exchange loss, net		75	2,568
Guarantee fee and consultancy fee paid/payable to a shareholder		-^	15,615
Impairment loss on property, plant and equipment (included in general and administrative expenses)	5	112,010	504,459
Inventories recognised as an expense in cost of sales		883,579	117,258
Operating lease expenses		12,000	12,000
Property, plant and equipment written off		-	39

* Includes remuneration of key management personnel and directors as disclosed in Note 24 to the financial statements.

^ The major shareholder agreed to waive the guarantee fee and consultancy fee for the current financial year ended 31 December 2016.

24 Employee compensation

The Group	2016 RMB'000	2015 RMB'000
Directors' fees – directors of the Company	370	906
Salaries, wages and bonuses	49,421	18,456
Welfare expense	-	1,784
Employer's contribution to defined contribution plans	6,910	2,127
	56,701	23,273
Comprising the following:-		
Directors' fees – directors of the Company	370	906
Directors' remuneration other than fee:		
– Directors of the Company	1,014	1,904
– Employer's contribution to defined contribution plans	15	8
Key management personnel (other than directors):		
– Salaries, wages and other related costs	372	450
– Employer's contribution to defined contribution plans	7	-
	1,778	3,268
Other than directors and key management personnel:		
– Salaries, wages and other related costs	48,036	16,102
– Welfare expense	-	1,784
– Employer's contribution to defined contribution plans	6,887	2,119
	56,701	23,273

The remuneration of key management personnel is determined by the board of directors having regards to the performance of individuals and market trends.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

25 Income tax expense

Major components of income tax expense

The major components of income tax expense for the year ended 31 December 2016 and 31 December 2015 are:

The Group	2016 RMB'000	2015 RMB'000
Current income tax		
– Current year income tax expense	–	–
Income tax expense recognised in the consolidated statement of comprehensive income	–	–

Relationship between tax expense and loss before tax

A reconciliation between tax expense and the product of loss before tax multiplied by the applicable tax rate for the financial years ended 31 December 2016 and 31 December 2015 is as follows:

The Group	2016 RMB'000	2015 RMB'000
Loss before tax	(375,090)	(787,042)
Tax at applicable statutory tax rates	(93,530)	(194,362)
Effects of:		
– Expenses not deductible for tax purposes	48,776	177,286
– Deferred tax assets not recognised	44,754	16,341
– Others	–	735
Income tax expense recognised in the consolidated statement of comprehensive income	–	–

Expenses not deductible for tax purposes mainly include the interest expenses for the loans from non-financial institutions, impairment loss on property, plant and equipment, impairment loss on trade and other receivables, excess entertainment expenses & staff welfare for PRC subsidiaries and penalties etc.

China Gaoxian Fibre Fabric Holdings Ltd. (the "Company") and Huaxiang Hong Kong are subjected to tax rate of 17% and 16.5% for the year of assessment 2017 (YA2016 – 17% and 16.5%) respectively. No provision for Singapore and Hong Kong profits tax have been made as the Group did not have assessable profits subject to Singapore and Hong Kong profits tax.

On 16 March 2007, the National People's Congress of China enacted the Enterprise Income Tax Law of the PRC which took effect on 1 January 2008 (the "New EIT Law"). In accordance with the New EIT Law, a unified Enterprise Income Tax rate of 25% and unified tax deduction standards will be applied equally to both domestic invested enterprises and wholly foreign-owned enterprises in the PRC. Accordingly, the subsidiaries in the PRC are subjected to the applicable EIT rate of 25%.

Zhejiang Huagang, New Huawei, Huaxiang China, Huaxiang Property, Bole and Guangda are subjected to tax rate of 25% for the financial year ended 31 December 2016 (2015 - 25%).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

25 Income tax expense (Cont'd)

Unrecognised tax losses

At the end of the reporting period, the Group has tax losses of approximately RMB 573.0 million (2015 – RMB 394.0 million) that is available for offset against future taxable profit of the companies in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of respective countries in which the companies operate.

26 Loss per share

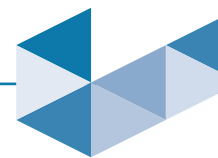
Basic and diluted loss per share is calculated by dividing the Group's consolidated loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year. The denominators used are the same in the computation of the basic and diluted loss per share.

The number of ordinary shares is calculated based on the weighted average number in issue during the financial year adjusted for the effects of all dilutive share options and contingently issuable shares. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares at the beginning of the year if later, the date of the issue of the potential ordinary shares.

