

## 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)

---

### QUALIFIED OPINION BY THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS FOR FINANCIAL YEAR ENDED 31 DECEMBER 2013

---

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Board of Directors (the "Board") of China Gaoxian Fibre Fabric Holdings Ltd. (the "Company") wishes to announce that the Company's Independent Auditor, Foo Kon Tan Grant Thornton LLP, has issued their report (the "Independent Auditor's Report") on the consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2013, with a qualified opinion as follows:-

#### Extract of the qualified opinion

*"In our opinion, except for the possible effects on the specific items in the consolidated statement of comprehensive income and related financial statement elements of the matter described in the Basis of Qualified Opinion paragraph above, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with Singapore Financial Reporting Standards so as to present fairly, in all material respects, the state of affairs of the Group and of the Company as at 31 December 2013, and the results, changes in equity and cash flows of the Group for the financial year ended on that date."*

#### Basis of Qualified Opinion

- "(i) Reconciliation between audited PRC GAAP financial statements and management accounts provided for audit purposes

*As disclosed in Note 3.1 to the financial statements, the bulk of the Group's accounting books and records for the period prior to 1 April 2011 could not be located. The 31 March 2011 balance sheets had been prepared based on information and supporting documents available to the new management after they took over the finance functions and records of the Group in May 2011. The predecessor auditors were not able to ascertain the impact, if any, on the financial statements for the financial year ended 31 December 2012 arising from the significant differences between the audited PRC GAAP financial statements of certain PRC subsidiaries for the previous financial year filed with the local PRC authorities and the management accounts provided for audit purposes. The Company had not provided satisfactory explanation and reconciliation for the differences.*

*We were unable to review the predecessor auditors' working papers to obtain evidence on the balances as at 31 December 2012. In the current financial year, management was not able to provide satisfactory explanation and reconciliation for the differences between with the audited PRC GAAP financial statements of the PRC subsidiaries filed with the local PRC authorities for the financial year ended 31 December 2012 and the management accounts provided for audit purposes in the preceding year due to the same reasons cited above. Accordingly, we were unable to ascertain the consequential impact, if any, on the financial statements for the financial year ended 31 December 2013, arising from any significant variances between the audited 2012 PRC GAAP financial statements and the 2012 management accounts provided for audit purposes."*

### Extract of Emphasis of Matter

*“We draw attention to Note 2 to the financial statements. Our opinion is not further qualified in respect of this matter.*

#### *Going concern*

*The predecessor auditors were unable to obtain sufficient audit evidence to conclude the appropriateness of the use of the going concern assumption in preparing the financial statements for the financial year ended 31 December 2012. As at 31 December 2013, the Group and the Company have a net current liabilities of RMB 1.13 billion and RMB 36.3 million respectively and recorded a consolidated net loss before tax and net cashflow used in operating activities of RMB 214.3 million and RMB 116.3 million for the financial year ended 31 December 2013 respectively. 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 directors are of the view that the going concern assumption is appropriate for the preparation of these financial statements and that debts owing will be paid as and when they fall due as the directors believe that:*

- (a) The Group will be able to generate sufficient operating cash flows following the commencement of production of the New Production Facilities 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 May 2014 and it will be used to repay existing bridging loans taken by the Group. In addition, the Group has also entered into an equipment finance lease with a third party, pursuant to which the latter agreed to provide the Group with equipment lease financing of up to RMB 150 million for Huaxiang China Phase 1 project;*
- (c) Subsequent to year end, management has obtained other short-term secured credit facilities amounting to approximately RMB 130 million; and*
- (d) During the financial year ended 31 December 2013, the Group obtained financing from non-financial institutions and third parties (collectively known as the “lenders”) amounting to RMB 620.7 million and repaid approximately RMB 429.8 million. The loans due to these lenders amounted to RMB 196.9 million as at 31 December 2013. These loans entered by the Group’s entities were secured by a personal guarantee by a shareholder. In the event of any shortfall in working capital requirements for the next twelve months, management believes that the Group has the ability to obtain further short-term financing from these lenders since the loans will continue to be secured by a guarantee from the same 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 ability of the Group to continue as a going concern for the next twelve months after the end of the reporting period is dependent on (i) the commencement of the production at Huaxiang China as planned, (ii) the ability to generate the required sales volume under the current challenging market conditions, (iii) continual support from the financial institutions and (iv) the Group’s ability to generate sufficient cash from its operations or obtain funds from other sources to pay its debts as and when they 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 liabilities respectively. No such adjustments have been made to the financial statements of the Group and the Company in respect of these.”

