

CHINA GAOXIAN FIBRE FABRIC HOLDINGS LTD.

(中国高纤控股有限公司)

("Company")

(Company Registration No. 200817812K)

(Incorporated in Singapore on 9 September 2008)

FURTHER INFORMATION ON THE COMPANY'S FULL YEAR RESULTS ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

The Board of Directors ("Board") of China Gaoxian Fibre Fabric Holdings Ltd. (the "Company" and together with its subsidiaries, the "Group") refers to the following announcements released to the Singapore Exchange Securities Trading Limited ("SGX-ST"):-

- (i) Announcement no. 00212 in relation to the Company's third quarter financial results announcement for the financial year ended 31 December 2013 released to the SGX-ST on 14 November 2013 ("**3QFY2013 Results**");
- (ii) Announcements no. 00025 and 00117 in relation to the New Project Finance and response to the SGX-ST queries on the New Project Finance released to SGX-ST on 27 December 2013 and 9 January 2014 (collectively, "**New Project Finance Announcements**") respectively; and
- (iii) Announcement no. 00313 in relation to the Company's full year financial results announcement for the financial year ended 31 December 2013 released to the SGX-ST on 28 February 2014 ("**FY2013 Results**").

Capitalised terms used in this announcement shall, save as otherwise defined, have the same meanings as ascribed to them in the 3QFY2013 Results, New Project Finance Announcements and/or the FY2013 Results.

The SGX-ST has on 14 March 2014 requested the Company to provide further information in respect of the FY2013 Results (the "**Queries**"). The Queries and the Company's corresponding answers are set out below:-

Question 1

"The Company recorded RMB14.5 million of impairment loss in 4QFY2013/FY2013. Please disclose what are the underlying items that were impaired and to provide details for each of the items, the nature of impairment, the methods of valuation used, what were the major assumptions that resulted in the change in valuation and to quantify the changes in assumptions."

Answer to Question 1:

During the financial year, management engaged Stern Appraisal Limited ("Stern"), an independent valuer, domiciled in Hong Kong, SAR, to ascertain the recoverable amounts of the property, plant and equipment of its two operating entities, Zhejiang Huagang Polyester Industrial Co., Ltd ("Zhejiang Huagang") and Fujian New Huawei Fibre Dyeing Co., Ltd ("New Huawei") (collectively known as "the Subsidiaries") as at 31 December 2013 in accordance with FRS 36 – *Impairment of Assets* as there were indications that the property, plant and equipment of the subsidiaries were impaired.

The major machinery and equipment of the Subsidiaries include POY and UDY production lines, polyester and nylon blend POY lines, warp knit fabric production lines, utility equipment, general plant machinery, vehicles, office equipment and computers.

For the purpose of determining the recoverable amounts of property, plant and equipment, management has considered the equipment and property of Zhejiang Huagang and New Huawei as two separate cash generating units.

Due to the current depressed market conditions, both UDY and POY production lines and weaving machines in the Subsidiaries have ceased production. Accordingly, Stern used the market approach which considers prices recently paid for similar assets with adjustments made to the indicated market prices to reflect the conditions of the appraised assets. For other assets that are still in use, management applied the cost approach which measures the values of the assets by the cost to replace it with another of like utility and the replacement cost is subsequently adjusted to reflect the appropriate physical deterioration.

Based on the valuation exercise conducted, management recognised impairment losses on plant and machinery of Zhejiang Huagang and New Huawei amounting to RMB 1.39 million and RMB 13.1 million respectively.

Question 2

“We note that General and Administrative expenses increased by 19.8% to RMB34.9 million in 4QFY2013 when sales declined by 47% to RMB55.1 million, please provide breakdown of the major items under General and Administrative expenses in 4QFY2013 and explain for material items.”

Answer to Question 2:

The major items under general and administrative expenses amounting to RMB 34.9 million in 4QFY2013 were made up of (i) payroll and related expenses (RMB 6.9 million), (ii) rental expense (RMB 1.6 million), (iii) amortisation expense on land use rights (RMB 1.3 million), (iv) amortisation of cost on preparation of land (RMB 0.4 million), (v) depreciation expense on idle assets (RMB 4.1 million); (vi) write down of inventories (RMB 9.6 million) and professional fees paid to lawyers and auditors amounting to RMB 11.8 million.

Despite a decline in sales by 47% in 4QFY2013 against 4QFY2012, general and administrative expenses in 4QFY2013 have increased due to (i) higher salary costs paid to recruit more employees for the Huaxiang Project, which is nearing its completion of Phase 1 construction and planned commencement of production in March 2014. The average headcount employed by Huaxiang China has increased from 79 in 4QFY2012 to 161 in 4QFY2013 and (ii) higher accrual of professional fees payable to the legal advisors.