The following table reflects loss and share data used in the computation of basic and diluted loss per share for the years ended 31 December:

The Group	2016 RMB'000	2015 RMB'000
Loss for the year attributable to owners of the parent (RMB'000)	(375,090)	(787,042)
Weighted average number of ordinary shares ('000)	113,750	113,750
Loss per share (RMB)		
– Basic	(3.30)	(6.92)
– Diluted	(3.30)	(6.92)

Diluted loss per share is similar to basic loss per share as there were no potential dilutive ordinary shares existed during the year.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

27 Segment information

Reporting format

For management purposes, the Group is organised into business segments as the Group's risks and rates of return are affected predominantly by differences in the products produced. The operating businesses are organised and managed separately according to the nature of the products produced, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's business is organised into four business segments, namely:

- (i) Fully Drawn Yarn ("FDY")
Fully Drawn Yarn is a melt-spun continuous filament yarn which has been highly oriented, either by drawing at a high draw ratio or by spinning at a high wind-up speed such that there is little residual drawability.
- (ii) Drawn Textured Yarn ("DTY")
Drawn Textured Yarn is a type of yarn produced using the draw texturing method to create a unique texture on the yarn.
- (iii) Blended Yarn ("BY")
Blended Yarn is a composite yarn made from two or more constituent materials.
- (iv) Partially Oriented Yarn ("POY")
Partially oriented yarn is produced from the melting and extrusion (melt spinning) of the polyester chip or flake.
- (v) Polyethylene Terephthalate Chips ("PET Chips")
Polyethylene Terephthalate Chips is the base of any type of polymer.
- (vi) Revenue generated from Framework Supply Chain Cooperation with Zhejiang Materials.

Other than the six business segments as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment's gross profit or loss. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

The following table presents revenue, results and other information regarding the Group's business segments for the financial year ended 31 December 2016 and 2015:

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

27 Segment information (Cont'd)

	FDY RMB'000	DTY RMB'000	BY RMB'000	POY RMB'000	PET Chips RMB'000	Revenue generated from Framework Supply Chain Cooperation RMB'000	Total RMB'000
2016							
The Group							
Revenue							
Sales to external customers	465,128	145,014	–	378,099	172,586	12,915	1,173,742
Results							
Segment gross profit/(loss)	7,930	5,100	–	(8,528)	(6,285)	12,915	11,132

	FDY RMB'000	DTY RMB'000	BY RMB'000	POY RMB'000	PET Chips RMB'000	Revenue generated from Framework Supply Chain Cooperation RMB'000	Total RMB'000
2015							
The Group							
Revenue							
Sales to external customers	–	146,661	345	–	–	–	147,006
Results							
Segment gross (loss)/profit	–	2,375	(490)	–	–	–	1,885

Allocation basis

Segment gross profit/(loss) before taxation is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly finance income, other income, selling and distribution expenses, general and administrative expenses and finance expense.

The allocation of the group assets and liabilities attributable to individual segments is not presented as the information is not provided to the chief operating decision maker.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

27 Segment information (Cont'd)

Geographical information

There is no geographical information provided as the Group's revenue and non-current assets are generated from/located in the PRC only. The non-current assets cannot be allocated to the different geographical segments as they can be used for the production of all the finished goods sold by the Group.

Information about major customers

During the financial year, one (2015 - two) of the Group's customers separately accounted for more than 10% of the Group's sales, derived from FDY, DTY, BY, POY, PET Chips and revenue from Framework Supply Chain Cooperation with Zhejiang Materials segments.

28 Commitments

(a) Capital commitments

Capital expenditure contracted for as at the end of the reporting period but not recognised in the financial statements are as follows:

The Group	2016 RMB'000	2015 RMB'000
Commitment in respect of:		
Purchase of plant and production machinery	–	135,017

(b) Operating lease commitments – where the Group is the lessee

In addition to the land use rights disclosed in Note 6, the Group has an operating lease agreement in respect of factory and office premises utilised by New Huawei owned by Fujian Huawei Chemical Fibre Dyeing Co., Ltd, in the PRC for a period of three years, commencing from 1 November 2014 to 31 October 2017, for a lease amount of approximately RMB 12 million per annum. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing.

Minimum lease payments, including the amortisation of land use rights and cost of preparation of land recognised as an expense in consolidated statement of comprehensive income for the financial year ended 31 December 2016 amounted to RMB 17.3 million (2015 – RMB 17.3 million). Future minimum rentals payable under non-cancellable operating leases (excluding land use rights) as at the end of the reporting period are as follows:

The Group	2016 RMB'000	2015 RMB'000
Not later than 1 year	10,000	12,000
Later than 1 year but not later than 5 years	–	10,000
	10,000	22,000

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

28 Commitments (Cont'd)

(c) Operating lease commitments – where the Group is the lessor

At the end of the reporting period, the Group had the following rental income under non-cancellable lease for its production factory and production machinery (Note 5(f)) with term of more than one year:

The Group	2016 RMB'000	2015 RMB'000
Not later than 1 year	1,150	3,000
Later than 1 year but not later than 5 years	1,600	1,750
Later than 5 years	–	–
	2,750	4,750

(d) Participation fee commitments

The Group	2016 RMB'000	2015 RMB'000
Not later than 1 year	2,492	4,758
Later than 1 year but not later than 5 years	–	250

As part of the terms and conditions stipulated in the Facility Agreement (as disclosed in Note 16) entered with certain financial institutions, the Group is required to pay annual agency fee of RMB 250,000 from FY 2014 to FY 2017 and a one-time participation fee of RMB 12.0 million in 2 equal instalments to a group of participating financial institutions led by China Construction Bank at the time of full disbursement of the 4-year syndicated loans.

