



**FORELAND FABRICTECH HOLDINGS LIMITED**

(Incorporated in Bermuda with Company Registration No. 39151)

**RESPONSE TO SGX QUERIES ON ANNOUNCEMENT OF UNAUDITED THIRD QUARTER RESULTS FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2014**

The Board of Directors of Foreland Fabrictech Holdings Limited (“the Company”, together with its subsidiaries, “the Group”) wishes to announce its response to the queries raised by the Singapore Exchange Securities Trading Limited (“SGX”) in connection with the announcement made by the Company on 14 November 2014, with regard to the unaudited third quarter results for the financial period ended 30 September 2014.

SGX Queries

We note that ‘Inventories’ has increased by 466.8% from RMB1.508 million to RMB 8.548 million when ‘Revenue’ has decreased by 9%. In this respect, please provide the following information:-

- (a) Breakdown of major items contributing to increase in ‘Inventories’.
- (b) Elaborate on reasons for increase in ‘Inventories’ due to “higher business activity expected in 4Q2014”.
- (c) Inventory turnover days for current period as compared to previous corresponding period and elaborate on material variances, if any.
- (d) Any risk of inventory obsolescence or diminution in value and basis for views.

Company’s response to Queries

(a) & (b)

Breakdown of inventory

	30 September 2014 RMB'000	31 December 2013 RMB'000	Change RMB'000	Note
Raw materials	3,511	551	2,960	(i)
Work-in-progress	3,209	482	2,727	(ii)
Finished goods	1,816	465	1,351	(ii)
Consumables	12	10	2	
	<u>8,548</u>	<u>1,508</u>	<u>7,040</u>	

Note:

- (i) Generally, raw materials were stock-up for the production and sales for the next one to two months. The sales and production in the 1Q2014 was low due to the long festive

Chinese New Year holiday. Therefore, in anticipation of the low sales in 1Q2014, less raw materials were stored as inventory as at 31 December 2013.

For reference, revenue for 1Q2014 was only RMB 15.2 million, while revenue for 3Q2014 was RMB 35.2 million.

- (ii) As mentioned in (i), production and sales in 1Q2014 were low. Therefore, work-in-progress and finished goods were maintained at low levels as at 31 December 2013.

Work-in-progress and finished goods as at 30 September 2014 will be sold in 4Q2014. Generally, revenue in the fourth quarter will be higher than that in the first quarter. Hence, the build-up of inventory as at 30 September 2014 is in anticipation of the higher sales forecast in 4Q2014.

(c)

	30 September 2014 <u>RMB'000</u>	31 December 2013 <u>RMB'000</u>
Inventories	<u>8,548</u>	<u>1,508</u>
	3Q2014 <u>RMB'000</u>	4Q2013 <u>RMB'000</u>
Cost of sales	<u>39,783</u>	<u>59,923</u>
Turnover days	<u>19.8</u>	<u>2.3</u>

Inventories turnover days increase from 2.3 days as at 31 December 2013 to 19.8 days as at 30 September 2014. Please refer to answers to (a) & (b) above for explanations on the fluctuation.

(d)

	30 September 2014 <u>RMB'000</u>	31 December 2013 <u>RMB'000</u>
<u>Aging analysis</u>		
Within 1 month	7,863	1,501
Within 2 months	272	-
Within 3 months	283	-
More than 3 months	130	7
	<u>8,548</u>	<u>1,508</u>

Since over 98% of the inventories was aged less than three months, the management believes the risk of inventory obsolescence or diminution in value is low.

By Order of the Board

Tsoi Kin Chit  
Executive Chairman  
11 December 2014