Extract of Other Matter

“Without qualifying our opinion, we highlight that the financial statements of the Group and the Company for the year ended 31 December 2012 were audited by another firm of Certified Public Accountants. Their audit report dated 8 April 2013 described two other matters which formed their Basis for Disclaimer of Opinion on the financial statements for the financial year ended 31 December 2012.

Other than the matters raised in the preceding paragraphs, the predecessor auditors were unable to obtain sufficient audit evidence and explanations for the following matters:

- (a) to assess the assumptions and bases used by management in their impairment assessment of assets that include investment in subsidiaries and property, plant and equipment;
- (b) to assess the completeness and accuracy of related party transactions disclosed in these financial statements;

In arriving at our opinion on the financial year ended 31 December 2013, which is qualified, we have considered and taken into account of the above matters reported by the previous auditors. Based on the audit procedures which we have carried out:

- (i) Management engaged a third party valuer to appraise the recoverable amounts of the property, plant and equipment of the operating entities within the Group and consequently, recognised an impairment loss on certain plant and equipment amounting to RMB 14.5 million in the consolidated statement of comprehensive income. Following the impairment assessment exercise concluded on the Group’s property, plant and equipment, management assessed the recoverable amounts of its subsidiaries based on their respective net tangible assets position, which are considered as reasonable estimates of their respective recoverable amounts as at 31 December 2013; and
- (ii) Management engaged an external law firm, who is domiciled in Fujian Province, PRC to carry out an investigation on certain entities to establish if these entities are related to the Group and the key management personnel in accordance with the definition of related parties as defined in FRS 24 - Related Party Transactions. Transactions with the identified related parties are accordingly disclosed in the notes to the financial statements.

Therefore, the two matters reported by the predecessor auditors did not have an effect on the financial statements for the financial year ended 31 December 2013 or on our opinion on those financial statements.”

A copy of the Independent Auditor’s Report is annexed to this announcement as Appendix I.

**BY ORDER OF THE BOARD**

Busarakham Kohsikaporn  
Company Secretary  
4 April 2014

# Independent auditor's report to the members of China Gaoxian Fibre Fabric Holdings Ltd.

## Report on the financial statements

We have audited the accompanying financial statements of China Gaoxian Fibre Fabric Holdings Ltd. (the "Company") and its subsidiaries (the "Group"), which comprise the statements of financial position of the Group and the Company as at 31 December 2013, 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 a summary of significant accounting policies and other explanatory information.

### Management's responsibility 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 Singapore Companies Act, Cap 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal 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 profit and loss accounts and balance sheets and to maintain accountability of assets.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

# Independent auditor's report to the members of China Gaoxian Fibre Fabric Holdings Ltd. (cont'd)

## Basis of Qualified Opinion

- (i) Reconciliation between audited PRC GAAP financial statements and management accounts provided for audit purposes

As disclosed in Note 3.1 to the financial statements, the bulk of the Group's accounting books and records for the period prior to 1 April 2011 could not be located. The 31 March 2011 balance sheets had been prepared based on information and supporting documents available to the new management after they took over the finance functions and records of the Group in May 2011. The predecessor auditors were not able to ascertain the impact, if any, on the financial statements for the financial year ended 31 December 2012 arising from the significant differences between the audited PRC GAAP financial statements of certain PRC subsidiaries for the previous financial year filed with the local PRC authorities and the management accounts provided for audit purposes. The Company had not provided satisfactory explanation and reconciliation for the differences.

We were unable to review the predecessor auditors' working papers to obtain evidence on the balances as at 31 December 2012. In the current financial year, management was not able to provide satisfactory explanation and reconciliation for the differences between the audited PRC GAAP financial statements of the PRC subsidiaries filed with the local PRC authorities for the financial year ended 31 December 2012 and the management accounts provided for audit purposes in the preceding year due to the same reasons cited above. Accordingly, we were unable to ascertain the consequential impact, if any, on the financial statements for the financial year ended 31 December 2013, arising from any significant variances between the audited 2012 PRC GAAP financial statements and the 2012 management accounts provided for audit purposes.

## Qualified opinion

In our opinion, except for the possible effects on the specific items in the consolidated statement of comprehensive income and related financial statement elements of the matter described in the Basis of Qualified Opinion paragraph above, the consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with Singapore Financial Reporting Standards so as to present fairly, in all material respects, the state of affairs of the Group and of the Company as at 31 December 2013, and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

## Emphasis of matter

We draw attention to Note 2 to the financial statements. Our opinion is not further qualified in respect of this matter.