29 Financial risk management objectives and policies

The Company and the Group have documented financial risk management policies. These policies set out the Company's and the Group's overall business strategies and its risk management philosophy. The Company and the Group are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks included credit risk, liquidity risk, interest rate risk, foreign currency risk and market price risk. The Company's and the Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise adverse effects from the unpredictability of financial markets on the Company's and the Group's financial performance.

Risk management is carried out by the Finance Division under policies approved by the Board of Directors. The Finance Division identifies, evaluates and hedges financial risks in close co-operation with the Group's and the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instrument and investing excess liquidity.

There has been no change to the Group's and Company's exposure to financial risks or the manner in which it manages and measures the risks. Market risk exposures are measured using sensitivity analysis indicated below.

The Group does not hold or issue derivative financial instruments for trading purposes or to hedge against fluctuations, if any, in interest rates and foreign exchange.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

29 Financial risk management objectives and policies (Cont'd)

It is, and has been throughout the years under review, the Group's and Company's policy that no trading in derivative financial instruments shall be undertaken.

The Group's and the Company's principal financial instruments comprise short term bank loans, bills payable to banks, cash and short term deposits. The main purpose of these financial instruments is to provide funds for the Group's and Company's operations. The Group and Company have various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's and the Company's financial instruments are interest rate risks (both fair value and cash flow), liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss. The Group's exposure to credit risk arises primarily from trade and other receivables. For trade receivables, the Group adopts the practice of dealing only with those customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

The Group's objective is to seek continual growth while minimising losses incurred due to increased credit risk exposure.

The Group has established a credit policy under which the creditworthiness of each new customer is evaluated individually before the Group grants credit to the customer. Credit limits are established for each customer, which represents the maximum open amount without requiring approval from the directors. Payments will be required to be made upfront by certain customers, which do not meet the Group's credit requirements.

Amounts due from customers are closely monitored and reviewed on a regular basis to identify any non-payment or delay in payment, and to understand the reasons, so that appropriate actions can be taken promptly. Through ongoing credit monitoring and existing collection procedures in place, credit risk is mitigated substantially.

The Group evaluates whether there is any objective evidence that trade and other receivables are impaired, and determines the amount of impairment loss as a result of the inability of the debtors to make required payments. The Group bases the estimates on the ageing of the receivable balances, creditworthiness of the debtors and historical write-off experience. If the financial conditions of the debtors were to deteriorate, actual write-offs would be higher than estimated.

Amount not paid after the credit period granted will be considered past due. The credit terms granted to customers are based on the Group's assessment of their creditworthiness and in accordance with the Group's policy.

In determining the recoverability of trade and other receivables, the Group considers any change in the credit quality of the trade and other receivables from the date credit was initially granted up to the end of each reporting period.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

29 Financial risk management objectives and policies (Cont'd)

Credit risk (Cont'd)

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Group focuses on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Exposure to credit risk

At the balance sheet date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets as disclosed in Note 11 to the financial statements.

Credit risk concentration profile

As at 31 December 2016, two customer (2015 - one) has aggregated outstanding balances exceeded 90% (2015 - 90%) of the outstanding trade receivables net of allowance for impairment of trade receivables.

Financial assets that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

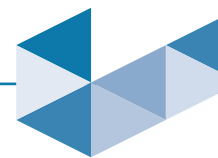
Information regarding financial assets that are either past due or impaired is disclosed in Note 11 (Trade and other receivables).

Liquidity risk

Liquidity risk is the risk that the Company or the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments that are settled by delivering cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Company and the Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Company and the Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's financial liabilities comprising trade and other payables and borrowings with contractual undiscounted cash flows. Nevertheless, the Group ensures that there are adequate funds to meet all its obligations in a timely and cost-effective manner. The Group maintains sufficient level of cash and bank balances and has available adequate amount of committed credit facilities from financial and non-financial institutions to meet its working capital requirements. The Group also relies on short term fundings from shareholder.



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

29 Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

The government of the PRC imposes control over foreign currencies. Renminbi, the official currency in PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions.

Exchanges of Renminbi for foreign currency must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchase of imported materials and remittance of earnings. While conversion of Renminbi into foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

The Group's liquidity risk management policy is to maintain sufficient liquid financial assets. In particular, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

	Carrying amount RMB'000	Contractual cash flows RMB'000	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000
The Group					
2016					
Financial liabilities:					
Trade and other payables	(702,938)	(702,938)	(702,938)	-	-
Other liabilities	(157,926)	(157,926)	(157,926)	-	-
Borrowings	(1,693,928)	(1,787,489)	(1,787,489)	-	-
Total undiscounted financial liabilities	(2,554,792)	(2,648,353)	(2,648,353)	-	-
The Company					
2016					
Financial liabilities:					
Trade and other payables	(61,582)	(61,582)	(61,582)	-	-
Other liabilities	(29,440)	(29,440)	(29,440)	-	-
Total undiscounted financial liabilities	(91,022)	(91,022)	(91,022)	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

29 Financial risk management objectives and policies (Cont'd)

Liquidity risk (Cont'd)

Analysis of financial instruments by remaining contractual maturities (Cont'd)