Question 3

“It was noted that there was a write down of inventories of RMB9.6 million in 4QFY2013/FY2013. Please provide the aging analysis and elaborate on the type of inventory written down.”

Answer to Question 3:

The accounting standards require management to record its inventories at the lower of cost or net realisable value. Currently, management does not maintain an aging analysis on its inventories. Instead, Management carried out its assessment of the net realisable value of its inventories by comparing the unit cost of the products to the latest selling price subsequent to year-end. The write down of inventories of RMB 9.6 million in 4Q2013/FY2013 mainly comprised write down of warp knit fabric finished products and fully drawn yarn finished goods amounting to RMB 6.6 million and RMB 2.1 million respectively to their net realisable values.

Question 4

“We note a significant increase in trade receivables from RMB34.1 million in FY2012 to RMB70.4 million in FY2013 when sales declined by 44.7%. Please provide a breakdown and aging analysis of trade receivables.”

Answer to Question 4:

For total trade receivable 70.4 million, the aging analysis is as follow:

Trade receivable aging	New Huawei	Zhejiang Huagang	Huaxiang China	Total
	RMB	RMB	RMB	RMB
Current	11,006,909	141,740	30,626,642	41,775,291
Past due:-				
Lesser than 30 days	14,471,598	-	7,148,941	21,620,539
30-60 days	1,246,637	-	-	1,246,637
61-90 days	567,363	-	-	567,363
91-120 days	4,272,260	-	-	4,272,260
More than 120 days	188,035	774,405	-	962,440
Total	31,752,802	916,145	37,775,583	70,444,530

The Group's credit risk is concentrated on 6 customers, amounting to RMB 68.2 million, representing 97% of the total trade receivables as at 31 December 2013.

The amounts due from these 6 customers are:

Name of customer	Amount outstanding as at 31/12/2013 RMB'000	Amount collected to date RMB'000
长乐市友利贸易	22,983	6,233
福州市华易国际(新华威应收款)	4,745	4,745
福建省长乐市顺亚	800	0
福州市华易国际（华祥中国应收款）	8,899	8,899
厦门国贸化纤有限公司	28,876	28,876
普宁市华宝路制衣	142	0
绍兴县圆之盼化纤	689	689
Total	67,134	49,442

Included in the trade receivables was an amount due from 厦门国贸化纤有限公司 amounting to RMB 28.9 million which arose from the sale of raw materials in Q4FY2013. Management has previously purchased certain raw materials with the intention to commence the testing production phase of Huaxiang China project. Due to the unexpected delay in the production, management subsequently sold those batches of raw materials to 厦门国贸化纤有限公司. Arising from this transaction, management recorded a net loss on sale of raw materials of approximately RMB 17,000. The amount due from 厦门国贸化纤有限公司 has been fully received subsequent to year-end.

Question 5

“We note that the Company reported a profit before tax of RMB214.2 million, cashflow from operating activities of RMB89.8 million, equity deficit of RMB 1.0 billion, negative working capital of RMB1.1 billion.

- (a) In its announcement of 23 August 2013, the board of directors confirmed that “after taking into consideration the present bank facilities of the Company, the New Project Finance and the net proceeds of the Proposed Subscription, based on the current information available and to the best of the Directors’ knowledge, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.” In view of the financial position for FY2013, please demonstrate that the board had exercised reasonable diligence when the statement in August 2013 was made.***
- (b) The Company reported a negative working position of RMB 1.1 billion and has cash and cash equivalents of RMB8.0 million as at 31 December 2013. Please provide a discussion on whether and how the Company will be able to repay its significant current liabilities, in particular its short term bank loans of RMB760.7 million, its bills payable of RMB547.9 million and payables of acquisition for property, plant and equipment of RMB205.2 million as and when they fall due.”***

Answer to Question 5:

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)** The Group will be able to generate sufficient operating cash flows following the commencement of production at Huaxiang (China) Premium Fibre Co., Ltd (“Huaxiang China”) to fund its working capital needs;
- (b)** The Group has successfully restructured RMB 500 million of its existing short-term loans into a long-term loan arrangement. On 27 December 2013, the Group entered into a 4-year syndicated loan agreement (the “Facility”) amounting to RMB 500 million provided by a group of syndicated PRC banks led by China Construction Bank. The proceeds from the Facility will be drawn down in phases from January 2014 to July 2014 and it will be used to repay existing bridging loans taken by the Group.