## Going concern

The predecessor auditors were unable to obtain sufficient audit evidence to conclude the appropriateness of the use of the going concern assumption in preparing the financial statements for the financial year ended 31 December 2012. As at 31 December 2013, the Group and the Company have a net current liabilities of RMB 1.13 billion and RMB 36.3 million respectively and recorded a consolidated net loss before tax and net cashflow used in operating activities of RMB 214.3 million and RMB 116.3 million for the financial year ended 31 December 2013 respectively. 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.

# Independent auditor's report to the members of China Gaoxian Fibre Fabric Holdings Ltd. (cont'd)

## Emphasis of matter (cont'd)

### Going concern (cont'd)

The directors are of the view that the going concern assumption is appropriate for the preparation of these financial statements and that debts owing will be paid as and when they fall due as the directors believe that:

- (a) The Group will be able to generate sufficient operating cash flows following the commencement of production of the New Production Facilities 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 May 2014 and it will be used to repay existing bridging loans taken by the Group. In addition, the Group has also entered into an equipment finance lease with a third party, pursuant to which the latter agreed to provide the Group with equipment lease financing of up to RMB 150 million for Huaxiang China Phase 1 project;
- (c) Subsequent to year end, management has obtained other short-term secured credit facilities amounting to approximately RMB 130 million; and
- (d) During the financial year ended 31 December 2013, the Group obtained financing from non-financial institutions and third parties (collectively known as the “lenders”) amounting to RMB 620.7 million and repaid approximately RMB 429.8 million. The loans due to these lenders amounted to RMB 196.9 million as at 31 December 2013. These loans entered by the Group's entities were secured by a personal guarantee from a shareholder. In the event of any shortfall in working capital requirements for the next twelve months, management believes that the Group has the ability to obtain further short-term financing from these lenders since the loans will continue to be secured by a guarantee from the same 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 ability of the Group to continue as a going concern for the next twelve months after the end of the reporting period is dependent on (i) the commencement of the production at Huaxiang China as planned, (ii) the ability to generate the required sales volume under the current challenging market conditions, (iii) continual support from the financial institutions and (iv) the Group's ability to generate sufficient cash from its operations or obtain funds from other sources to pay its debts as and when they 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 liabilities respectively. No such adjustments have been made to the financial statements of the Group and the Company in respect of these.

# Independent auditor's report to the members of China Gaoxian Fibre Fabric Holdings Ltd. (cont'd)

## Other matter

Without qualifying our opinion, we highlight that the financial statements of the Group and the Company for the year ended 31 December 2012 were audited by another firm of Certified Public Accountants. Their audit report dated 8 April 2013 described two other matters which formed their Basis for Disclaimer of Opinion on the financial statements for the financial year ended 31 December 2012.

Other than the matters raised in the preceding paragraphs, the predecessor auditors were unable to obtain sufficient audit evidence and explanations for the following matters:

- (a) to assess the assumptions and bases used by management in their impairment assessment of assets that include investment in subsidiaries and property, plant and equipment;
- (b) to assess the completeness and accuracy of related party transactions disclosed in these financial statements;

In arriving at our opinion on the financial year ended 31 December 2013, which is qualified, we have considered and taken into account of the above matters reported by the previous auditors. Based on the audit procedures which we have carried out:

- (i) Management engaged a third party valuer to appraise the recoverable amounts of the property, plant and equipment of the operating entities within the Group and consequently, recognised an impairment loss on certain plant and equipment amounting to RMB 14.5 million in the consolidated statement of comprehensive income. Following the impairment assessment exercise concluded on the Group's property, plant and equipment, management assessed the recoverable amounts of its subsidiaries based on their respective net tangible assets position, which are considered as reasonable estimates of their respective recoverable amounts as at 31 December 2013; and
- (ii) Management engaged an external law firm, who is domiciled in Fujian Province, PRC to carry out an investigation on certain entities to establish if these entities are related to the Group and the key management personnel in accordance with the definition of related parties as defined in FRS 24 - *Related Party Transactions*. Transactions with the identified related parties are accordingly disclosed in the notes to the financial statements.

Therefore, the two matters reported by the predecessor auditors did not have an effect on the financial statements for the financial year ended 31 December 2013 or on our opinion on those financial statements.

## **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.

Foo Kon Tan Grant Thornton LLP  
Public Accountants and  
Chartered Accountants

Singapore, 4 April 2014