The Group	Carrying amount RMB'000	Contractual cash flows RMB'000	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000
2015					
Financial liabilities:					
Trade and other payables	(753,756)	(753,756)	(753,756)	–	–
Other liabilities	(99,268)	(99,268)	(99,268)	–	–
Borrowings	(1,621,670)	(1,676,895)	(1,316,918)	(359,977)	–
Obligations under finance leases	(55,219)	(57,413)	(46,606)	(10,807)	–
Total undiscounted financial liabilities	(2,529,913)	(2,587,332)	(2,216,548)	(370,784)	–
The Company					
Financial liabilities:					
Trade and other payables	(58,946)	(58,946)	(58,946)	–	–
Other liabilities	(29,044)	(29,044)	(29,044)	–	–
Total undiscounted financial liabilities	(87,990)	(87,990)	(87,990)	–	–

The maturity analyses show the contractual undiscounted cash flows of the Group and the Company's financial liabilities on the basis of their earliest possible contractual maturity. The cash inflows/(outflows) disclosed relate to those instruments held for risk management purposes and which are usually not closed out prior to contractual maturity.

	The Group		The Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Financial assets				
Financial assets measured at amortised cost:				
Trade and other receivables (Note 11)	128,812	145,542	–	–
Bank deposit pledged (Note 12)	118,930	238,056	–	–
Cash and short term deposits (Note 13)	2,464	9,926	38	40
	250,206	393,524	38	40
Financial liabilities				
Financial liabilities measured at amortised cost:				
Borrowings (Note 16)	1,693,928	1,621,670	–	–
Obligations under finance leases (Note 17)	–	55,219	–	–
Trade and other payables (Note 18)	702,938	753,756	61,582	58,946
Other liabilities (Note 19)	157,926	99,268	29,440	29,044
	2,554,792	2,529,913	91,022	87,990



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

29 Financial risk management objectives and policies (Cont'd)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from cash at bank and short term bank loans. The Group obtains additional financing through bank borrowings at a mix of fixed and floating interest rate. The Group's policy is to obtain the most favourable interest rates available.

Surplus funds are placed with reputable banks.

Information relating to the Group's and Company's interest rate exposure is also disclosed in Notes 13, 16, 17 and 18 to the financial statements.

At the end of each reporting period, the carrying amount of the interest-bearing financial instruments is as follows:

The Group	2016 RMB'000	2015 RMB'000
Fixed rate instruments		
Financial liabilities		
– loans from banks and non-financial institutions	(469,750)	(1,218,670)
– obligations under finance leases	–	(55,219)
	(469,750)	(1,273,889)
Variable rate instruments		
Financial assets		
– Bank deposits pledged	118,930	238,056
– Bank balances	2,464	9,928
– Bills receivables	50	–
Financial liabilities		
– bank loans (secured)	(1,224,178)	(403,000)
– bills payable to banks	(130,600)	(487,455)
	(1,233,334)	(642,471)

Sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate assets or liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of each reporting period would not affect profit or loss.

Sensitivity analysis for interest rate risk

As at 31 December 2016, if RMB interest rates had been 100 basis points (2015 – 100 basis points) lower/higher with all other variables held constant, the Group's loss after tax would have been RMB 9.3 million (2015 – RMB 4.8 million) lower/higher, arising mainly as a result of lower/higher interest income and expense on cash at banks and short term bank loans respectively. The assumed movement in basis points for interest rate sensitivity analysis is based on observable market environment.

The Group's policy is to obtain the most favourable interest rates available without increasing its interest rate exposure.

Market price risk

Price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices. The Group does not hold any quoted or marketable financial instruments, hence, is not exposed to any movement in market prices.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

29 Financial risk management objectives and policies (Cont'd)

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Group has exposures arising from transactions that are denominated in a currency other than the respective functional currencies of group entities, namely Renminbi. The foreign currency transactions are denominated primarily in United States dollar and Euro. The Group holds cash and bank balances denominated in United States dollar for working capital purposes.

Consequently, the Group is exposed to movements in foreign currency exchange rates. However, the Group does not use any financial derivatives such as foreign currency forward contracts, foreign currency options or swaps for hedging purposes.

The Group's exposures in financial instruments to the various foreign currencies are mainly as follows:

The Group	2016		2015	
	SGD RMB'000	USD RMB'000	SGD RMB'000	USD RMB'000
Cash and short term deposits	32	3	33	223
Other liabilities	(4,207)	–	(2,386)	–
	(4,175)	3	(2,353)	223

Currently, the PRC government imposes control over foreign currencies. RMB, the official currency in China, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions.

Exchanges of RMB for foreign currency must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchase of imported materials and remittance of earnings. While conversion of RMB into foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's cash and bank balances and other liabilities and provisions denominated in USD and SGD held by the PRC subsidiaries whose functional currency is RMB, to a reasonably possible change in the USD and SGD exchange rates against the RMB, with all other variables held constant.

The Group		Loss net of tax / Equity	
		2016 RMB'000	2015 RMB'000
SGD/RMB	– strengthened 3% (2015 – 3%)	(94)	(53)
	– weakened 3% (2015 – 3%)	94	53
USD/RMB	– strengthened 3% (2015 – 3%)	–	7
	– weakened 3% (2015 – 3%)	–	(7)



NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

30 Fair value measurement

Accounting classifications and fair values

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- (a) Level 1 : those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- (b) Level 2 : those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (c) Level 3 : those derived from valuation technique that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value measurement of financial instruments

The carrying values of variable rate bank loans approximate their fair values.