Please see below for the project loan drawn down timeline:

	Draw down date	Status	CCB	SPD	BOC	Total
			RMB	RMB	RMB	RMB
Syndicated Bank Loan	13/1/14	Disbursed	36,000,000	20,000,000	-	56,000,000
	20/3/14	Partial Disbursed	60,000,000	8,800,000	28,800,000	97,600,000
	20/4/14		50,000,000	15,000,000	15,000,000	80,000,000
	15/5/14		50,000,000	15,000,000	15,000,000	80,000,000
	15/6/14		50,000,000	26,200,000	26,200,000	102,400,000
	16/7/14		54,000,000	15,000,000	15,000,000	84,000,000
	Total		300,000,000	100,000,000	100,000,000	500,000,000

As at the date of this announcement, the Group has received RMB 116 million out of the RMB 500 million syndicated loan.

In addition, as part of the New Project Finance package provided to the Group, Huaxiang (China) Premium Fibre Co., Ltd (“Huaxiang China”), a subsidiary of the Company, has also entered into an equipment finance lease with Hua Rong Finance Lease Co., Ltd (“Hua Rong”), pursuant which Hua Rong has agreed to provide Huaxiang China with equipment lease financing 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 has agreed to purchase certain machinery and equipment for the new Huaxiang China plant by taking over the relevant purchase contracts previously entered into by Huaxiang China with the equipment manufacturers. Thereafter, Huaxiang China will in turn lease the equipment from Hua Rong for a term of 3 years at an agreed fee with the option to purchase the equipment at a consideration of RMB 1 provided that the agreed fees have been duly paid by Huaxiang China. As at the date of this report, Hua Rong has disbursed an amount of RMB 105.9 million to the equipment manufacturers.

- (c) As at the date of this announcement, management has obtained the following short-term credit facilities:
- (i) On 28 January 2014, the Group obtained a working capital loan of RMB 20 million from Chouzhou Commercial Bank for a period of 12 months, bearing an annual fixed interest rate of 6.9%; and
 - (ii) In March 2014, the Group obtained working capital loans of RMB 10 million and RMB 100 million from Zhejiang Tailong Commercial Bank and Citic Bank respectively.
- (d) Last but not least, in the event of any shortfall in working capital requirements, the shortfall can be financed through short-term financing from non-financial institutions. Mr. Cao Xiang Bin has provided a personal guarantee to 福建省华域融资担保有限公司 for all loans entered by the Group’s entities with the non-financial institutions. This was disclosed in the response to the SGX-ST queries on the New Project Finance released on 9 January 2014 under “SGX-ST Query 2(d)”.

As disclosed in the FY2013 Results, the Group had obtained non-financial institution loans amounting to approximately RMB196.9 million during FY2013. The Group has the ability to obtain further short-term financing from non-financial institutions.

Question 6

“With regards to paragraph 9 of Results Announcement, please make a comparison of the Group’s current results with the commentary under paragraph 10 of the Group’s previous results announcement (3Q FY2013) and comment whether the actual results are in line with the commentary.”

Answer to Question 6:

It was disclosed under paragraph 10 of the 3QFY2013 Results (“3Q Results Commentary”) that, *“the operating environment for the rest of this year (“FY2013”) is likely to remain challenging, due to the uncertainty and sluggishness in the global economy, which may in turn adversely affect the business environment in PRC.”* As disclosed on page 12 of the FY2013 Results, the PRC textile industry for 4QFY2013 continued to be impacted by the slowdown of the PRC economy which was caused by weak external demand.

In view of the above, the Group is of the view that the results and performance for FY2013 is in line with the 3Q Results Commentary.

It was stated in the 3Q Results Commentary that, “The Company aims to complete Phase 1 of the Huaxiang Project by the first quarter of 2014, subject to the Company’s ability to continue finance the project and the successful commissioning of the new plant.”

Subsequent to the 3QFY2013 Results, it had been disclosed in the New Project Finance Announcements that Huaxiang China had successfully secured the New Project Finance. Accordingly, the completion date of Phase 1 of the Huaxiang Project was scheduled to be completed in the second quarter of 2014 (*as disclosed in the FY2013 Results*) instead due to the time taken for the finalisation of the terms for New Project Financing.

The difference required to complete Phase 1 of the Huaxiang Project as disclosed in the 3QFY2013 Results and FY2013 Results of the amount of RMB43 million was due to the following:

- (a) Purchase of additional ancillary equipment to support Phase 1 of Huaxiang Project;
- (b) Payment of related taxes in respect of newly imported equipment which was not factored in; and
- (c) Adjustments to construction costs entered with suppliers due to rising materials and labour costs.

BY ORDER OF THE BOARD

Busarakham Kohsikaporn
Company Secretary
17 March 2014