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, trade and other payables and interest-bearing borrowings) or those which reprice regularly approximate their fair values because of the short period to maturity or repricing.

31 Capital management

The Group's objectives when managing capital are:

- (a) To safeguard the Group's abilities to continue as a going concern;
- (b) To support the Group's stabilities and growth;
- (c) To provide capital for the purpose of strengthening the Group's risk management capabilities; and
- (d) To provide an adequate return to the shareholders.

The Group actively and regularly review and manage its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently do not adopt any formal dividend policy.

No changes were made in the objectives, policies or processes during the financial year ended 31 December 2016. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's priority is to continue to obtain financial support from the bankers to fund the New Production Facilities of Huaxiang China. The Group includes within net debt, short term bank loans, trade and other payables, other liabilities, less cash and bank balances. Capital includes equity attributable to the equity holders less the abovementioned restricted PRC statutory reserve fund.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

for the financial year ended 31 December 2016

31 Capital management (Cont'd)

The Group	2016 RMB'000	2015 RMB'000
Borrowings (Note 16)	1,693,928	1,621,670
Obligations under finance leases (Note 17)	–	55,219
Trade and other payables (Note 18)	702,938	756,646
Other liabilities (Note 19)	157,926	99,268
Total debt	2,554,792	2,532,803
Less: Cash and bank balances (Note 13)	(121,394)	(247,984)
Net debt	2,433,398	2,284,819
Equity attributable to the equity holders	(335,855)	39,235
Capital and net debt	2,097,543	2,324,054
Gearing ratio	116.0%	98.3%

32 Other Matters

On 8 March 2016, the Company announced that on 1 December 2015, a claim was brought against the Company by Daewoo Securities Co., Ltd (the "Plaintiff") in Korea, in connection with an alleged breach of an underwriting agreement signed between the Company and the Plaintiff in 2010. The Plaintiff was then the lead arranger for the Company's public offering of depository receipts ("DRs") which were listed on the Korea Exchange in 2011. In connection with the said listing of the DRs, the Company had entered into an underwriting agreement with the Plaintiff. The Plaintiff has filed a claim for damages of 1 billion Korean Won (plus interest) (i.e. approximately RMB 5.4 million or S\$1.15 million), for the alleged breach by the Company for violating its representation and warrant obligation under the Underwriting Agreement in respect of the provision of inaccurate financial statements to the Plaintiff and false description of cash and assets in the statements submitted in relation to the listing of the DRs.

The Company intends to defend the plaintiff's claims and is currently seeking legal advice. Management has assessed that the financial impact, including any outflows to settle this obligations, if any, will not be significant to the Group.



SHAREHOLDERS' INFORMATION

as at 15 May 2017

Class of shares	:	Ordinary shares
Issued and fully paid-up capital	:	S\$449,593,216.00
Number of Shares issued	:	113,749,997
Voting rights	:	One vote per share

The Company does not hold any Treasury Shares.

STATISTICS OF SHAREHOLDINGS

Size of Shareholding		Number of Shareholders	%	Number of Shares	%
1	- 99	54	2.37	2,548	0.00
100	- 1,000	841	36.93	472,995	0.42
1,001	- 10,000	1,054	46.29	4,067,019	3.58
10,001	- 1,000,000	321	14.10	14,265,835	12.54
1,000,001	and above	7	0.31	94,941,600	83.46
		2,277	100.00	113,749,997	100.00

SUBSTANTIAL SHAREHOLDERS AS AT 15 MAY 2017

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
China Success Group (International Holdings) Limited ⁽¹⁾	20,545,000	18.06	-	-
Cao Xiangbin ⁽¹⁾	-	-	20,545,000	18.06
Daewoo Securities Co., Ltd ⁽²⁾	-	-	8,309,314	7.30
Fleur Growth Fund Limited ⁽³⁾	33,750,000	29.67	-	-
Fleur Capital (S) Pte. Ltd. ⁽³⁾	-	-	33,750,000	29.67
China Full International Investments Limited ⁽³⁾⁽⁴⁾	-	-	33,750,000	29.67
Orient Fame (Asia) Limited ⁽³⁾⁽⁵⁾	-	-	33,750,000	29.67
Ye Chunyan ⁽⁴⁾	-	-	33,750,000	29.67
Lin Liangzhu ⁽⁵⁾	-	-	33,750,000	29.67

Notes:

- (1) Mr Cao Xiangbin is the 99.8% legal and beneficial shareholder of China Success Group (International Holdings) Limited ("China Success"), holding 99.8% shares in China Success. By virtue of Section 4 of the Securities and Futures Act (Cap. 289) ("SFA"), Mr Cao is deemed interested in the shares held by China Success in the capital of the Company.
- (2) Daewoo Securities Co., Ltd holds 8,309,314 Korean Depository Receipts ("KDR") representing 8,309,314 shares in the issued and paid-up capital of the Company. Each KDR represent the right to 1 share in the capital of the Company.
- (3) Fleur Capital (S) Pte. Ltd. ("Fleur Capital") is the fund manager of Fleur Growth Fund Limited ("Fleur Growth Fund"). By virtue of Fleur Capital's discretionary investment management powers in Fleur Growth Fund, Fleur Capital is deemed interested in the shares held by Fleur Growth Fund in the capital of the Company.
China Full International Investments Limited ("China Full International Investments") is a shareholder of Fleur Growth Fund. By virtue of Section 4 of the SFA, China Full International Investments is deemed interested in the shares held by Fleur Growth Fund in the capital of the Company.
Orient Fame (Asia) Limited ("Orient Fame Asia") is a shareholder of Fleur Growth Fund. By virtue of Section 4 of the SFA, Orient Fame Asia is deemed interested in the shares held by Fleur Growth Fund in the capital of the Company.
- (4) Ye Chunyan is the beneficial owner of China Full International Investments. By virtue of Section 4 of the SFA, Ye Chunyan is deemed interested in the shares held by Fleur Growth Fund through her shareholdings in China Full International Investments in the capital of the Company.
- (5) Lin Liangzhu is the beneficial owner of Orient Fame Asia. By virtue of Section 4 of the SFA, Lin Liangzhu is deemed interested in the shares held by Fleur Growth Fund through his shareholdings in Orient Fame Asia in the capital of the Company.

SHAREHOLDERS' INFORMATION (CONT'D)

as at 15 May 2017

TWENTY LARGEST SHAREHOLDERS AS AT 15 MAY 2017

No.	Name of Shareholders	Number of Shares	%
1.	PHILLIP SECURITIES PTE LTD	69,730,230	61.30
2.	CITIBANK NOMINEES SINGAPORE PTE LTD	16,201,569	14.24
3.	RAFFLES NOMINEES (PTE) LTD	3,954,795	3.48
4.	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	1,389,400	1.22
5.	LOW GEOK LIN JUDITH	1,317,750	1.16
6.	UOB KAY HIAN PTE LTD	1,300,300	1.14
7.	DBS NOMINEES PTE LTD	1,047,556	0.92
8.	NG KEN WOH	748,300	0.66
9.	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	593,318	0.52
10.	TAN KIAN CHYE	580,000	0.51
11.	ONG ENG LOKE	483,500	0.43
12.	TAN LYE SENG	290,800	0.26
13.	LONG YUIN LEE	225,000	0.20
14.	WONG YUN HEY	225,000	0.20
15.	MAYBANK KIM ENG SECURITIES PTE LTD	210,104	0.18
16.	HELEN YANG	205,000	0.18
17.	UNITED OVERSEAS BANK NOMINEES PTE LTD	204,700	0.18
18.	LEE KAY HEONG (LI JIAXIONG)	176,000	0.15
19.	LIM LEONG KOO	175,000	0.15
20.	LIM KIM CHIN	168,200	0.15

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

44.94% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.



SHAREHOLDERS' INFORMATION (CONT'D)

as at 15 May 2017

WARRANTHOLDERS' INFORMATION AS AT 15 MAY 2017

STATISTICS OF WARRANTHOLDINGS

Size of Warrantholdings		Number of Warrantholders	%	Number of Warrants	%
1	– 99	216	9.04	9,711	0.02
100	– 1,000	1,287	53.85	597,680	1.05
1,001	– 10,000	684	28.62	2,028,920	3.57
10,001	– 1,000,000	199	8.32	12,969,293	22.80
1,000,001	and above	4	0.17	41,269,392	72.56
		2,390	100.00	56,874,996	100.00

TWENTY LARGEST WARRANTHOLDERS AS AT 15 MAY 2017

No.	Name of Warrantholders	Number of Warrants	%
1.	PHILLIP SECURITIES PTE LTD	30,354,675	53.37
2.	CITIBANK NOMINEES SINGAPORE PTE LTD	8,025,227	14.11
3.	RAFFLES NOMINEES (PTE) LTD	1,789,490	3.15
4.	NG KEN WOH	1,100,000	1.93
5.	UOB KAY HIAN PTE LTD	972,050	1.71
6.	DBS NOMINEES PTE LTD	694,825	1.22
7.	LOW GEOK LIN JUDITH	658,875	1.16
8.	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	658,475	1.16
9.	BOON SUAN LEE	594,400	1.05
10.	TAI LI JIUN (DAI LIJUAN)	375,000	0.66
11.	LIM LEONG KOO	350,000	0.62
12.	KAM KENG SENG	256,505	0.45
13.	LIM TECK CHAY	250,000	0.44
14.	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	235,561	0.41
15.	LOO LIP GIAM	230,000	0.40
16.	TAN KIAN CHYE	202,500	0.36
17.	CHENG WA SING	190,150	0.33
18.	VINAY MATHUR	188,500	0.33
19.	LAU ENG KIM	170,500	0.30
20.	YEO KHENG YONG	157,610	0.28

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting ("**AGM**") of CHINA GAOXIAN FIBRE FABRIC HOLDINGS LTD. (the "**Company**") will be held at TMC Academy Campus, Lecture Theatre #01-01B, 250 Middle Rd, Singapore 188983, on Thursday, 29 June 2017 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company for the year ended 31 December 2016 together with the Auditors' Report thereon. **(Resolution 1)**
2. To re-elect the following directors of the Company ("**Directors**") retiring pursuant to Article 114 of the Constitution of the Company:

Mr Tham Wan Loong, Jerome **(Resolution 2)**
Mr Xie Ruliang **(Resolution 3)**

Mr Tham Wan Loong, Jerome will, upon re-election as a Director, remain as members of the Audit and Nominating Committees. He will be considered non-independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.
3. To approve the payment of Directors' fees of S\$100,000 for the financial year ending 31 December 2017, to be paid quarterly in arrears. (FY2016: S\$100,000) **(Resolution 4)**
4. To re-appoint Foo Kon Tan LLP as the Company's Auditors and to authorise the Directors to fix their remuneration. **(Resolution 5)**
5. To transact any other ordinary business which may be transacted at an AGM.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolution as an Ordinary Resolution, with or without any modifications:

6. Ordinary Resolution – Authority to issue shares by way of rights, bonus or otherwise

That pursuant to Section 161 of the Companies Act (Chapter 50) and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors be authorised and empowered to:

- (a) issue shares in the capital of the Company ("**Shares**") whether by way of rights, bonus or otherwise in proportion, as nearly as the circumstances admit, to the amount of the existing Shares to which such members of the Company are entitled or hold at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and
- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Shares in pursuance of any Instruments (as defined in Resolution 7 hereinafter) made or granted by the Directors while this Resolution was in force,

provided that:

- (1) the aggregate number of Shares (including Shares to be issued in pursuance of the Instruments, made or granted pursuant to Resolution 7) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued Shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued Shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);



- (2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (1) above, the total number of issued Shares (excluding treasury shares) shall be based on the total number of issued Shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:
 - (a) new Shares arising from the conversion or exercise of any convertible securities;
 - (b) new Shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and
 - (c) any subsequent bonus issue, consolidation or subdivision of Shares;
- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Constitution of the Company; and
- (4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (i)]

(Resolution 6)

To consider and if thought fit, to pass the following resolution as a Special Resolution, with or without any modifications:

7. Special Resolution – Authority to issue shares by way of making or granting offers, agreements or options

That pursuant to Section 161 of the Companies Act (Chapter 50) and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors be authorised and empowered to:

- (a) make or grant offers, agreements or options (collectively, “**Instruments**”) to a person other than a member of the Company and/or to a member of the Company other than in accordance with Resolution 6 that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into Shares, provided that in such case it shall be limited to the case necessary for the achievement of the Company’s operational objectives, such as introduction of new technology, improvement of financial structures, etc.), at any time and upon such terms and conditions as the Directors may in their absolute discretion deem fit; and
- (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Shares in pursuance of any Instruments made or granted by the Directors while this Resolution was in force,

provided that:

- (1) the aggregate number of Shares (including Shares to be issued pursuant to Resolution 6) to be issued pursuant to this Resolution shall not exceed fifty per centum (50%) of the total number of issued Shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares to be issued other than on a pro rata basis to shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued Shares (excluding treasury shares) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

- (2) (subject to such calculation as may be prescribed by the Singapore Exchange Securities Trading Limited) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (1) above, the total number of issued Shares (excluding treasury shares) shall be based on the total number of issued Shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, after adjusting for:
- (a) new Shares arising from the conversion or exercise of any convertible securities;
 - (b) new Shares arising from exercising share options or vesting of share awards which are outstanding or subsisting at the time of the passing of this Resolution; and
 - (c) any subsequent bonus issue, consolidation or subdivision of Shares;
- (3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the Singapore Exchange Securities Trading Limited for the time being in force (unless such compliance has been waived by the Singapore Exchange Securities Trading Limited) and the Constitution of the Company; and
- (4) unless revoked or varied by the Company in a general meeting, such authority shall continue in force until the conclusion of the next AGM of the Company or the date by which the next AGM of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (ii)]

(Resolution 7)

By Order of the Board

Xie Ruliang
Non-Independent and Non-Executive Chairman
Singapore, 6 June 2017

**Explanatory Notes on Special Business to be transacted:**

- (i) The Ordinary Resolution 6 in item 6 above, if passed, will empower the Directors, effective until the conclusion of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to issue Shares and to issue Shares pursuant to Instruments, up to a number not exceeding, in total, 50% of the total number of issued Shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders of the Company.

For determining the aggregate number of Shares that may be issued, the total number of issued Shares (excluding treasury shares) will be calculated based on the total number of issued Shares (excluding treasury shares) in the capital of the Company at the time this Ordinary Resolution 6 is passed after adjusting for new Shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Ordinary Resolution 6 is passed and any subsequent bonus issue, consolidation or subdivision of Shares.

- (ii) The Special Resolution 7 in item 7 above, if passed, will empower the Directors, effective until the conclusion of the next AGM of the Company, or the date by which the next AGM of the Company is required by law to be held or such authority is varied or revoked by the Company in a general meeting, whichever is the earlier, to make or grant Instruments convertible into Shares and to issue Shares pursuant to such Instruments, up to a number not exceeding, in total, 50% of the total number of issued Shares (excluding treasury shares) in the capital of the Company, of which up to 20% may be issued other than on a pro-rata basis to shareholders of the Company.

For determining the aggregate number of Shares that may be issued, the total number of issued Shares (excluding treasury shares) will be calculated based on the total number of issued Shares (excluding treasury shares) in the capital of the Company at the time this Special Resolution 7 is passed after adjusting for new Shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time when this Special Resolution 7 is passed and any subsequent bonus issue, consolidation or subdivision of Shares.

Notes –

1. (a) A member who is not a relevant intermediary, is entitled to appoint one or two proxies to attend and vote at the AGM.
- (b) A member who is a relevant intermediary, is entitled to appoint more than two proxies to attend and vote at the AGM, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member.

"Relevant intermediary" has the meaning ascribed to it in Section 181 of the Companies Act (Chapter 50).

2. A proxy need not be a member of the Company.
3. If the appointor is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.
4. The instrument appointing a proxy or proxies must be deposited at the office of the Share Registrar of the Company at 80 Robinson Road #11-02 Singapore 068898 not less than forty-eight (48) hours before the time appointed for holding the AGM.
5. Holders of the Korean Depository Receipts ("**KDRs**") in the Company may, by giving notice to the Korean Securities Depository ("**KSD**") no later than 5 Korean business days prior to the date to the AGM and in accordance with the terms set out in the form entitled "Application of Voting Rights" to be sent by KSD to the KDR holders, exercise through KSD or its designated custodian(s) the voting rights attached to the Shares deposited with KSD and represented by the KDRs.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

CHINA GAOXIAN FIBRE FABRIC HOLDINGS LTD.
(Incorporated in the Republic of Singapore)
(Co. Reg. No: 200817812K)

PROXY FORM

(Please see notes overleaf before completing this Form)

IMPORTANT:

1. A relevant intermediary may appoint more than two proxies to attend the Annual General Meeting and vote (please see note 4 for the definition of "relevant intermediary").
2. For investors who have used their CPF monies to buy the Company's shares, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely **FOR INFORMATION ONLY**.
3. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
4. CPF investors who wish to vote should contact their CPF Approved Nominees.

I/We, _____ NRIC/Passport/Company No.: _____

of _____

being a member/members of **China Gaoxian Fibre Fabric Holdings Ltd.** (the "Company"), hereby appoint:

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing the person, or either or both of the persons, referred to above, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting (the "Meeting") of the Company to be held at TMC Academy Campus, Lecture Theatre #01-01B, 250 Middle Rd, Singapore 188983 on Thursday, 29 June 2017 at 10.00 a.m. and at any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolutions proposed at the Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her/their discretion, as he/she/they will on any other matter arising at the Meeting and at any adjournment thereof.

(Please indicate your vote "For" or "Against" with a tick [✓] within the box provided.)

No.	Ordinary Resolutions relating to:	Number of Votes For ⁽¹⁾	Number of Votes Against ⁽¹⁾
1	Directors' Statement and Audited Financial Statements for the year ended 31 December 2016		
2	Re-election of Tham Wan Loong, Jerome as a Director		
3	Re-election of Xie Ruliang as a Director		
4	Approval of Directors' fees amounting to S\$100,000 for the financial year ending 31 December 2017, to be paid quarterly in arrears		
5	Re-appointment of Foo Kon Tan LLP as Auditors		
6	Authority to issue shares by way of rights, bonus or otherwise		
	Special Resolution relating to:		
7	Authority to issue shares by way of making or granting offers, agreements or options		

⁽¹⁾ If you wish to exercise all your votes "For" or "Against", please tick within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this _____ day of _____ 2017

Signature of Shareholder(s)
or, Common Seal of Corporate Shareholder

Total number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the Shares held by you.
2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.
3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. A member who is a relevant intermediary entitled to attend the meeting and vote is entitled to appoint more than two proxies to attend and vote instead of the member, but each proxy must be appointed to exercise the rights attached to a different Share or Shares held by such member. Where such member appoints more than two proxies, the appointments shall be invalid unless the member specifies the number of Shares in relation to which each proxy has been appointed.

"Relevant intermediary" means:

- (a) a banking corporation licensed under the Banking Act (Cap. 19) or a wholly-owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;
 - (b) a person holding a capital markets services licence to provide custodial services for securities under the Securities and Futures Act (Cap. 289) and who holds shares in that capacity; or
 - (c) the Central Provident Fund Board established by the Central Provident Fund Act (Cap. 36), in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.
5. Completion and return of this instrument appointing a proxy shall not preclude a member from attending and voting at the Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a member attends the meeting in person, and in such event, the Company reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Meeting.
 6. The instrument appointing a proxy or proxies must be deposited at the office of the Share Registrar of the Company at 80 Robinson Road #11-02 Singapore 068898 not less than 48 hours before the time appointed for the Meeting.
 7. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
 8. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act (Chapter 50) of Singapore.

PERSONAL DATA PRIVACY:

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 6 June 2017.

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible, or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 72 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.





CHINA GAOXIAN FIBRE FABRIC HOLDINGS LTD.
80 Robinson Road
#02-00
Singapore 068898

(Company Registration No. 200817812K)

www.chinagaoxian.com